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S&P Global
China Ratings

Surveillance Credit Rating Report:

Australia and New Zealand Bank (China) Company Limited

Issuer Credit Rating*: AAA_{spc}; Outlook: Stable

Rating Date: November 29, 2024
Date of Expiry: November 28, 2025

Primary Credit Analyst:

Xiaochen Luan, CFA, FRM: +86-10-6516-6069; Collins.Luan@spgchinaratings.cn

Secondary Contacts:

Qiwei Chen, CFA, FRM: +86-10-6516-6019; Qiwei.Chen@spgchinaratings.cn
Jiancheng Yang, FRM: +86-10-6516-6072; Allen.Yang@spgchinaratings.cn

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* This rating is an Issuer Credit Rating (ICR). An ICR typically reflects our view of the senior unsecured credit rating of an issuer and is not specific to an individual issuance that it may issue.

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Tear Sheet

Company Name	Rating Type	Current Rating	Rating Date	Outlook/CreditWatch
Australia and New Zealand Bank (China) Company Limited	Issuer Credit Rating	AAA_{spc}	November 29, 2024	Stable

Rating Snapshot

Industry Classification	Commercial Bank
Anchor	a+
— Business Position	-2
— Capital and Earnings	+2
— Risk Position	+2
— Funding and Liquidity	0
— Holistic Adjustment	0
Stand-alone Credit Profile	aa_{spc}
Group Support	+2
Issuer Credit Rating	AAA_{spc}
Outlook/CreditWatch	Stable

Anchor: We apply an anchor of "a+" for commercial banks.

Business Position: The bank has a very small commercial banking operation in China with a limited client base mostly composed of Chinese corporates with business in APAC, multinationals, and financial institutions. It has strong business synergy with its parent group.

Capital and Earnings: It has a very strong capital base, with capital adequacy ratios much higher than the industry average in China. Its volatile earnings have no negative impact on its capital.

Risk Position: It maintains sound risk management system and prudent risk appetite, with its risk management framework and risk policy closely aligned with its group. Its asset quality performance is among the best in China.

Funding and Liquidity: Despite its small and concentrated customer deposit base, its highly liquid asset profile and prudent liquidity management have offset the negative impact from deposit volatility. We expect the bank to remain stable funding and adequate liquidity.

External Support: ANZ has extremely strong credit quality. Among foreign institutions with China banking subsidiaries, ANZ is among those with the highest credit ratings assigned by S&P Global Ratings. ANZ (China) is highly likely to receive extraordinary support from its parent in times of need considering it is a fully owned subsidiary and an integral part of ANZ's international banking operations.

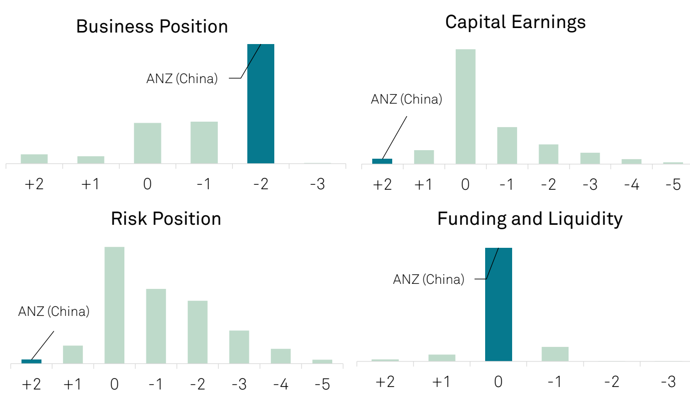
Company Overview: Australia and New Zealand Bank (China) Company Limited ("ANZ (China)") is a fully-owned subsidiary of Australia and New Zealand Banking Group Ltd. ("ANZ"), one of the four major banking groups in Australia. ANZ (China) is an integral part of its parent's international banking network. As of the end of 2023, it reported total assets of 33.54 billion RMB, gross loans of 7.32 billion RMB and customer deposits of 12.05 billion RMB.

Key Metrics:

	2019	2020	2021	2022	2023
Total assets (bil.)	38.64	37.48	39.83	34.70	33.54
Customer loans (bil.)	9.72	7.39	7.55	6.00	7.32
Customer deposits (bil.)	16.53	11.69	16.37	12.31	12.05
Net income (bil.)	0.30	0.06	0.06	0.48	0.39
Reported capital adequacy ratio (%)	18.37	24.08	25.57	36.61	32.11
Return on average equity (%)	3.87	0.85	0.85	6.27	5.01
Non-performing loan ratio (%)	-	-	-	-	-
Reserve coverage ratio (%)	N/A	N/A	N/A	N/A	N/A
Customer deposits/total funding (%)	66.11	62.29	62.49	74.47	57.43

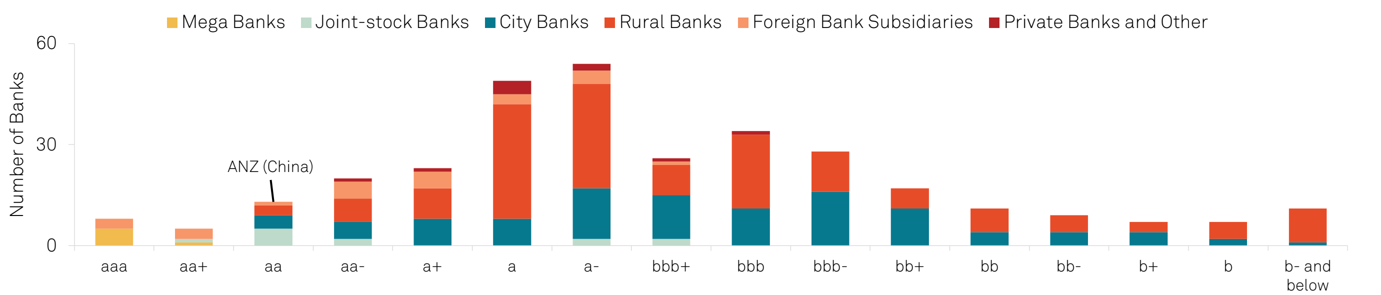
Note: N/A -- Not applicable.
Sources: ANZ (China), collected and adjusted by S&P Global (China) Ratings.

Rating Factors of Stand-alone Credit Quality for Major Banks in China



Source: S&P Global (China) Ratings.

Distribution of Stand-alone Credit Quality of Major Banks in China



Note 1: Our assessment on issuer credit quality does not consider the likelihood of group or government support in times of stress but take into account the ongoing group or government support.

Note 2: The indicative issuer credit quality distributions expressed in this page are only our indicative views of credit quality derived from a desktop analysis based on public information without interactive review with any particular entity (except for solicited rating projects) or the full credit rating process such as a rating committee. The opinions expressed herein are not and should not be represented as a credit rating and should not be taken as an indication of a final credit rating on any particular entity.

Source: S&P Global (China) Ratings.

Declaration

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S&P Global (China) Ratings arrived at analytical conclusions presented in this credit rating report based on its own methodologies and procedures and did not change any of its rating opinions as a result of any inappropriate influence from the rated entity or any other organization(s) or individual(s).

This credit rating report is used to support related decision making, and does not constitute a conclusion or recommendation that any particular decision(s) should be made.

Head of Analytics

May Zhong

Beijing

May.Zhong@spgchinaratings.cn

Primary Credit Analyst

Xiaochen Luan

Beijing

Collins.Luan@spgchinaratings.cn

Secondary Contacts

Qiwei Chen

Beijing

Qiwei.Chen@spgchinaratings.cn

Jiancheng Yang

Beijing

Allen.Yang@spgchinaratings.cn

Rating Summary

Company Name	Rating Type	Current Rating	Rating Date	Outlook/CreditWatch
Australia and New Zealand Bank (China) Company Limited	Issuer Credit Rating	AAA$_{spc}$	November 29, 2024	Stable

Stand-alone Credit Profile (SACP)	aa$_{spc}$
Anchor	a+
Business Position	-2
Capital & Earnings	+2
Risk Position	+2
Funding & Liquidity	0
Holistic Adjustment	0

\+

External Support	+2
Supporting Entity	ANZ Group
External Support	Extremely Strong

Issuer Credit Rating (ICR)
AAA$_{spc}$/Stable

Credit Highlights

Strengths	Weaknesses
Its parent has extremely high credit quality and it is highly likely to receive parental support in times of need.	Facing growth challenges due to small scale and high business concentration in China.
Very strong capitalization.	Volatile revenue and profitability.
Very conservative risk appetite and effective risk management.	

Surveillance Overview

We monitor the credit quality of ANZ (China) on a periodic and an ongoing basis. This is periodic surveillance of the bank.

Since our last rating report published on November 30, 2023, the bank has maintained stable business strengths but experienced a decline in revenue amid capital market fluctuations home and abroad. It has a very strong capital base and its weak earnings stability will not negatively impact on its capitalization. It follows a prudent approach to risk management and demonstrates solid asset quality which is modestly impacted by the real estate downturn and LGFV debt resolution. Its parent maintains extremely strong issuer credit quality and its willingness and ability to provide support remain unchanged. In summary, the bank's issuer credit rating is the same as in the last rating period.

Rating Outlook

The stable outlook reflects our expectation that ANZ (China)'s business operations and financial strength will remain stable over the next two years or beyond. We also expect its importance to its parent to remain unchanged.

Downside Scenario: We may consider lowering its ICR if we believe that its parent's issuer credit quality deteriorates or the bank's importance to its parent declines. We may consider lowering its SACP if the bank significantly raises its risk appetite or reduces its capitalization level. However, we think these circumstances are very unlikely to happen in the foreseeable future.

Upside Scenario: We may consider raising its SACP if its market share in China increases significantly, and it keeps its capitalization position and risk appetite at a stable level.

Related Methodologies, Models & Research

Methodology Applied:

— S&P Global (China) Ratings Financial Institutions Methodology, March 26, 2024.

— S&P Global (China) Ratings General Considerations on Rating Modifiers and Relative Ranking, May 21, 2019

Model Applied: None.

Peer Comparison

	2022			2023		
	ANZ (China)	Commercial Bank Average	Foreign Bank Subsidiary Average	ANZ (China)	Commercial Bank Average	Foreign Bank Subsidiary Average
Total assets (bil.)	34.70	176.79	85.99	33.54	196.05	87.47
Net income (bil.)	0.48	1.27	0.55	0.39	1.31	0.52
Reported regulatory capital adequacy ratio (%)	36.61	15.17	19.29	32.11	15.06	19.58
Return on average assets (%)	1.28	0.76	0.59	1.15	0.70	0.56
Non-performing loan ratio (%)	-	1.63	0.72	-	1.59	0.85
Reserve coverage ratio (%)	Not applicable	205.85	301.97	Not applicable	205.14	293.92

Sources: ANZ (China), NAFR, public information of banks, collected and adjusted by S&P Global (China) Ratings.

Anchor

Macro-Economic and Industry Trends

Considering the economic risk and industry risk faced by China's commercial banking industry, we apply an anchor of "a+" to commercial banks in China.

We expect Chinese government to formulate policies to meet its annual GDP growth target of 5%. China's exports and imports would continue to recover in 2024-2025. While consumer goods prices and enterprises' profit margins have declined due to weak consumption and strong manufacturing investments, a demand-induced deflation is unlikely to occur.

We expect the overall credit outlook for commercial banks in China to remain stable because of ongoing government support. China's commercial banking sector continues to report stable capital and asset quality metrics, but we continue to expect pressure on credit cost, net interest margin ("NIM"), and profitability going forward. State-owned mega banks are expected to maintain stable capitalization and resilient profitability, while small- and medium-sized banks face more pressure. Certain regional banks have weak capital positions, and their asset quality and profitability are susceptible to real estate risks. Meanwhile, China's banking sector maintains stable funding and sound liquidity, winning time for the risk-ridden small- and medium-sized banks to mitigate such risks. We believe strong regulatory oversight and ongoing government support would ensure the overall stable credit profile of Chinese banking sector.

Foreign bank subsidiaries in the Chinese banking sector are small in terms of market share and scale. They are typically fully owned and strictly controlled by their parents, sharing parents' brand, actively engaging in cross-selling activities and enjoying ongoing capital and liquidity support from their parents. Foreign bank subsidiaries are highly likely to receive parental support in times of stress.

International banking groups generally maintain good credit quality. Strong and stable group support continues to play an important role in ensuring foreign bank subsidiaries' overall credit quality.

While Chinese banks have enjoyed rapid growth over the past decade, most foreign bank subsidiaries have seen modest loan book growth compared to their domestic peers. There are 41 foreign bank subsidiaries in total and they only have a market share of 1% in the Chinese commercial banking industry. The mainstream Chinese banks have clear scale and pricing advantages in their loan business. The intense industry competition has posed challenges to foreign bank subsidiaries in expanding their loan business.

Over the past few years, many foreign bank subsidiaries' loan books have shrunk due to their low-risk growth strategies and fierce industry competition. While they are typically smaller than domestic banks in terms of business scale, foreign bank subsidiaries have unique advantages in cross-border and global banking services and play an indispensable role in China's commercial banking industry.

Foreign bank subsidiaries have the highest capital adequacy ratios in China. As of the end of 2023, their average capital adequacy ratio was 19.58%, up by 0.29 percentage points YoY and 4.53 percentage points higher than the industry average. Dwindling lending business and reduced capital consumption have led to an increase in capital adequacy for many foreign bank subsidiaries in recent years. For

2024, we expect their capital adequacy to remain at a high level amid their slow lending business expansion.

Despite the remarkable decrease in NIM across Chinese domestic banking industry, many foreign bank subsidiaries saw milder NIM slippage compared to their Chinese peers because they maintained higher proportion of assets denominated in foreign currencies. In 2023, foreign bank subsidiaries' NIM dropped by 1 basis point YoY to 1.57%, compared to a decrease of 22 basis points to 1.69% for domestic banks. In 2024, foreign bank subsidiaries would continue to see milder NIM contraction than domestic banks.

Foreign bank subsidiaries have maintained solid asset quality and controllable credit cost. As of the end of 2023, their average non-performing loan ("NPL") ratio stood at 0.85%, versus domestic banks' average of 1.59%. They rarely have exposure to LGFVs, and some are exposed to real estate sector. In our view, the challenges facing China's real estate sector should pose only a temporary earnings strain on these foreign bank subsidiaries and have no materially negative impact on their capital adequacy and credit quality.

International banking groups have maintained good credit quality in recent years. Stable and strong group support plays an important role in ensuring the very good issuer credit quality of these China subsidiaries. The first half of 2023 saw banking turmoil in the US and Europe. Except for SPD Silicon Valley Bank (now "Shanghai Innovation Bank") which suffered direct impact, most foreign bank subsidiaries operating in China are not negatively affected by the incidents of Silicon Valley Bank and Credit Suisse.

We see a high likelihood of foreign bank subsidiaries receiving parental support in times of stress. Foreign bank subsidiaries are typically fully owned by their parents, sharing parents' brands and receiving effective parental support in terms of cross-selling activities, capital, and liquidity. Although most of these subsidiaries' contribution to their parents' income and assets is limited, considering China's very important position in the world economy, we believe that the commitment of international banks in the Chinese market is long-term. In addition, the China subsidiaries also recommend overseas business of Chinese customers to their parent banks, and their actual contribution to their parents is higher than what is reflected on their balance sheets.

Considering the economic risk and industry risk faced by China's commercial banking industry, we apply an anchor of a+ for ANZ (China).

Stand-alone Credit Profile

The bank is an integral part of the international banking network of ANZ.

We apply a two-notch downward adjustment to its business position to reflect its very small business franchise and unstable revenue in China.

Set up in 2010, ANZ (China) is the fully owned subsidiary of ANZ, one of the four major banking groups in Australia. ANZ (China) is integral to its parent's international banking network. As of the end of 2023, it reported total assets of 33.54 billion RMB, gross loans of 7.32 billion RMB and customer deposits of 12.05 billion RMB.

The bank set up a representative office in China in 1986 and opened its first domestic branch in 1997. In 2010, ANZ (China) was fully incorporated. The bank is the only Australian banking subsidiary in China and one of the largest Australia-invested corporations in China.

Business Position

ANZ (China) has a clearly defined strategy. It withdrew from retail banking in 2017 and has focused on institutional banking ever since. It offers three product lines in China, including transaction banking, financial markets, and corporate finance. It positions itself as a specialist bank seeking opportunities in China, Australia, New Zealand, and along the trade corridors in APAC. It targets a client base composed mostly of Chinese corporates with banking service needs across Asia, financial institutions and multinationals, and is dedicated to serving them in the global network of ANZ.

As the only locally incorporated Australian bank, it is a leading market maker in AUD and NZD clearing. It also has a proprietary gold license to offer gold products. It was licensed as a trial market maker for USD clearing in March 2023 and is seeking to obtain more licenses, including trial market maker for bond transaction, to expand its scope of services. In recent years, it has also worked on incorporating ESG elements into its existing strategy, focusing on opportunities in energy transition, electrification of transportation, and other ESG focused sectors.

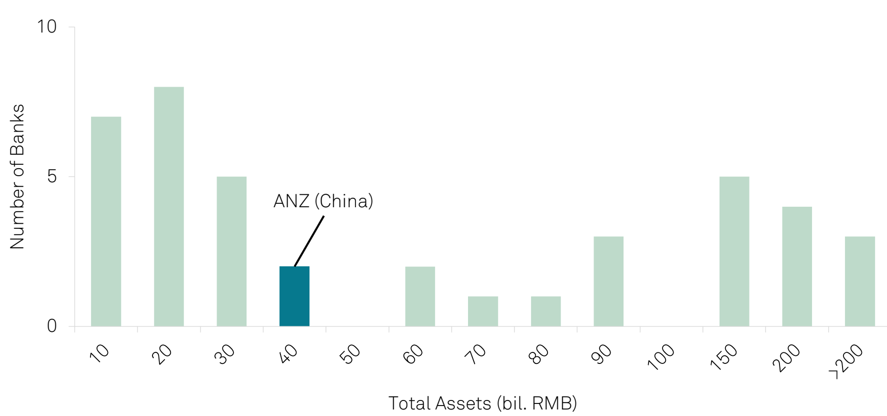
The bank's loan book grew at a faster pace than the industry average in 2023. As of the end of 2023, its gross customer loans increased by 21.94% YoY to 7.32 billion RMB, compared to the industry average of roughly 11%. By sector, its loan growth was mainly contributed by manufacturing, and wholesale and retail, with loans issued to these two sectors up by 36.94% YoY. In 2024, we expect its loan book to remain generally stable considering intensifying market competition and the bank's operational strategies where loan expansion is not considered the top priority.

Like other foreign bank subsidiaries, ANZ (China) has a very small market share in China. As of the end of 2023, it had a market share of less than 0.01% for both loans and deposits in China. Its business is concentrated in Shanghai and Beijing. About 84% of its loans were issued in Shanghai and 8% in Beijing. More than 95% of its revenue also comes from these two cities.

Chart 1

The bank has a small business franchise in China

Peer Comparison: Distribution of Total Assets of Major Foreign Bank Subsidiaries as of End of 2023



Sources: Public information of banks, collected and adjusted by S&P Global (China) Ratings.

Table 1

ANZ (China) -- Market Share

(%)	2019	2020	2021	2022	2023
Total assets / total assets of China's commercial banking industry	0.016	0.014	0.014	0.011	0.009
Gross customer loans / total loans of China's commercial banking industry	0.007	0.005	0.005	0.003	0.004
Customer deposits / total deposits of China's commercial banking industry	0.008	0.005	0.007	0.005	0.004

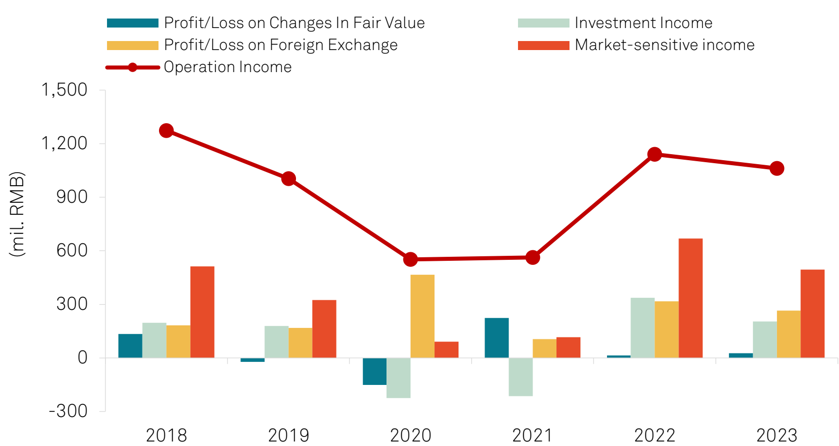
Sources: ANZ (China), NAFR, PBOC, collected and adjusted by S&P Global (China) Ratings

Due to volatility in net interest income, foreign exchange and investment income, ANZ (China)'s income fluctuates significantly. From 2021 to 2023, its operating income was 563 million RMB, 1.14 billion RMB, and 1.06 billion RMB, respectively, among which net interest income and income sensitive to market risk (including investment income, profit/loss on changes in fair value, and profit/loss on foreign exchange) accounted for 48.74% and 41.95%, respectively. For 2023 alone, they accounted for 49.15% and 46.59%, respectively. In 2023, its operating income slightly dipped by 6.87% YoY, as improved net interest income on foreign-currency-denominated assets (up by 32.94% YoY) compensated for a decline in its income sensitive to market risk (down by 25.98% YoY). Since 2024, it has delivered weaker net interest income, profit on foreign exchange, and investment income than in 2023. We expect its full-year operating income to be lower than that in 2022-2023 but still exceed that in 2021.

Chart 2

Capital market fluctuation materially affects its profit

ANZ (China): Income Sensitive to Market Risk and Operating Income



Note: Income sensitive to market risk = investment income + profit/loss on changes in fair value + profit/loss on foreign exchange.

Sources: ANZ (China), collected and adjusted by S&P Global (China) Ratings.

We think the decrease in its physical outlets will not disturb its business stability. The Zhejiang Bureau of the NAFR approved the closure of the bank's Hangzhou branch in

April 2024 and the Guangdong Bureau of the NAFR permitted it to close its Guangzhou branch in October. Its Hangzhou branch has completed the closure process by now. Given that it has withdrawn from retail banking since 2017 and is operating its business primarily in Shanghai and Beijing, from which cities over 95% of its operating income is generated, its branch scale-down would not harm its business stability and could lower its operating cost effectively.

Capital and Earnings

We apply a two-notch uplift to the bank's capital and earnings to reflect its very strong capitalization.

Its profitability has been volatile and would not negatively impact its capital adequacy.

ANZ (China)'s capitalization is much stronger than the industry average. Its reported regulatory tier 1 capital adequacy ratio was 31.67% as of the end of 2023, 4.52 percentage points lower compared to the beginning of the year. This was mainly led by increased loan scale and more capital consumption. As of the end of September 2024, its reported tier 1 capital adequacy ratio was 28.97%, staying far above the industry average.

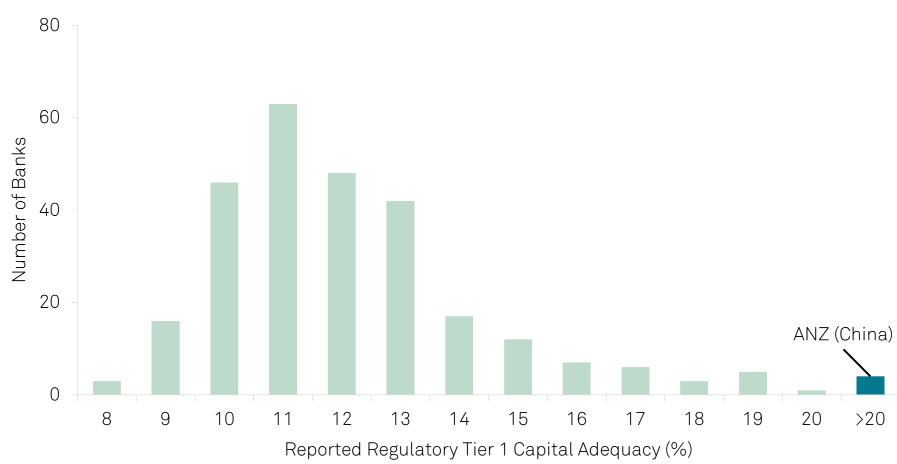
The bank's capitalization still stands at a very high level under the Administrative Measures for Commercial Banks' Capital ("the new Measures"). Its tier 1 capital adequacy ratio came at 29.43% by the end of 2023 based on the new Measures, which is lower than the projection made under the previous measures because of an increase in its credit risk-weighted assets. Meanwhile, its capital adequacy will still stay far better than the industry average.

The bank has superior capital quality, with no hybrid capital instruments outstanding. As of the end of June 2024, its tier 1 capital made up 98.52% of its total capital, significantly higher than the industry average of 79.71%.

Chart 3

The bank has very strong capitalization

Industry Comparison: Reported Regulatory Tier 1 Capital Adequacy Ratio of Major Banks in China as of End of 2023



Sources: Public information of banks, collected and adjusted by S&P Global (China) Ratings.

The bank has achieved a balance between maintaining capital adequacy and sustaining dividend distribution and business expansion. The management intends to keep a very high capital adequacy ratio and dividend distribution would not bring a materially negative impact on the bank's capital adequacy. In 2021-2023, its average tier 1 capital adequacy ratio was 31.02% and it maintained average dividend payout ratio at 100% after regulatory required deductions, much higher than domestic banks' average.

We believe ANZ group is committed to maintaining adequate capital for its China subsidiary. ANZ group has a track record of injecting capital into ANZ (China) when necessary. ANZ (China)'s initial registered capital was 2.5 billion RMB when incorporated in 2010. The parent injected another 2 billion RMB and 1.7 billion RMB in 2012 and 2015 respectively to support its business growth. Nevertheless, given ANZ (China)'s excess capital buffer and cautious growth pace, we believe a new round of capital injection is unlikely over the next 24 months.

Table 2

ANZ (China) -- Capital Adequacy Forecast by S&P Global (China) Ratings

(bil. RMB)	2024F		2025F		Base case assumptions and conclusions
	Amount	YoY Change	Amount	YoY Change	
Risk-weighted assets	27	1%	28	4%	1. The bank's loan book size and risk-weighted assets increase by around 3% in 2025. 2. We expect its return on average equity ("ROAE") to be around 4.0% in 2025. 3. Dividend payout ratio remains in the range of 70%-90% according to the parent's financial policy. Considering the high dividend payout ratio, profitability doesn't have meaningful impact on its capital adequacy. Its capital adequacy is primarily driven by changes to its risk-weighted assets. Given its current capital position and business development pace, we expect its tier 1 capital adequacy ratio to stay at around 29% by the end of 2024 and 28% by the end of 2025, among the highest in China's banking industry.
Net tier 1 capital	8	-1%	8	2%	
Tier 1 capital adequacy ratio	About 29%		About 28%		

Note: F – forecast.

Source: S&P Global (China) Ratings.

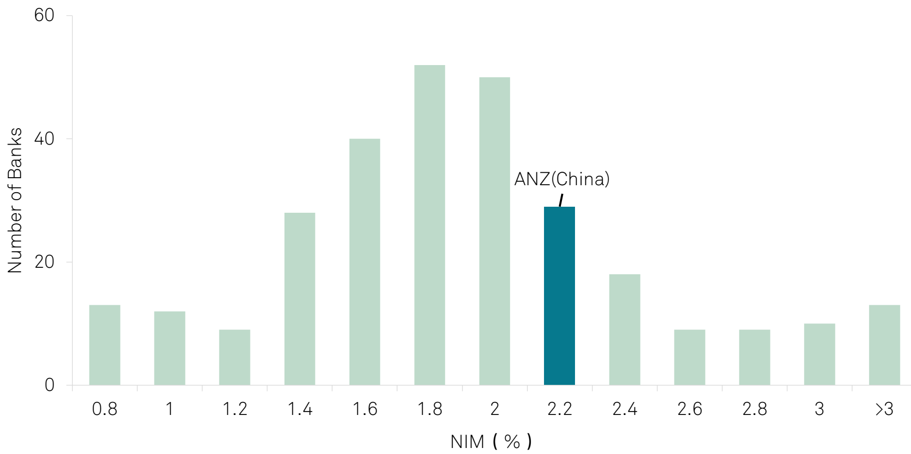
The bank shows strong capital resilience. Our stress test suggests that its capital adequacy is not susceptible to real estate downturn, LGFV risk mitigation, and NIM decline among banks (see Appendix 2 for details). Its resilient capital is backed by its outstanding asset quality and adequate reserves.

Thanks to the large proportion of foreign-currency-denominated assets yielding high returns in its portfolio, the bank's NIM picked up by a large margin in 2023, lifting its NIM pressure to a lower level compared to the industry average. In 2023, its NIM improved by 71 basis points YoY to 2.15% versus the industry average of 1.69%, down by 1 basis point YoY. As of the end of 2023, foreign-currency-denominated assets accounted for 39.26% of its total assets, mainly allocated in interbank lending segment. During the same period, its foreign-currency-denominated liabilities accounted for 47.77% of its total liabilities. In particular, deposits denominated in foreign currencies were mostly demand deposits bearing low interest rates, with the remainder largely wholesale funding from its parent, thus enjoying low funding cost and posing less strain on NIM. In 2023, its interest-bearing assets generated an average return of 3.23%, up by 63 basis points YoY. Its interest-bearing liabilities had an average cost of 1.41%, down by 7 basis points YoY. In September and November 2024, the U.S. Federal Reserve announced to cut the interest rate by 50 basis points and 25 basis points, respectively. We estimate the bank's returns on foreign-currency-denominated assets to decrease along the process, pushing down its NIM to roughly 1.9% in 2024, still above the industry average.

Chart 4

The bank's NIM is higher than the industry average

Industry Comparison: Distribution of NIM of Major Banks in China in 2023



Source: Public information of banks, collected and adjusted by S&P Global (China) Ratings

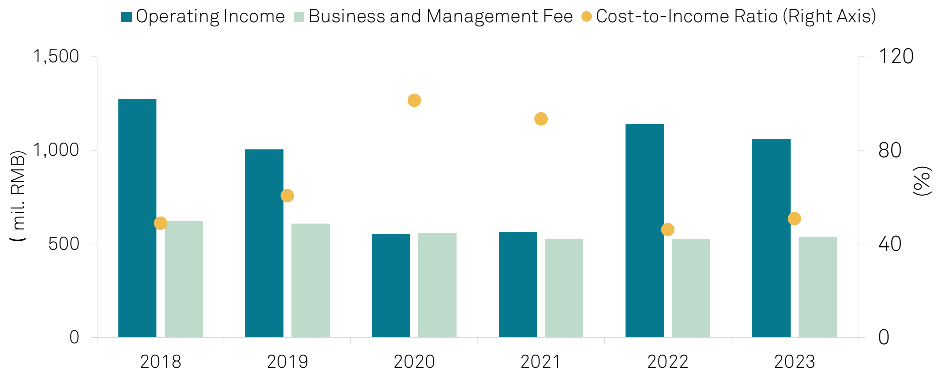
Without NPLs on its book, ANZ (China)'s provisioning is typically made according to regulatory requirement on loan loss reserve/average gross customer loans, which was 1.50%, satisfying minimum regulatory requirement, as of the end of 2023. In 2023, due to the collection of 26.34 million RMB in written-off loans, its credit impairment loss was only 2.16 million RMB, accounting for less than 1% of its total profit. Considering the bank's prudent risk management and good asset quality, we expect its credit cost to be controllable in the next two years.

The bank has maintained stable operating cost for years. In 2023, its business and management fee increased by 2.48% YoY to 539 million RMB, consistent with the average of 537 million RMB from 2020 to 2022. Nonetheless, the bank's volatile income leads to fluctuating cost-to-income ratio, which recorded 93%, 46% and 51% from 2021 to 2023, respectively. Given the ongoing process to close its Hangzhou and Guangzhou branches in 2024, we expect its operating cost to reduce going forward.

Chart 5

Its operating income is highly volatile, while operating cost remains stable

ANZ (China): Operating Income and Cost, and Cost-to-Income Ratio



Sources: ANZ (China), collected and adjusted by S&P Global (China) Ratings.

The bank's profitability shows great volatility. In 2023, its ROAE dropped by 1.26 percentage points YoY to 5.01%, mainly because of lower returns on non-foreign exchange derivatives, and less profit on foreign exchange and on changes in fair value. That said, its ROAE in 2023 was still higher than the average of 2.66% in 2020-2022. In 2024, as the U.S. interest rates take on the downward trajectory, we expect the bank to record decreasing returns on its foreign-currency-related business and see weaker earnings performance than in 2023.

Risk Position

Its risk management and risk policy are well aligned with its group.

The bank has a conservative risk appetite and has maintained very good asset quality.

Therefore, we apply a two-notch upward adjustment to its risk position.

ANZ (China)'s risk management framework and risk policy is well aligned with its parent. ANZ has conservative risk appetite and a comprehensive, well-developed risk management and governance framework that spans the group's activities. This underpins its China subsidiary's sound risk governance and management.

ANZ (China) has high single name concentration due to its limited customer base. As of the end of 2023, the loans to its largest customer accounted for 7.85% of net tier 1 capital. We believe such high concentration is offset by the very good credit quality of its customers.

Its lending business is mainly exposed to the manufacturing sector. As of the end of 2023, its three largest sector exposures were manufacturing, wholesale and retail, and financials, accounting for 45.07%, 20.33%, and 15.75% of its total corporate loans, respectively. These loans were mostly provided to industrial leaders and major state-owned enterprises. It has a minor exposure to the real estate sector and is not exposed to LGFVs, making it largely immune to the real estate down cycle and LGFV risk resolution. As of the end of 2023, its real estate loans accounted for 2.52% of corporate loans, down by 0.58 percentage points YoY, with no construction loans outstanding. Our stress test shows that it can maintain adequate capital base under severe adversity from the real estate sector (see Appendix 2 for details).

ANZ (China) has very prudent underwriting standards, resulting in very good asset quality metrics. In recent years, it has followed prudent credit supply strategies, which ensure very good loan quality. As of the end of 2023, it had no NPLs, overdue loans, or stage 3 loans but identified certain volume of stage 2 loans according to its prudent risk management. As of the end of 2023, stage 2 loans accounted for 1.17% of its loan book. Given its very stringent loan classification criteria, we expect risks around its stage 2 loans in terms of credit loss and migration to remain controllable.

Its investment assets enjoy solid quality. As of the end of 2023, investment assets constituted 26.54% of its total assets, among which 13.06% were Chinese Treasury bonds, 78.76% policy bank bonds and 8.18% the U.S. Treasury bonds.

It has a selective financial institution client base in its interbank operations. As of the end of 2023, interbank assets accounted for 24.38% of its total assets, comprising 94.29% of interbank lending and 5.61% credit to other financial institutions. Its counterparties typically include financial leasing subsidiaries of policy banks, mega banks, and joint-stock banks, auto finance companies owned by large automobile groups, and its parent ANZ, thus bringing low counterparty credit risk.

ANZ (China) has sound market risk management. It has well-defined risk appetite for trading and banking book activities that generate market risk. It effectively monitors risk indicators and conducts stress testing to maintain effective risk oversight and risk resilience. It has an effective market risk management framework to ensure its business remains aligned to its defined risk appetite and strategy.

ANZ (China)'s profit is sensitive to capital market fluctuations due to its relatively large market risk exposure. The bank is able to maintain overall positive market-sensitive income and has not experienced losses in recent years thanks to its strict market risk control.

ANZ (China) maintains sound and stable operational risk management. It has adopted the three lines of defense model for managing operational risk, with a risk management coordinator set for each business department who is responsible for assisting the department head and operational risk manager, so that operational risk can be properly identified, assessed, managed and controlled within the business unit in a timely manner.

Funding and Liquidity

Thanks to the funding and liquidity support from its parent, the bank can maintain a stable funding structure. As of the end of 2023, 57.43% of its total funding was customer deposits, and 42.57% wholesale funding. Interbank borrowings accounted for 53.57% of its wholesale funding and 79.41% of its interbank borrowings came from its parent. Following the change in regulatory rules, the bank reclassified interbank gold lease business as interbank borrowing by the end of 2023, rather than considering it as financial liabilities held for trading. This adjustment would not affect our assessment results for the funding and liquidity support from its parent. Considering the ongoing parental support in terms of funding and liquidity for the bank, we view the bank as having limited demand for wholesale funding from external sources. With continuously improved funding structure, it has a very low reliance on short-term structural deposits which typically bear high interest rates.

Its foreign currency funding is primarily sourced from its parent. As of the end of 2023, roughly 80% of its foreign currency wholesale funding came from its parent.

The bank's high deposit concentration is counterbalanced by its sizeable liquid assets and prudent liquidity management. We expect it to maintain adequate liquidity going forward.

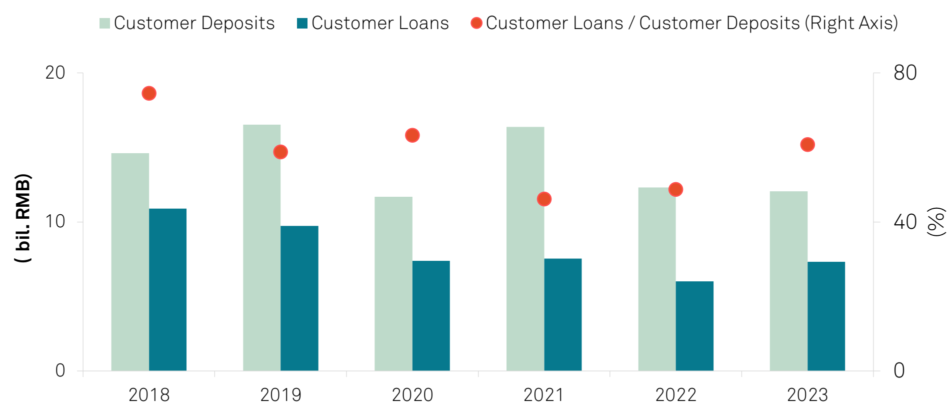
Therefore, there is no notching adjustment for funding and liquidity.

The bank may struggle to sustain a stable deposit scale in China, mainly owing to its small business scale and intense market competition. As of the end of 2023, its customer deposits dropped by 2.14% YoY to 12.05 billion RMB, because of term deposit contraction from 7.59 billion RMB to 6.56 billion RMB. Even so, its deposit base can provide sufficient funding support for its lending business. As of the end of 2023, its loan -to-deposit ratio stood at 60.74%. Its deposit scale has expanded from the beginning of 2024.

Chart 6

Its customer deposit size fluctuates but remains adequate to support its lending business

ANZ (China): Customer Deposits and Loans, and Loan-to-Deposit Ratio



Sources: ANZ (China), collected and adjusted by S&P Global (China) Ratings.

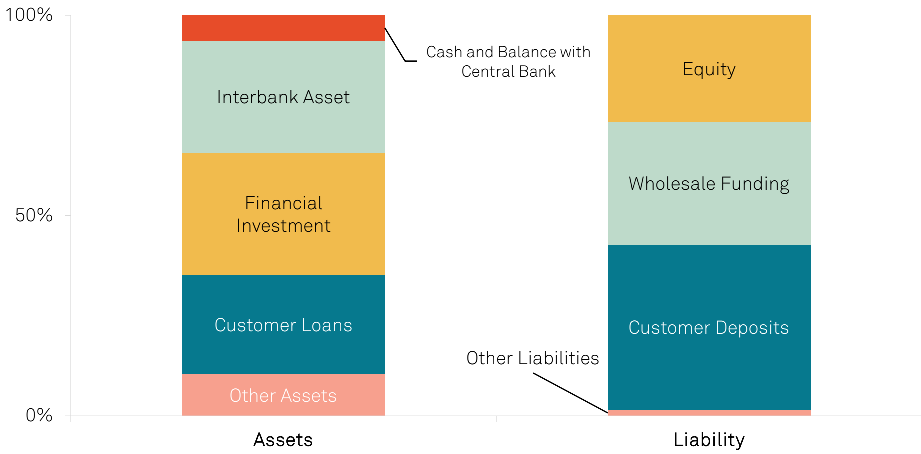
ANZ (China)'s deposit base is highly concentrated among its multinational customers. As of the end of 2023, its top 10 deposit customers accounted for about 68.44% of total deposits as of the end of 2023. Such high deposit concentration might contribute to the highly volatile deposit size.

The bank doesn't look to enhance profit through maturity mismatch between its assets and liabilities. Its assets have a very good liquidity profile, with maturity mismatch risk under control. As of the end of 2023, its net loans accounted for 21.57% of total assets, cash and deposits to the central bank 5.52%, credit to other financial institutions 24.39%, and its investment portfolio of bonds 26.54%. Highly liquid assets (including cash, deposits to the central bank, credit to other financial institutions, interbank lending, treasury bonds, policy bank bonds and high credit-quality foreign bonds) were about 3.7x of its wholesale funding (excluding borrowing from its parent). In addition, it has a highly liquid loan portfolio. About 79.84% of its loans had a remaining term of less than 12 months as of the end of 2023.

Chart 7

The bank's assets have a very good liquidity profile

ANZ (China): Breakdown of Asset and Funding Structure as of End of 2023



Note: Derivatives are excluded from assets and funding. Other assets include precious metals, right-of-use assets, gold lending proceeds and refundable deposits.

Sources: ANZ (China), collected and adjusted by S&P Global (China) Ratings.

The bank is assigned an SACP of "aa$_{spc}$", two notches higher than the bank anchor of "a+". This SACP reflects its very strong capital base and very good asset quality, as well as its small business size and unstable revenue.

In our view, the liquidity management of ANZ (China) is very prudent, and its liquidity risk is controllable. Its liquidity policy adheres to its group's policy and also complies with regulatory requirements in China. It monitors liquidity metrics in both baseline and stressed scenarios. Funding support from its parent also provides reliable secondary liquidity sources. The bank maintains a liquidity crisis contingency plan in accordance with group requirements. As of the end of 2023, its liquidity ratio stood at 88.25%, and its high-quality liquidity asset adequacy ratio was 279.55%, far above the minimum regulatory requirements of 25% and 100%, respectively.

Issuer Credit Rating

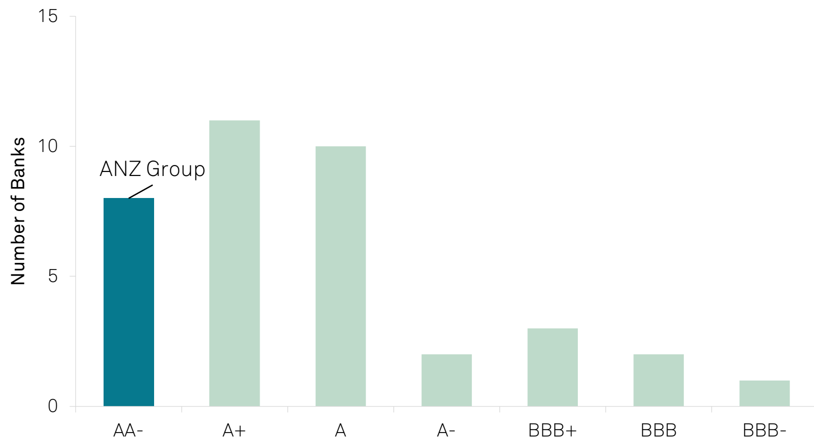
External Support

S&P Global Ratings has assigned a stand-alone credit profile of "a" and an issuer credit rating of "AA-" to ANZ, with a stable outlook. Based on the broad relationship observed between the credit opinions of S&P Global Ratings and S&P Global (China) Ratings, we view the issuer credit quality of ANZ as extremely strong, equivalent to the issuer credit rating of "AAA$_{spc}$" on our national scale. Among the foreign banks with Chinese subsidiaries, ANZ is one of those with the highest credit ratings assigned by S&P Global Ratings

Chart 8

ANZ has the highest rating by S&P Global Ratings among parents of foreign bank subsidiaries

Peer Comparison: Issuer Credit Rating Distribution of Parents of Foreign Bank Subsidiaries by S&P Global Ratings



Note: Among the 41 foreign bank subsidiaries in China, 37 have seen their parents rated by S&P Global Ratings. These ratings are as of November 29, 2024.

Sources: S&P Global Ratings, collected and adjusted by S&P Global (China) Ratings.

Table 3

ANZ: Credit Highlights by S&P Global Ratings

Key strengths	Key risks
Strong market position in commercial and retail banking in Australia and New Zealand.	Material dependence on domestic and offshore wholesale borrowing.
Strong capitalization.	Exposed to risks from high household debt and house prices.
High likelihood of timely financial support from the Australian government.	

Sources: S&P Global Ratings, collected by S&P Global (China) Ratings.

ANZ has extremely strong credit quality. Among the foreign institutions with Chinese banking subsidiaries, ANZ is one of those with the highest credit ratings assigned by S&P Global Ratings.

ANZ (China), as its fully owned subsidiary, is closely aligned with its parent in terms of operations and risk management. But it is still small in terms of assets and profit contribution within the group. We believe the bank has high importance to its parent.

Therefore, we apply a group support notching of two notches on its SACP of "aa$_{spc}$" and assign an ICR of "AAA$_{spc}$" to ANZ (China). S

ANZ (China) plays a strategically critical role in its parent's global banking network. Considering China's status as the second largest economy in the world and the largest trade partner of Australia, ANZ (China) is committed to assisting its parent in acquiring businesses relating to trade and capital in China. We believe ANZ (China) has high importance to its parent for the following reasons: (1) it is wholly owned by its parent; (2) it shares the group's logo and brand; (3) it receives effective corporate governance, particularly risk governance from its parent, with its board members and supervisors appointed by the parent; (4) it shares its group's corporate customer base and is an important part of the parent bank's international banking network; (5) it receives ongoing support from its parent in terms of both management and technology and is closely aligned with ANZ in terms of operations, infrastructure and risk management practices; (6) its group provides it with reliable ongoing funding support and is committed to maintaining its capitalization at an adequate level.

We believe ANZ will remain committed to China and the Chinese market. ANZ has been operating in China for over three decades. It entered the Chinese market in 1986. In 2010, it converted its branches in China into a locally incorporated bank.

ANZ's strategy in China has become clearer in recent years, and ANZ (China) continues to act as its core operation in China with a focus on institutional banking. In 2017, ANZ decided to withdraw from wealth management and retail banking in Asia to focus on institutional banking in this region.

We believe ANZ (China) falls short of being critically important to its parent's operations because of its limited contribution to ANZ's assets and profitability. ANZ (China)'s total assets account for less than 1% of those of its parent. Nevertheless, this figure hasn't fully reflected ANZ (China)'s importance, because a substantial part of the revenue and profits which ANZ (China) helps generate through cross-selling activities are not booked in its own financial statements.

Given its parent's ability and willingness to provide support, we assign an Issuer Credit Rating of "AAA_{spc}" to ANZ (China), two notches higher than its stand-alone credit profile of "aa_{spc}".

Appendix

Appendix 1: Key Financial Data

ANZ (China) -- Key Financial Data

	2019	2020	2021	2022	2023
Business Position					
Total assets (bil)	38.64	37.48	39.83	34.70	33.54
Gross customer loans (bil)	9.72	7.39	7.55	6.00	7.32
Customer deposits (bil)	16.53	11.69	16.37	12.31	12.05
Total equity (bil)	7.60	7.36	7.39	7.83	7.78
Operating income (bil)	1.01	0.55	0.56	1.14	1.06
Net income (bil)	0.30	0.06	0.06	0.48	0.39
Total assets / total assets of China's commercial banking industry (%)	0.016	0.014	0.014	0.011	0.009
Customer loans/total loans of China's commercial banking industry (%)	0.007	0.005	0.005	0.003	0.004
Customer deposits/total deposits of China's commercial banking industry (%)	0.008	0.005	0.007	0.005	0.004
Capital and Earnings					
Reported regulatory capital adequacy ratio (%)	18.37	24.08	25.57	36.61	32.11
Reported regulatory tier 1 capital adequacy ratio (%)	17.81	23.50	25.19	36.20	31.67
NIM adjusted by S&P Global (China) Ratings (%)	1.84	1.39	1.29	1.44	2.15
Cost-to-income ratio (%)	60.66	101.36	93.49	46.10	50.73
Asset provisioning/pre-provision operating profits (%)	(3.65)	2,146.98	(191.73)	(5.30)	0.42
Loan provisioning/average gross customer loans (%)	(0.12)	(0.69)	(0.96)	(0.34)	(0.10)
Return on average assets (%)	0.80	0.17	0.16	1.28	1.15
Return on average equity (%)	3.87	0.85	0.85	6.27	5.01
Risk Position					
Non-performing loan ratio (%)	-	-	-	-	-
(Non-performing loans + special mention loans)/gross customer loans (%)	1.12	0.53	2.51	1.93	-
Overdue loans/gross customer loans (%)	-	-	-	-	-
Loan loss reserve/gross customer loans (%)	2.50	2.50	1.50	1.50	1.50
Reserve coverage ratio (%)	N/A	N/A	N/A	N/A	N/A
Loan loss reserve/ (non-performing loans + special mention loans) (%)	222.91	468.38	59.74	77.77	N/A
Net write-offs/average gross customer loans (%)	0.165	(0.010)	(0.002)	-	(0.396)
Funding and Liquidity					
Customer loans/customer deposits (%)	58.80	63.27	46.11	48.74	60.74
Customer deposits/total funding (%)	66.11	62.29	62.49	74.47	57.43
Wholesale funding /total funding (%)	33.89	37.71	37.51	25.53	42.57
High-quality liquidity asset adequacy ratio (%)	258.84	420.40	159.81	564.26	279.55

Note 1: In our view, ANZ (China) has a clear business model and sound financial management. Therefore, we haven't conducted any material adjustments to its financial data. ANZ (China)'s annual financial reports have been audited by KPMG, and unqualified opinions have been issued on its financial statements.

Note 2: NIM adjusted by S&P Global (China) Ratings = net interest income/ [(total interest-bearing assets at the beginning of the year + total interest-bearing assets at the end of the year)/2]. Return on average assets =net income/ [(total assets at the beginning of the year + total assets at the end of the year)/2]. Return on average equity =net income/ [(total equity at the beginning of the year + total equity at the end of the year)/2].

Note 3: N/A – Not applicable.

Sources: ANZ (China), collected and adjusted by S&P Global (China) Ratings.

Appendix 2: Capital Stress Testing Results by S&P Global (China) Ratings

Capital Stress Testing on ANZ (China) by S&P Global (China) Ratings (Data as of End of September 2024)

Scenarios	Tier 1 Capital Adequacy Ratio (%)
Reported ratio as of the end of September 2024:	28.97
Key assumptions under mild stress scenario: 1. Problem loan ratio for real estate loans and construction loans is 15%, with a loss rate of 50%. 2. Problem loan ratio for mortgages is 1%, with a loss rate of 10%. 3. Problem loan ratio for other loans is 7%, with a loss rate of 70%. 4. Stage 2 and stage 3 investment assets are problem assets, with a loss rate of 70%. 5. Interest rate for weak LGFVs decreases by 100-200 basis points (if applicable). 6. Spreads between LPR and deposit rates remain flat as in 2023. 7. Average mortgage rate drops by 73 basis points in 2024 due to basis-point cuts to interest rates for outstanding mortgages in the second half of 2023. 8. 30% of problem loans and investment assets cease interest payment. 9. Cash recovery rate for foreclosed assets (excl. assets assigned with 1250% risk weight as per regulatory capital requirements) uncovered by loss reserves is 30% (if applicable).	28.97
Key assumptions under moderate stress scenario: 1. Problem loan ratio for real estate loans and construction loans is 30%, with a loss rate of 70%. 2. Problem loan ratio for mortgages is 2%, with a loss rate of 20%. 3. Interest rate for weak LGFVs decreases by 200-300 basis points (if applicable). 4. Spreads between LPR and deposit rates narrow by 10 basis points from 2023. 5. Other assumptions are same as mild stress scenario.	28.97
Key assumptions under severe stress scenario: 1. Problem loan ratio for real estate loans and construction loans is 50%, with a loss rate of 70%. 2. Problem loan ratio for mortgages is 3%, with a loss rate of 30%. 3. Interest rate for weak LGFV borrowers decreases by 300-400 basis points (if applicable). 4. Spreads between LPR and deposit rates narrow by 20 basis points from 2023. 5. Other assumptions are same as mild stress scenario.	28.97
Main conclusion: **The bank has a very resilient capital base and could maintain very high capital adequacy under a severe stress scenario.** **Thanks to prudent risk management, adequate reserves, and sound profitability, the real estate downturn and economic headwind would bring a limited impact and pose no capital challenge to the bank. Minor exposure to real estate and no exposure to LGFVs also contribute to its capital resilience.**	

Note: This stress testing didn't factor in growth in RWA led by business expansion or dividend distribution plan in the future.

Source: S&P Global (China) Ratings.

Appendix 3: Rating History of ANZ (China) by S&P Global (China) Ratings

Issuer Credit Ratings	Outlook/CreditWatch	Rating Date	Analysts	Related Reports
AAA_{spc}	Stable	November 30, 2021	Yifu Wang, Xiaochen Luan, Xuefei Zou	Credit Rating Report: Australia and New Zealand Bank (China) Company Limited, November 30, 2021
AAA_{spc}	Stable	November 30, 2022	Xiaochen Luan, Jiancheng Yang	Credit Rating Report: Australia and New Zealand Bank (China) Company Limited, November 30, 2022
AAA_{spc}	Stable	November 30, 2023	Xiaochen Luan, Qiwei Chen, Jiancheng Yang	Credit Rating Report: Australia and New Zealand Bank (China) Company Limited, November 30, 2023
AAA_{spc}	Stable	November 29, 2024	Xiaochen Luan, Qiwei Chen, Jiancheng Yang	Current Report

Note: These ratings are conducted based on S&P Global (China) Ratings Financial Institutions Methodology, and no quantitative model is used. S&P Global (China) Ratings revised its financial institutions methodology in December 2023. While the bank's ICR remains unchanged, an uplift for its SACP is applied due to the methodology revision rather than any material change in its stand-alone credit quality.

Appendix 4: Ratings Definitions

Category	Definition
AAA_{spc}	The repayment ability is extremely strong, generally not impacted by any adverse economic environment, and the default risk is extremely low.
AA_{spc}	The repayment ability is very strong, not considerably impacted by any adverse economic environment, and the default risk is very low.
A_{spc}	The repayment ability is comparatively strong, comparatively vulnerable to the impact of adverse economic environment, and the default risk is comparatively low.
BBB_{spc}	The repayment ability is average, comparatively impacted by adverse economic environment, and the default risk is average.
BB_{spc}	The repayment ability is comparatively weak, materially impacted by adverse economic environment, and the default risk is comparatively high.
B_{spc}	The repayment ability relies comparatively on fair economic environment and the default risk is very high.
CCC_{spc}	The repayment ability relies extremely on fair economic environment and the default risk is extremely high.
CC_{spc}	Lower protection in situation of bankruptcy or reorganization and the repayment of debt may not be generally guaranteed.
C_{spc}	Unable to repay the debt.

Note: Except for AAAspc and ratings below CCCspc, each rating may be added a "+" or "-" sign for minor adjustment to indicate a slightly higher or lower rating.

Appendix 5: Surveillance Plan

S&P Ratings (China) Co., Ltd. shall monitor the credit quality of the rated issuer on a periodic (if applicable) and an ongoing basis. If any material credit events are likely to change the credit quality of the issuer, we will conduct ad-hoc surveillance and determine whether the outstanding ratings need to be adjusted.