

Credit Rating Report

Australia and New Zealand Bank (China) Company Limited

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

November 30, 2021

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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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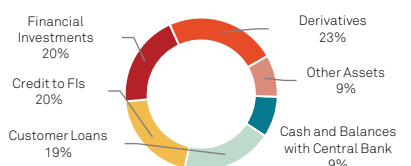
This document is prepared in both English and Chinese. The English translation is for reference only, and the Chinese version will prevail in the event of any inconsistency between the English version and the Chinese version.

Tear Sheet

Company Name	Rating Type	Current Rating	Rating Date	Outlook/Credit Watch
Australia and New Zealand Bank (China) Company Limited	Issuer Credit Rating	AAA _{spc}	November 30, 2021	Stable

Industry Classification: Commercial Bank

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. As ANZ's locally incorporated bank in China, ANZ(China) is an integral part of its parent's international banking network. As of the end of 2020, it reported total assets of 37.48 billion RMB and deposits of 11.72 billion RMB.

Asset Breakdown as of End of 2020**Liability Breakdown as of End of 2020**

Economy and Industry Trends: China is recovering from the slowdown in economic growth caused by COVID-19. As consumption growth continues to pick up, there is no sign yet that investment and net exports are flaming out. However, the overall nature of the recovery has been unbalanced. Large parts of the manufacturing sector are operating at or above capacity while other industries such as personal services and tourism are still facing weak demand. Despite potential tailwinds such as a tightening policy environment, we expect full-year economic growth of 8% for 2021 as the economy continues to gradually rotate towards private consumption, a necessary step if growth is to maintain momentum.

We believe that the overall credit outlook for commercial banks in China will remain stable because of on-going government support and the strong economic recovery. China's commercial banking sector reported stable capital and asset quality metrics in 2020 and the first three quarters of 2021, but we continue to expect pressure on credit cost and profitability going forward. State-owned mega banks are expected to maintain stable capitalization and resilient profitability, while smaller banks are under more pressure. Therefore, we believe the stand-alone credit profiles of commercial banks are likely to show greater differentiation in the foreseeable future. Due to their strong capital buffer and prudent risk appetite, foreign bank subsidiaries, a small subsector in China's banking sector, have maintained stable stand-alone credit quality during the pandemic. In addition, the generally strong resilience of their parent banks outside China amid COVID-19 has also contributed to their stable issuer credit quality.

Credit Highlights: ANZ (China) is an integral part of ANZ's international banking network. It focuses on institutional banking, serving foreign companies with China operations, high credit quality Chinese corporations and financial institutions. It has a very strong capitalization base, and its capital ratios rose in recent years due to loan book contraction. It has very prudent risk management, which is closely aligned with its parent's. Its asset quality metrics are among the best among commercial banks in China. ANZ has extremely strong credit quality. Among the 41 foreign banks with Chinese subsidiaries, ANZ is among the banks with the highest credit ratings assigned by S&P Global Ratings. As a fully owned banking subsidiary, we believe ANZ (China) has high importance to its parent and is highly likely to receive parental support in times of need.

ANZ (China)'s business footprints are limited, and its revenue has been volatile. Its profitability level is under pressure due to inflexible operating cost when revenue drops. Nevertheless, its weak earnings don't pose a threat to its strong excess capital buffer.

Key Metrics of ANZ (China)

	2017	2018	2019	2020
Total assets (bil)	42.90	35.74	38.64	37.48
Customer deposits (bil)	17.80	14.60	16.57	11.72
Net income (bil)	0.13	0.47	0.30	0.06
Reported regulatory capital adequacy ratio (%)	19.27	20.33	18.37	24.08
Return on average equity (%)	1.64	6.09	3.87	0.85
Non-performing loan ratio (%)	0.50	0.29	-	-
Reserve coverage ratio (%)	496.27	854.03	N.A.	N.A.
Customer deposits/total funding (%)	63.79	62.67	62.73	56.46

N.A. -Not applicable.

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

Rating Snapshot

Anchor	bbb+
Business Position	-2
Capital and Earnings	+2
Risk Position	+2
Funding and Liquidity	0
Stand-alone Credit Profile	a_{spc}
Group Support	+5
Issuer Credit Rating	AAA_{spc}
Outlook	Stable

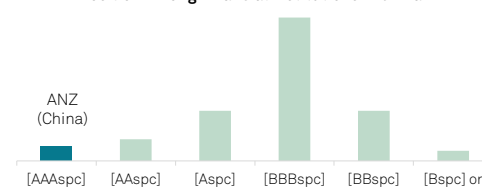
Business Position: It has a very small commercial banking operation in China with a limited client base mostly composed of Chinese corporates looking to expand in APAC, multinationals, and financial institutions. Its revenue stability is under pressure amid intensified competition among banks to serve high credit quality customers during COVID. It works closely with its group.

Capital and Earnings: It has a very strong capitalization base, with capital adequacy ratios much higher than the industry average. Its capital ratio has further increased in step with a reduction in its loan book in recent years. Profitability is low and volatile due to revenue pressure and rigid operating costs. Nevertheless, we expect it to sustain very strong capitalization in the next 24 months despite earnings pressure.

Risk Position: It takes a very prudent approach to risk management and has conservative risk appetite. Its risk management and policy are closely aligned with its group. Its asset quality metrics are one of the best in China.

Funding and Liquidity: Its corporate deposit size is small and concentrated. Any weakness in deposit stability is offset by on-going parent funding support and its highly liquid asset profile. We expect it to maintain stable funding and adequate liquidity.

External Support: ANZ has extremely strong credit quality. Among the 41 foreign banks with Chinese subsidiaries, ANZ is among the banks 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 the fact that it is a fully owned subsidiary and an integral part of ANZ's international banking operations.

ANZ (China)'s Relative Issuer Credit Rating Position Among Financial Institutions In China

Note: This chart serves as a hypothetical example of S&P Global (China) Ratings' rating distribution of financial institutions. Ratings below [AAAspc] can be adjusted by "+" and "-".

Peer Group Comparison

The peer group includes ANZ (China), BNP (China), JPMorgan Chase Bank (China), OCBC (China), Woori Bank (China), and CACIB (China)

(2018-2020 three-year average)	ANZ (China)	Max	Min	Average	Asset-weighted average	Median
Total assets (bil)	37.29	58.59	22.21	43.65	47.80	45.54
Customer deposits (bil)	14.30	27.33	9.21	20.38	21.80	22.33
Net income (bil)	0.28	0.43	0.05	0.24	0.28	0.27
Reported regulatory capital adequacy ratio (%)	20.93	24.19	16.63	20.83	20.56	20.63
Return on average equity (%)	3.60	4.56	1.98	3.44	3.18	3.60
Non-performing loans ratio (%)	0.10	1.23	-	0.43	0.47	0.15
Reserve coverage ratio (%)	854.03	1,730.96	281.67	798.88	603.72	591.45
Customer deposits/total funding (%)	60.62	85.01	59.31	68.49	66.80	66.40

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

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 30, 2021	Stable

Stand-alone Credit Profile (SACP)	a _{spc}	+	External Support	+5	Issuer Credit Rating (ICR)
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Credit Highlights

Strengths	Weaknesses
- Parent has extremely high credit quality, and it is highly likely to receive timely support from its parent if needed. - Very strong capitalization. - Very conservative risk appetite and sound risk management.	- Very small business presence in China and high business concentration, facing challenges in sustaining growth momentum. - Volatile revenue and weak profitability.

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 high importance to its parent to remain stable.

Downside Scenario: We may consider lowering its ICR if we believe that the bank's importance to its parent declines, or its parent's issuer credit quality deteriorates. We may consider lowering its SACP if the bank significantly raises its risk appetite or reduces its capitalization level.

Upside Scenario: We may consider raising its SACP if its market share in China increases significantly, and it improves its revenue stability and profitability without significantly changing its capitalization position and risk appetite.

Related Methodologies, Models & Research

Methodology Applied:

- [S&P Global \(China\) Ratings Financial Institutions Methodology.](#)
- [S&P Global \(China\) Ratings General Considerations on Rating Modifiers and Relative Ranking.](#)

Model Applied: None.

Anchor

Macro-Economic and Industry Trends

China is recovering from the slowdown in economic growth caused by COVID-19. As consumption growth continues to pick up, there is no sign yet that investment and net exports are flaming out. However, the overall nature of the recovery has been unbalanced. Large parts of the manufacturing sector are operating at or above capacity while other industries such as personal services and tourism are still facing weak demand. Despite potential tailwinds such as a tightening policy environment, we expect full-year economic growth of 8% for 2021 as the economy continues to gradually rotate towards private consumption, a necessary step if growth is to maintain momentum.

We believe that the overall credit outlook for commercial banks in China will remain stable because of on-going government support and the strong economic recovery. China's commercial banking sector reported stable capital and asset quality metrics in 2020 and the first half of 2021, but we continue to expect pressure on credit cost and profitability going forward. State-owned mega banks are expected to maintain stable capitalization and resilient profitability, while smaller banks are under more pressure. Therefore, we believe the stand-alone credit profiles of commercial banks are likely to show greater differentiation in the foreseeable future.

For the past decade, while domestic banks grew very fast, most foreign bank subsidiaries took a more conservative approach in expanding their loan books. There are 41 locally incorporated banks set up by foreign banks, and their asset market share in China's commercial banking industry is about 1%.

Competition for high-quality clients is stiff among banks. As systemwide liquidity has increased since COVID peaked in China in 2020, high credit quality corporates have enjoyed easier access to low-cost bank loans. Domestic banks with huge balance sheets have distinct advantages in terms of volume and pricing of loan offerings. In addition, Chinese mega banks have also become increasingly active in serving the cross-border finance needs of their important domestic corporate clients. Such intense competition has created challenges for foreign bank subsidiaries looking to capture growth opportunities in China.

Although foreign bank subsidiaries typically have much smaller business franchise in China than their domestic peers, they offer a unique value proposition in providing sophisticated cross-border banking services and continue to maintain distinctive strengths in the niche global banking market.

Most foreign bank subsidiaries have displayed a lower risk appetite than their domestic peers in the past decade, and their asset quality performance has been much less affected by the COVID-19 pandemic and the economic slowdown in China. Unlike domestic banks, they typically don't have significant exposure to the high-risk property development sector and shadow banking activities.

We expect foreign bank subsidiaries to maintain stable credit quality thanks to their strong capital buffers. However, we expect lower earnings for these banks due to interest spread compression, persistent cost efficiency challenges, and difficulties in maintaining revenue growth momentum.

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

Foreign bank subsidiaries are typically fully owned and tightly controlled by their parents, sharing parents' branding and receiving effective parental support in terms of cross-selling activities, capital injection and liquidity support.

While their China operations are typically limited in terms of asset and revenue contributions, for international banks, the China market remains far too large to be missed. In addition, maintaining China subsidiaries also connects Chinese customers with international banks' operations in other regions, meaning the subsidiaries' contributions to their parents go beyond what is shown on their balance sheets. Therefore, we believe these parent groups will remain committed to China and their China subsidiaries. As a result, we typically believe that foreign bank subsidiaries are highly likely to receive parental support in times of stress.

In addition, the generally strong resilience of the subsidiaries' parent banks outside China against COVID-19 has also contributed to their stable issuer credit quality.

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

Stand-alone Credit Profile

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 2020, it reported total assets of 37.5 billion RMB, gross loans of 7.4 billion RMB and customer deposits of 11.7 billion RMB. It has seven branches and one sub-branch in China, located in Shanghai, Beijing, Guangzhou, Chongqing, Hangzhou, Chengdu, and Qingdao.

Business Position

ANZ (China) has a clearly defined strategy, which is to provide banking services to facilitate the trade and capital flows of Chinese corporates with APAC growth ambitions, foreign companies with China operations and financial institutions. It withdrew from retail banking in 2017 and has focused on institutional banking ever since. It offers four product lines in China, including transaction banking, markets, loans and specialized finance, and debt capital markets.

ANZ (China) positions itself as a specialist bank with niche strengths in the APAC region. Its priority industries include resources, energy and infrastructure industries, and agricultural business. As the only locally incorporated Australian bank, it is a market leader in AUD and NZD clearing. It also has a proprietary gold license and offers gold products. In recent years, it has also worked on embedding ESG elements into its existing strategy, focusing on opportunities in transitioning energy, electrification of transportation, and other ESG focused sectors.

As competition among banks in China for high credit quality customers intensified during the domestic outbreak of COVID-19 and ANZ (China) maintained a cautious risk appetite over that period, its loan book size shrank and revenue stability came under some pressure. During the pandemic period, loan demand from ANZ (China)'s customers has been moderate because of their good cash position during the looser monetary policy environment. As of the end of 2020, it had gross customer loans of

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

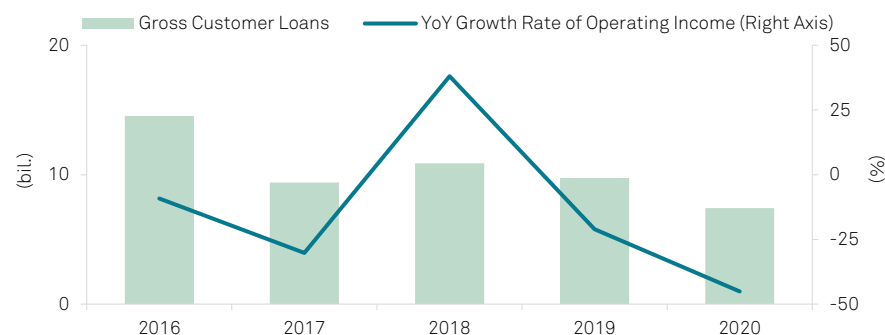
We apply a two-notch downward adjustment to its business position to reflect its very small business franchise and unstable revenue.

7.4 billion RMB, down by 24% YoY. During 2021, the bank has been trying to reignite growth momentum.

Chart 1

The bank faces challenges in reigniting revenue growth momentum

ANZ (China): Gross Customer Loans and YoY Growth Rate of Operating Income



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

Similar to many other foreign bank subsidiaries in China, ANZ (China) has a very small market share in China. As of the end of 2020, 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. As of the end of 2020, about 59% of its loans were originated in Shanghai and 27% in Beijing.

Chart 2

The bank has a very small business franchise in China

Peer Comparison: Distribution of Total Assets of Major Foreign Bank Subsidiaries as of End of 2020



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

Table 1

ANZ (China) -- Market Share				
(%)	2017	2018	2019	2020
Total assets /total assets of China's commercial banking industry	0.02	0.02	0.02	0.01
Gross customer loans/total loans of China's commercial banking industry	0.01	0.01	0.01	0.01
Customer deposits/total deposits of China's commercial banking industry	0.01	0.01	0.01	0.01

Sources: ANZ (China), industry data released by CBIRC and PBOC, collected and adjusted by S&P Global (China) Ratings.

Table 2

ANZ (China) -- Business Position				
	2017	2018	2019	2020
Total assets (bil.)	42.90	35.74	38.64	37.48
Year-over-year growth of total assets (%)	(8.72)	(16.68)	8.09	(3.00)
Gross customer loans (bil.)	9.40	10.89	9.75	7.42
Year-over-year growth of gross customer loans (%)	(35.27)	15.79	(10.46)	(23.89)
Customer deposits (bil.)	17.80	14.60	16.57	11.72
Year-over-year growth of customer deposits (%)	(13.22)	(17.96)	13.49	(29.25)
Operating income (bil.)	0.92	1.27	1.01	0.55
Year-over-year growth of operating income (%)	(30.21)	38.04	(21.10)	(45.11)
Net income (bil.)	0.13	0.47	0.30	0.06
Year-over-year growth of net income (%)	(61.41)	270.93	(36.69)	(78.48)
Net fees and commissions income/operating income (%)	18.54	10.48	15.06	14.29

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

Table 3

Peer Comparison -- Business Position

(2018-2020 three-year avg.)	ANZ (China)	Peer Group				
		Max	Min	Average	Asset-weighted average	Median
Total assets (bil.)	37.29	58.59	22.21	43.65	47.80	45.54
Year-over-year growth of total assets (%)	(3.86)	37.99	(7.08)	10.73	8.55	9.39
Gross customer loans (bil.)	9.35	24.67	7.17	14.04	15.11	12.86
Year-over-year growth of customer loans (%)	(6.19)	30.21	(6.19)	5.94	3.39	2.19
Customer deposits (bil.)	14.30	27.33	9.21	20.38	21.80	22.33
Year-over-year growth of customer deposits (%)	(11.24)	30.84	(11.24)	9.45	8.31	9.26
Operating income (bil.)	0.94	1.29	0.42	0.94	1.04	1.08
Year-over-year growth of operating income (%)	(9.39)	29.71	(9.39)	8.23	7.31	7.00
Net income (bil.)	0.28	0.43	0.05	0.24	0.28	0.27
Year-over-year growth of net income (%)	51.92	76.32	(3.73)	38.49	36.30	49.58
Net fees and commissions income/operating income (%)	13.28	21.06	(0.72)	9.75	7.87	10.01

Note: We have chosen five foreign bank subsidiaries in China, including BNP Paribas (China) Ltd. (BNP (China)), JPMorgan Chase Bank (China) Company Ltd. (JPMorgan Chase Bank (China)), OCBC Wing Hang Bank (China) Ltd. (OCBC (China)), Woori Bank (China) Co., Ltd. (Woori Bank (China)), and Crédit Agricole Corporate and Investment Bank (China) Ltd. (CACIB (China)), for peer comparison purpose. The weights for the asset-weighted average calculation are based on the three-year average of total assets of these banks from 2018 to 2020. Therefore, the weights of ANZ (China), BNP (China), JPMorgan Chase Bank (China), OCBC (China), Woori Bank (China) and CACIB (China) are 14.24%, 21.51%, 20.54%, 22.37%, 12.86%, and 8.48%, respectively.

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

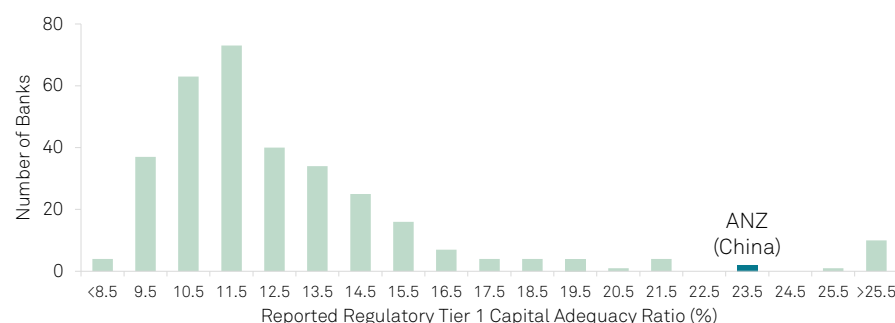
Capital and Earnings

ANZ (China)'s capitalization is much stronger than the industry average. Its reported regulatory tier 1 capital adequacy ratio was 23.5% as of the end of 2020, much higher than the industry average of 12% and the minimum regulatory requirement of 8.5%. Its shrinking loan book size has pushed its capital ratios higher in recent years. We expect its tier 1 capital adequacy ratio to remain above 20% in the next 24 months, among the highest in China.

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 2020

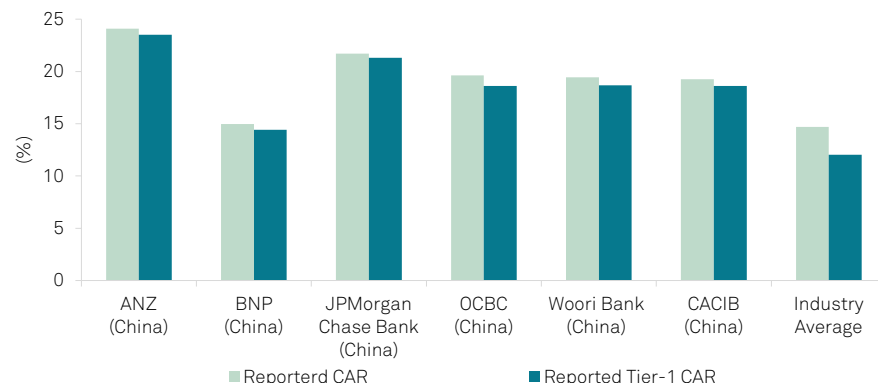


Sources: Public information of banks, collected and adjusted by S&P Global (China) Ratings.

Chart 4

The bank's capital adequacy ratio is higher than the industry average and its peers

Peer Comparison: Reported Regulatory Capital Adequacy Ratios as of End of 2020



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

Table 4

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

	2019A	2020A	2021E	2022F
Total risk-weighted assets (bil)	42.65	31.32	30.28	32.74
- Credit risk (bil)	33.54	24.22	24.95	26.44
- Market risk (bil)	7.11	5.34	3.48	4.35
- Operational risk (bil)	1.99	1.77	1.85	1.95
Tier 1 capital (bil)	7.60	7.36	7.33	7.43
Tier 1 capital adequacy ratio forecast by S&P Global (China) Ratings (%)			>24	>22

S&P Global (China) Ratings' base-case assumptions include: 1. We believe its capital ratio change is mainly driven by capital consumption pace. We assume its loan book increases by 2% in 2021 and 8% YoY in 2022. 2. Because of its parent's profit repatriation policy, its earnings have no significant impact on its capital forecast as long as it doesn't incur significant losses. We assume it maintains a dividend payout ratio of 90%. We anticipate business expansion in 2022, thus expecting lower capital ratio.

Note: A-actual; E-expected; F – forecast.

Sources: Regulatory filings of ANZ (China), S&P Global (China) Ratings.

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

Its profitability level has been low and volatile. Nevertheless, we don't expect its earnings level to have a significant impact on its very strong capital in the next 24 months.

We believe ANZ is committed to maintaining adequate capital for its China subsidiary. ANZ 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 1.725 billion RMB capital 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 capital injection is unlikely in the next 24 months.

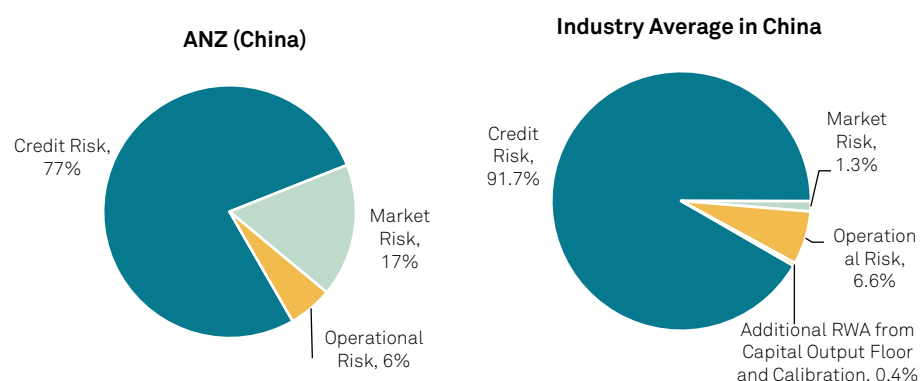
From a capital perspective, we believe ANZ (China) is in a very good position to grow its business, given its very high capital buffer. In the long term, we expect its capital ratios to drop as it grows its business and consumes more capital. In such a scenario, we may view the capital ratio decrease in a positive light because, as long as the bank maintains sound risk control, it may be sign of stronger business franchise and better profitability.

Market risk exposure represents a significant portion of ANZ (China)'s capital consumption. This differs from the usual structure in the industry, where market risk's capital consumption is kept at a low level. As of the end of 2020, credit risk and market risk accounted for 77% and 17% of its risk-weighted assets ("RWA") respectively, while the industry average was 91% and 1% respectively in China.

Chart 5

Market risk represents a significant portion of its RWA

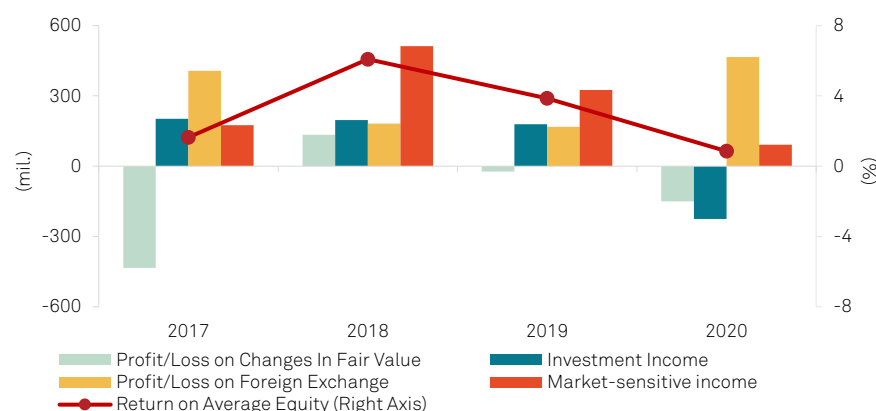
Industry Comparison: Risk-Weighted Asset Breakdown as of End of 2020



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

Due to the relatively large exposure to market risk, ANZ (China)'s earnings are sensitive to capital market volatility. Its market-sensitive income (a combination of investment income, profit/loss on changes in fair value, and profit/loss on foreign exchange) have fluctuated through the years, leading to high volatility of revenue and net income. Nevertheless, thanks to rigorous market risk control, its overall market-sensitive income has remained positive through the years. We believe downside risk is limited and under control.

Chart 6

Market volatility has a large impact on its earnings**ANZ (China): Income Sensitive to Market Risk and Return on Average Equity**

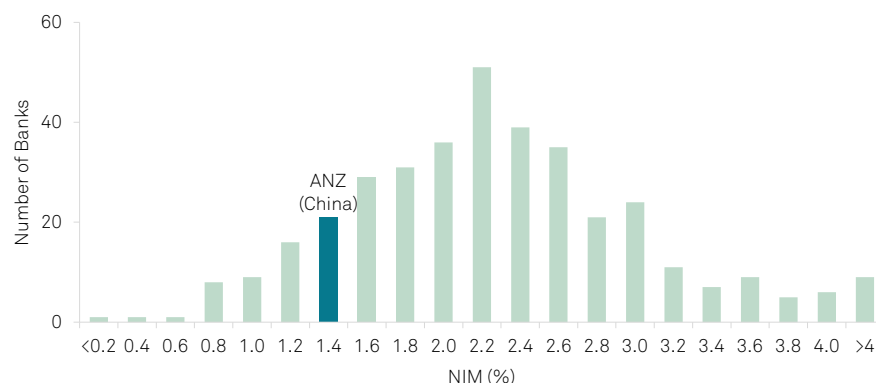
Note 1: Return on average equity = net income / [(total equity at the beginning of the year + total equity at the end of the year) / 2].

Note 2: Market-sensitive income = investment income + profit/loss on changes in fair value + profit/loss on foreign exchange.

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

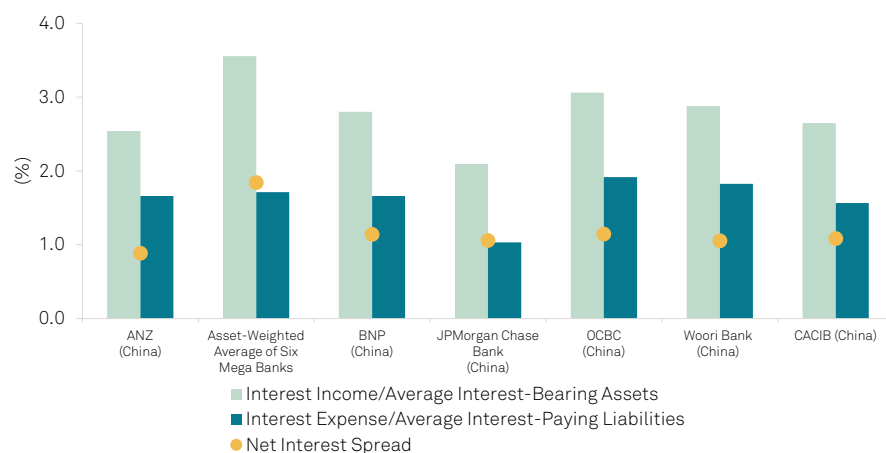
The interest spread of ANZ (China) is below the industry average due to the low credit risk premium of its high credit quality assets. In 2020, it had a net interest margin ("NIM") of 1.29%, down by 41 basis points compared to 2019. The reasons for the sharp drop include i) its shrinking loan book and reallocation of asset mix to lower yield assets, and ii) industrywide interest spread pressure. The banking industry has faced lower interest yields as the government pushes for lower borrowing costs for the real economy in the aftermath of COVID. Compared with domestic banks, foreign bank subsidiaries have lower credit risk exposure and higher interest risk exposure, making them more sensitive to interest spread compression when market rates drop. We expect its NIM to remain low going forward.

Chart 7

The bank's NIM is lower than the industry average**Industry Comparison: Distribution of Net Interest Margin of Major Banks in China in 2020**

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

Chart 8

Its low credit risk assets generate low interest yields**Peer Comparison: Average Net Interest Spread in 2020**

Note 1: Net Interest Spread = (interest income/average interest-bearing assets) – (interest expense/average interest-paying liabilities).

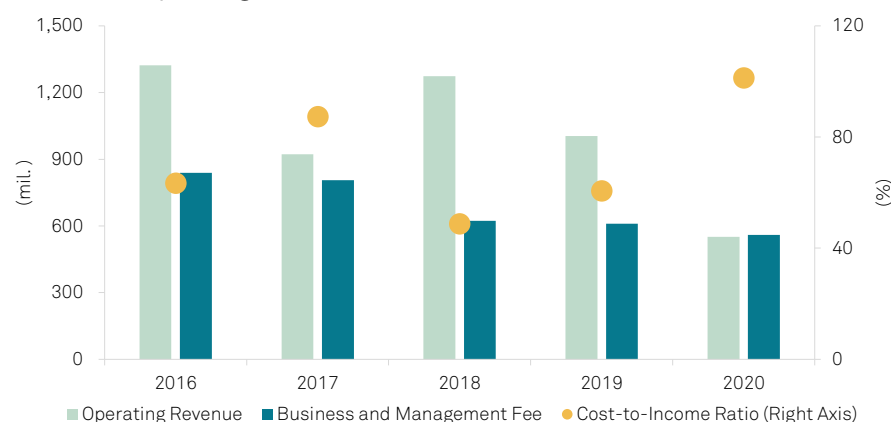
Note 2: The six Chinese mega banks are Industrial and Commercial Bank of China Limited, China Construction Bank Corporation, Agricultural Bank of China Limited, Bank of China Limited, Bank of Communications Co., Ltd. and Postal Savings Bank of China Co., Ltd.

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

ANZ (China)'s provisioning cost is typically determined by changes to its loan size under its policy of maintaining a reserve/gross loan ratio of 2.5%. The decrease in its loan book as seen the bank reverted provisioning to some extent in recent years, leading to a positive contribution to profitability. In 2020, its release of loan provisions accounted for 105% of its pre-tax earnings. Given its very good asset quality, we expect its credit cost to be manageable going forward.

Because of the bank's rigid operating cost amid declining revenue, ANZ (China)'s profitability was low in 2020. Its cost-to-income ratio was 101% in 2020, up by 41 percentage points compared to 2019. The reason for this very high ratio is the sharp drop in revenue by 45%. It reported a return on average equity of 0.85% in 2020. With a cost-to-income ratio exceeding 100%, its net income for 2020 mainly came from the release of loan provisions. We expect a moderate improvement in cost efficiency in the next 24 months as its revenue recovers.

Chart 9

The bank's revenue has weakened amid rigid operating cost**ANZ (China): Operating Revenue and Cost, and Cost-to-Income Ratio**

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

ANZ (China)'s short-term earnings outlook remains volatile and weak compared to the industry average level. Nevertheless, any earnings uncertainty or pressure would have a limited impact on its capital position. Given its cautious consumption of capital and very good asset quality, we expect the bank to maintain very strong capitalization in the next 24 months.

Table 5

ANZ (China) -- Capital and Earnings

(%)	2017	2018	2019	2020
Reported regulatory tier 1 capital adequacy ratio	18.81	19.72	17.81	23.50
Reported regulatory total capital adequacy ratio	19.27	20.33	18.37	24.08
NIM adjusted by S&P Global (China) Ratings	1.53	1.91	1.70	1.29
Cost-to-income ratio	87.39	48.86	60.66	101.36
Loan provisioning/average gross customer loans	(0.56)	0.35	(0.12)	(0.69)
Return on average assets	0.28	1.19	0.80	0.17
Return on average equity	1.64	6.09	3.87	0.85

Note 1: NIM adjusted by S&P Global (China) Ratings = net interest income/ [(interest-bearing assets at the beginning of the year + interest-bearing assets at the end of the year)/2].

Note 2: Return on average assets = net income/ [(total assets at the beginning of the year + total assets at the end of the year)/2].

Note 3: Return on average equity = net income/ [(total equity at the beginning of the year + total equity at the end of the year)/2].

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

Table 6

Peer Comparison -- Capital and Earnings

(2018-2020 three-year avg.) (%)	ANZ (China)	Peer Group				
		Max	Min	Average	Asset-weighted average	Median
Reported regulatory tier 1 capital adequacy ratio	20.34	23.69	16.04	20.11	19.85	19.82
Reported regulatory total capital adequacy ratio	20.93	24.19	16.63	20.83	20.56	20.63
NIM adjusted by S&P Global (China) Ratings	1.63	2.24	1.39	1.74	1.71	1.61
Cost-to-income ratio	70.29	70.29	52.75	62.87	61.96	62.37
Loan provisioning/average gross customer loans	(0.15)	0.61	(0.23)	0.20	0.17	0.23
Return on average assets	0.72	0.85	0.16	0.56	0.59	0.58
Return on average equity	3.60	4.56	1.98	3.44	3.18	3.60

Note 1: We have chosen five foreign bank subsidiaries, including BNP (China), JPMorgan Chase Bank (China), OCBC (China), Woori Bank (China), CACIB (China) for peer comparison purpose. The weights for the asset-weighted average calculation are based on the three-year average of total assets of these banks from 2018 to 2020. Therefore, the weights of ANZ (China), BNP (China), JPMorgan Chase Bank (China), OCBC (China), Woori Bank (China), CACIB (China) are 14.24%, 21.51%, 20.54%, 22.37%, 12.86% and 8.48% respectively.

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

Note 3: Return on average assets = net income / [(total assets at the beginning of the year + total assets at the end of the year) / 2].

Note 4: Return on average equity = net income / [(total equity at the beginning of the year + total equity at the end of the year) / 2].

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

Risk Position

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

ANZ (China) has very prudent underwriting standards, resulting in very good asset quality metrics that remained resilient even during COVID pressure. In 2017, it tightened its target market segments and withdrew from some customers with potential risk concerns. In 2020, in response to COVID, it again tightened its credit risk management. As of the end of 2020, it had no non-performing loans ("NPL") and no overdue loans, and its special mention loans ("SML") only accounted for 0.53% of its gross loans. Given its very strict loan classification rules, we expect low credit loss for its SMLs.

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

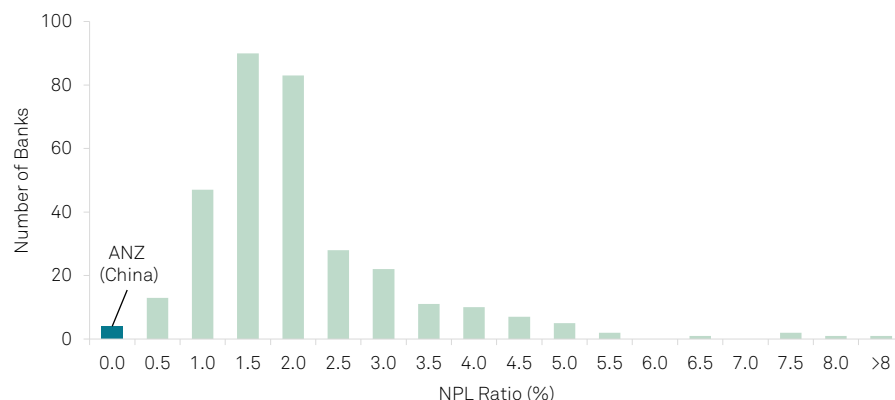
The bank has a conservative risk appetite, maintaining very good asset quality.

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

Chart 10

The bank had zero bad debts as of the end of 2020

Industry Comparison: Non-performing Loan Ratio of Major Banks in China as of End of 2020



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

ANZ (China) has high single name concentration due to its limited customer base. Its top 10 corporate loan customers accounted for about 49% of its loan book as of the end of 2020. The loans to its largest customer and top 10 customers accounted for 8% and 48% of its total capital respectively. We believe such high concentration is offset by the very good credit quality of its customers.

The bank has a very strong reserve buffer thanks to its conservative provisioning policies. Despite the fact that it has minimum bad debts, it typically maintains a reserve/gross loan ratio of 2.5%.

ANZ (China)'s investment portfolio has very high credit quality. As of the end of 2020, its investment portfolio accounted for 20% of its total assets, among which, 15% were Chinese government bonds and 85% policy bank bonds.

ANZ (China) has a very selective financial institution client base in its interbank operations, which is mostly composed of Chinese mega banks, large joint-stock banks and leading city banks.

ANZ (China) has sound market risk management. It has well-defined risk appetite for trading and banking book activities that generate market risk. It has an effective market risk management framework to ensure its business remains aligned to its defined risk appetite and strategy.

Table 7

ANZ (China) -- Risk Position				
(%)	2017	2018	2019	2020
Non-performing loan ratio	0.50	0.29	-	-
(Non-performing loans + special mention loans)/gross customer loans	1.83	1.94	1.12	0.53
Loan loss reserves/gross customer loans	2.50	2.50	2.50	2.50
Reserve coverage ratio	496.27	854.03	N.A.	N.A.
Loan loss reserves/ (non-performing loans + special mention loans)	136.44	128.59	222.91	468.38
Net write-offs/average gross customer loans	0.47	-	0.16	(0.01)

N.A. – not applicable.

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

Table 8

(2018-2020 three-year avg.) (%)	ANZ (China)	Peer Group				
		Max	Min	Average	Asset-weighted average	Median
Non-performing loan ratio	0.10	1.23	-	0.43	0.47	0.15
(Non-performing loans + special mention loans)/gross customer loans	1.20	2.34	0.01	1.26	1.34	1.28
Overdue loans/gross customer loans	0.10	1.81	-	0.56	0.62	0.14
Loan loss reserves/gross customer loans	2.50	2.94	2.02	2.45	2.50	2.46
Loan loss reserves/ (non-performing loans + special mention loans)	273.29	7,021.51	110.78	1,350.13	798.71	262.10
Net write-offs/average gross customer loans	0.05	0.51	-	0.18	0.20	0.06

Note: We have chosen five foreign bank subsidiaries, including BNP (China), JPMorgan Chase Bank (China), OCBC (China), Woori Bank (China), CACIB (China) for peer comparison purpose. The weights for the asset-weighted average calculation are based on the three-year average of total assets of these banks from 2018 to 2020. Therefore, the weights of ANZ (China), BNP (China), JPMorgan Chase Bank (China), OCBC (China), Woori Bank (China), CACIB (China) are 14.24%, 21.51%, 20.54%, 22.37%, 12.86% and 8.48% respectively.

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

Funding and Liquidity

ANZ (China) can adequately fund its lending through its deposits. As of the end of 2020, its loan-to-deposit ratio was 63%. Its use of wholesale funding is heavier than the industry average. 56% of its total funding as of the end of 2020 was customer deposits, and 44% wholesale funding. We believe its wholesale funding is stable as the bulk of it comes from its parent, which accounted for about 48% of its total wholesale funding as of the end of 2020.

Small foreign bank subsidiaries may struggle to maintain stable deposit bases in China given their limited physical presence and the intense market competition. ANZ

The bank's high deposit concentration is compensated by its sizeable liquid assets, prudent liquidity management, and on-going liquidity support from its parent.

We expect the bank to maintain adequate liquidity going forward.

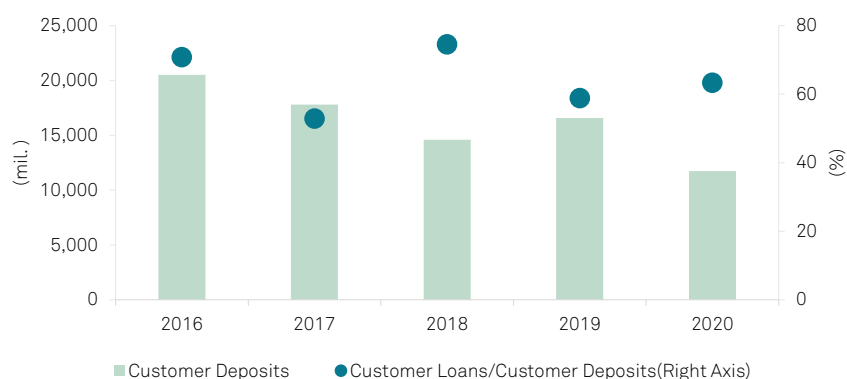
Therefore, there is no notching adjustment for funding and liquidity.

(China)'s deposit base is highly concentrated among its multinational customers. Its top 10 deposit customers accounted for about 48% of total deposits by year-end 2020. The bank is closely monitoring its deposit concentration risk and working on deposit diversification. Such high deposit concentration can lead to high volatility in terms of deposit size. Deposit volatility can also be caused by fluctuations in structured deposit size amid regulatory changes. As of end of 2020, its deposits were 11.7 billion RMB, drop by 29% YoY. We believe deposit volatility risk is offset by its steady access to wholesale funding sources and the high liquidity of its assets.

Chart 11

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

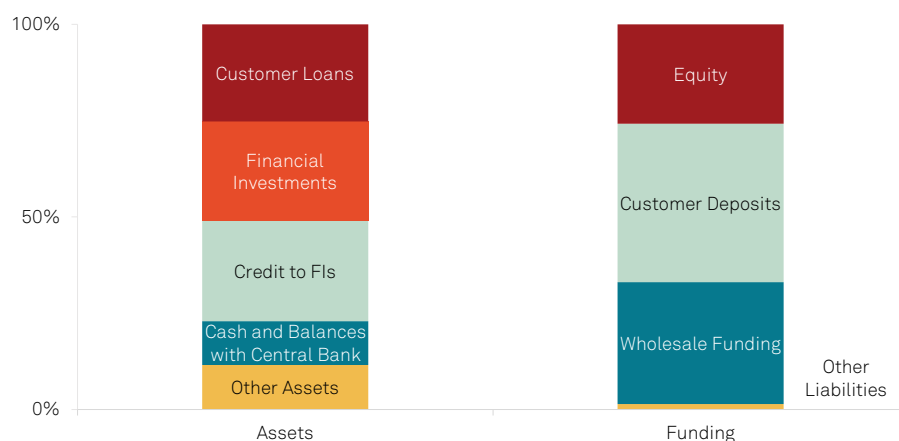
ANZ (China): Customer Deposit Size and Loan-to-Deposit Ratio



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

Strategically, ANZ (China) maintains a low risk appetite for profit generation, as reflected by the mismatch between assets and liabilities on its balance sheet. Its assets have a very good liquidity profile. As of year-end 2020, its net loans accounted for 19% of total assets, cash and deposits to the central bank 9%, credit to other financial institutions 20%, and its investment portfolio of treasury bonds and policy bank bonds 20%. The highly liquid assets (including cash, deposits to the central bank, and treasury bonds and policy bank bonds) was about 2.3X of its wholesale funding (excluding borrowing from its parent). In addition, it has a liquid loan portfolio, and about 83% of its loans had a remaining term of less than 12 months as of the end of 2020.

Chart 12

The bank's assets have very good liquidity profile**ANZ (China): Breakdown of Asset and Funding Structure as of End of 2020**

Note: Derivatives are excluded from assets and funding.

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

In our view, the liquidity management of ANZ (China) is very prudent and its liquidity risk is well managed. 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. As of the end of 2020, its liquidity ratio stood at 101.33% and high-quality liquidity asset adequacy ratio was 420.40%, far above the minimum regulatory requirements of 25% and 100% respectively.

Table 9

ANZ (China) – Funding and Liquidity				
(%)	2017	2018	2019	2020
Customer loans/customer deposits	52.82	74.55	58.82	63.27
Customer deposits/total funding	63.79	62.67	62.73	56.46
Wholesale funding/total funding	36.21	37.33	37.27	43.54
High-quality liquidity asset adequacy ratio	Not available	295.43	258.84	420.40

Note 1: Wholesale funding=borrowing from central government + borrowing and deposits from other financial institutions + financial assets sold for repurchase + transactional monetary liabilities + bonds payable.

Note 2: Total funding =customer deposits + wholesale funding.

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

Table 10

Peer Comparison -- Funding and Liquidity

(2018-2020 three-year avg.) (%)	ANZ (China)	Peer Group				
		Max	Min	Average	Asset-weighted average	Median
Customer loans/customer deposits	65.55	90.45	42.75	70.54	70.77	72.18
Customer deposits/total funding	60.62	85.01	59.31	68.49	66.80	66.40
Wholesale funding /total funding	39.38	40.69	14.99	31.51	33.20	33.60

Note 1: We have chosen five foreign bank subsidiaries, including BNP (China), JPMorgan Chase Bank (China), OCBC (China), Woori Bank (China), and CACIB (China) for peer comparison purpose. For the calculation of asset-weighted average, the weights of ANZ (China), BNP (China), JPMorgan Chase Bank (China), OCBC (China), Woori Bank (China), and CACIB (China) are 14.24%, 21.51%, 20.54%, 22.37%, 12.86% and 8.48% respectively.

Note 2: Wholesale funding=borrowing from central government + borrowing and deposits from other financial institutions + financial assets sold for repurchase + transactional monetary liabilities + bonds payable.

Note 3: Total funding =customer deposits + wholesale funding.

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

The bank is assigned an SACP of “a_{spc}”, two notches higher than the bank anchor of “bbb+”. This SACP reflects its very strong capital base and very good asset quality, and it also considers its very small business size and unstable revenue.

Issuer Credit Rating

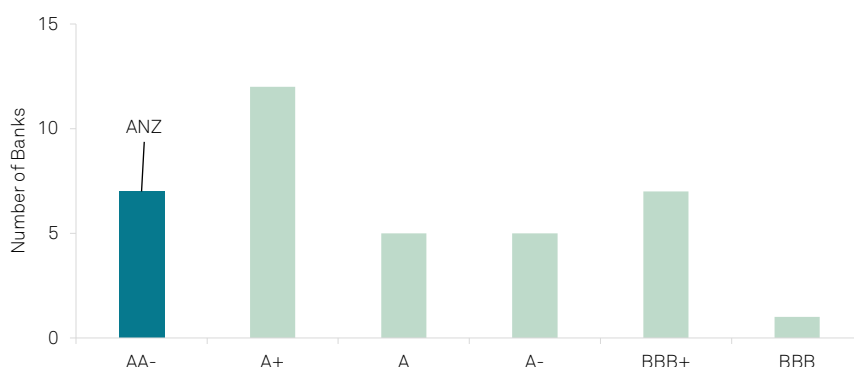
External Support

S&P Global Ratings has assigned a stand-alone credit profile of “a” and an issuer credit rating of “AA-” to ANZ, the outlook is stable. 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 41 foreign banks with Chinese subsidiaries, ANZ is among the banks with the highest credit ratings assigned by S&P Global Ratings.

Chart 13

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

Peer Comparison: ICR Distribution of Parents of Foreign Bank Subsidiaries by S&P Global Ratings



Note: There are 41 foreign bank subsidiaries in China. Among these banks, 37 banks' parents are rated by S&P Global Ratings. The ratings are as of September 13, 2021.

Sources: S&P Global Ratings.

Table 11

ANZ: Credit Highlights by S&P Global Ratings	
Key strengths	Key risks
Strong market position in the Australian and New Zealand retail and commercial banking sectors.	Dependence on domestic and offshore wholesale borrowing.
Conservative risk appetite, backed by a sound risk-management framework.	Exposed to risks from rising house prices, high private sector debt, and an uncertain global economic outlook.
Highly likely to receive timely financial support from the Australian government, if needed.	

Sources: S&P Global Ratings.

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; (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 on-going 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 on-going funding support and is committed to maintaining its capitalization at an adequate level.

We believe ANZ will remain committed to China. 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. We believe ANZ (China) is the most important subsidiary of ANZ in China. In addition to ANZ (China), ANZ also owns a small rural bank, Chongqing Liangping ANZ Rural Bank, which has registered capital of 30 million RMB. ANZ also has an operations hub in Chengdu which supports ANZ (China) on the operational side.

We believe ANZ (China) falls short of being critical 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, that number may not fully reflect the importance of the locally incorporated bank, 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.

Therefore, ANZ (China)'s rating reflects its high importance to its parent, which has been assigned a very strong rating by S&P Global Ratings. Because of the extremely strong issuer credit quality of its parent, we assign an Issuer Credit Rating of "AAA_{spc}" to ANZ (China), five notches higher than its stand-alone credit profile of "a_{spc}".

ANZ has extremely strong credit quality. Among the 41 foreign banks with Chinese subsidiaries, ANZ is among the banks with the highest credit ratings assigned by S&P Global Ratings.

ANZ (China), as its fully owned subsidiary, is closely assigned 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 importance level of the bank is high to its parent.

Therefore, we apply a group support notching of five notches on its SACP of "a_{spc}" and assign an ICR of "AAA_{spc}" to ANZ (China).

Appendix 1: Key Financial Data

ANZ (China) -- Key Financial Data

	2017	2018	2019	2020
Business Position				
Total assets (bil)	42.90	35.74	38.64	37.48
Gross customer loans (bil)	9.40	10.89	9.75	7.42
Customer deposits (bil)	17.80	14.60	16.57	11.72
Total equity (bil)	7.65	7.75	7.60	7.36
Operating income (bil)	0.92	1.27	1.01	0.55
Net income (bil)	0.13	0.47	0.30	0.06
Total assets / total assets of China's commercial banking industry (%)	0.02	0.02	0.02	0.01
Customer loans/total loans of China's commercial banking industry (%)	0.01	0.01	0.01	0.01
Customer deposits/total deposits of China's commercial banking industry (%)	0.01	0.01	0.01	0.01
Capital and Earnings				
Reported regulatory total capital adequacy ratio (%)	19.27	20.33	18.37	24.08
Reported regulatory tier 1 capital adequacy ratio (%)	18.81	19.72	17.81	23.50
NIM adjusted by S&P Global (China) Ratings (%)	1.53	1.91	1.70	1.29
Cost-to-income ratio (%)	87.39	48.86	60.66	101.36
Loan provisioning/average gross customer loans (%)	(0.56)	0.35	(0.12)	(0.69)
Return on average assets (%)	0.28	1.19	0.80	0.17
Return on average equity (%)	1.64	6.09	3.87	0.85
Risk Position				
Non-performing loan ratio (%)	0.50	0.29	-	-
(Non-performing loans + special mention loans)/gross customer loans (%)	1.83	1.94	1.12	0.53
Loan loss reserves/gross customer loans (%)	2.50	2.50	2.50	2.50
Reserve coverage ratio (%)	496.27	854.03	Not applicable	Not applicable
Loan loss reserves/ (non-performing loans + special mention loans) (%)	136.44	128.59	222.91	468.38
Net write-offs/average gross customer loans (%)	0.47	-	0.16	(0.01)
Funding and Liquidity				
Customer loans/customer deposits (%)	52.82	74.55	58.82	63.27
Customer deposits/total funding (%)	63.79	62.67	62.73	56.46
Wholesale funding /total funding (%)	36.21	37.33	37.27	43.54
High-quality liquidity asset adequacy ratio (%)	Not available	295.43	258.84	420.40

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.

Note 2: ANZ (China)'s annual financial reports have been audited by KPMG.

Note 3: 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].

Note 4: Return on average assets = net income/ [(total assets at the beginning of the year + total assets at the end of the year)/2].

Note 5: Return on average equity = net income/ [(total equity at the beginning of the year + total equity at the end of the year)/2].

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

Appendix 2: Peer Comparison Data

Peer Comparison Data						
(2018-2020 three-year avg.)	ANZ (China)	Peer Group				
		Max	Min	Average	Asset-weighted average	Median
Business Position						
Total assets (bil)	37.29	58.59	22.21	43.65	47.80	45.54
Gross customer loans (bil)	9.35	24.67	7.17	14.04	15.11	12.86
Customer deposits (bil)	14.30	27.33	9.21	20.38	21.80	22.33
Total equity (bil)	7.57	9.90	2.98	7.16	7.78	7.72
Operating income (bil)	0.94	1.29	0.42	0.94	1.04	1.08
Net income (bil)	0.28	0.43	0.05	0.24	0.28	0.27
Capital and Earnings						
Reported regulatory total capital adequacy ratio (%)	20.93	24.19	16.63	20.83	20.56	20.63
Reported regulatory tier 1 capital adequacy ratio (%)	20.34	23.69	16.04	20.11	19.85	19.82
NIM adjusted by S&P Global (China) Ratings (%)	1.63	2.24	1.39	1.74	1.71	1.61
Cost-to-income ratio (%)	70.29	70.29	52.75	62.87	61.96	62.37
Loan provisioning/average gross customer loans (%)	(0.15)	0.61	(0.23)	0.20	0.17	0.23
Return on average assets (%)	0.72	0.85	0.16	0.56	0.59	0.58
Return on average equity (%)	3.60	4.56	1.98	3.44	3.18	3.60
Risk Position						
Non-performing loan ratio (%)	0.10	1.23	-	0.43	0.47	0.15
(Non-performing loans + special mention loans)/gross customer loans (%)	1.20	2.34	0.01	1.26	1.34	1.28
Overdue loans/gross customer loans (%)	0.10	1.81	-	0.56	0.62	0.14
Loan loss reserves/gross customer loans (%)	2.50	2.94	2.02	2.45	2.50	2.46
Loan loss reserves/ (non-performing loans + special mention loans) (%)	273.29	7,021.51	110.78	1,350.13	798.71	262.10
Net write-offs/average gross customer loans (%)	0.05	0.51	-	0.18	0.20	0.06
Funding and Liquidity						
Customer loans/customer deposits (%)	65.55	90.45	42.75	70.54	70.77	72.18
Customer deposits/total funding (%)	60.62	85.01	59.31	68.49	66.80	66.40
Wholesale funding/total funding (%)	39.38	40.69	14.99	31.51	33.20	33.60

Note 1: We have chosen five foreign bank subsidiaries, including BNP (China), JPMorgan Chase Bank (China), OCBC (China), Woori Bank (China), and CACIB (China) for peer comparison purpose. The weights for the asset-weighted average calculation are the three-year average of total assets of these six banks from 2018 to 2020. Therefore, the weights of ANZ (China), BNP (China), JPMorgan Chase Bank (China), OCBC (China), Woori Bank (China), and CACIB (China) are 14.24%, 21.51%, 20.54%, 22.37%, 12.86% and 8.48% respectively.

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].

Note 3: Return on average assets = net income/ [(total assets at the beginning of the year + total assets at the end of the year)/2].

Note 4: Return on average equity = net income/ [(total equity at the beginning of the year + total equity at the end of the year)/2].

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

Appendix 3: Rating History

Issuer Credit Ratings of ANZ (China) by S&P Global (China) Ratings

Issuer Credit Ratings	Outlook	Rating Date	Analysts	Related Reports
AAA _{spc}	Stable	2021-11-30	Yifu Wang, Xiaochen Luan, Xuefei Zou	Current Report

Note: These ratings are conducted based on [S&P Global \(China\) Ratings Financial Institutions Methodology](#), and no quantitative model is used.

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