FIIG | Factsheet

# Australia and New Zealand Banking Group Limited

8 May 2023

Sector: Financials
Sub-sector: Banks
Country: Australia
Ownership: Public

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## Issuer Outline

Australia and New Zealand Banking Group Limited (ANZ) is one of the four major banks that dominate banking in Australia, and is the largest bank in New Zealand, accounting for around one third of all market share. ANZ has a market capitalisation of AUD71.5bn as at 5 May 2023. The bank provides personal banking and business/corporate banking services primarily across three main operating divisions:

- Australian retail and commercial: serves retail, commercial and private banking customers;
- Institutional: serves institutional and business customers across Australia, New Zealand, Asia-Pacific, Europe and America;
- New Zealand: serves retail, commercial and private banking customers in New Zealand.

## Key Financials (AUDm)

| LTM (31 Mar) | 2023 |
|---|---|
| Net interest income | 16,277 |
| Cash earnings | 7,209 |
| Gross loans | 693.7 |
| Customer deposits | 648.6 |
| Net interest margin (%) | 1.75 |
| Nonperforming loans (%) * | 0.60 |
| Credit (losses) / benefit (%) | 0.04 |
| CET1 ratio (%) | 13.18 |

*Source: Company, FIIG Securities. *As measured by Stage 3 loans (impaired and 90-days past due).*

## Summary Bond Details (see last page for full list)

| ISIN | Issue Amount | Ranking | Coupon | Coupon Frequency | First Call[1] | Maturity Date |
|---|---|---|---|---|---|---|
| AU3FN0049128 | AUD 1,750m | Unsec. Sub. T2 | 3M BBSW + 2.00% | Quarterly | 26 Jul 2024 | 26 Jul 2029 |
| AU3FN0055687 | AUD 1,250m | Unsec. Sub. T2 | 3M BBSW + 1.85% | Quarterly | 26 Feb 2026 | 26 Feb 2031 |
| XS2353399780 | GBP 500m | Unsec. Sub. T2 | 1.809% | Semi-Annual | 16 Sep 2026 | 16 Sep 2031 |
| AU3FN0070330 | AUD 300m | Unsec. Sub. T2 | 3M BBSW + 2.70%[3] | Quarterly | 12 Aug 2027 | 12 Aug 2032 |
| AU3CB0291466 | AUD 1,450m | Unsec. Sub. T2 | 5.906% | Semi-Annual | 12 Aug 2027 | 12 Aug 2032 |
| AU3CB0292472 | AUD 900m | Unsec. Sub. T2 | 6.405%[4] | Semi-Annual | 20 Sep 2029 | 20 Sep 2034 |
| AU3CB0296671 | AUD 1,000m | Unsec. Sub. T2 | 6.736%[5] | Semi-Annual | 10 Feb 2033 | 10 Feb 2038 |
| USQ08328AA64 | USD 1,000m | Unsec. Perpetual T1 | 6.75%[2] | Semi-Annual | 15 Jun 2026 | Perpetual |
| GB0040024555 | USD 300m | Unsec. Perpetual T2 | 6M LIBOR + 0.15% | Semi-Annual | 30 Oct 2019 | Perpetual |

*[1]Excludes potential terms that would allow the issuer to redeem prior to the maturity date through a make-whole call. [2]Coupon resets on 15 June 2026 and every subsequent five years at a rate equal to five-year swap rate + 5.168%. [3]Resets on 12 August 2027 to 3M BBSW+2.70%, with payment frequency changing to quarterly. [4]Resets on 20 September 2029 to 3M BBSW+2.60%, with payment frequency changing to quarterly. [5]Resets on 10 February 2033 to 3M BBSW+2.80%, with payment frequency changing to quarterly.*

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# Australia and New Zealand Banking Group Limited

| Perpetual Tier 1 (AT1) / Tier 2 Structure | |
|---|---|
| Interest Deferral/Cancellation | Interest is deferrable for both Tier 1 and Tier 2 notes and is also non-cumulative for Tier 1 notes. In the case of Tier 2 notes, interest is only typically deferred in the highly unlikely circumstances that the payment would result in the bank becoming insolvent. Interest payment for Tier 1 notes is optional and, if unpaid, the issuer has no obligation to pay any deferred amounts later. A cancellation of interest does not constitute a default under the terms of a Tier 1 note for any purpose. |
| Common Equity Tier 1 Trigger | If the issuer or prudential regulator determines that the then applicable Common Equity Tier 1 capital ratio falls below 5.125% on a consolidated basis, they may be required to convert into equity or write-off some or all the face value of its Tier 1 hybrids. |
| Non-Viability Trigger | If the prudential regulator determines that the issuer is at the point of non-viability (loosely defined as the point in which the issuer is failing or likely to fail), the issuer may be required to convert into equity or write-off some or all the face value of both its Tier 1 and Tier 2 notes. Write-off or conversion takes place in order of ranking, with losses applied to Tier 1 notes before Tier 2 (if required). |
| Maturity | Tier 1 notes do not have a maturity date. This means that the issuer does not have an obligation to repay the principal. |
| NOCH Structure | ANZ has announced an update to its group corporate structure to include a non-operating holding company (NOHC) which will hold ANZ, as well as any other non-banking activities. This new holding company will be listed, with existing shareholders becoming shareholders of the holding company. While this change wouldn't negatively impact the risk profile of any existing notes, in the event of an equity conversion of Tier 1 or Tier 2 notes, holders would receive shares in the holding company rather than shares of the issuer. This structure is similar to the structure used by Macquarie Bank's Tier 1 and Tier 2 notes. |

## Strengths

- Dominant market position: ANZ is one of the four major banks that dominate banking in Australia and New Zealand. Although ANZ lags its peers with respect to market share in Australia (accounting for around 14% of retail banking including housing, credit cards and deposits), it is compensated somewhat in terms of its market share in New Zealand, accounting for 30% of retail and 22% of business lending (ranked first and second respectively). Its profitability levels are very strong and have been for an extended period, including over the last decade, which was characterised by falling yields, higher capital requirements (which would generally impact earnings) and economic crises. Credit metrics are typically toward the stronger end of global comparisons.
- Strong capitalisation, underpinned by high quality earnings profile: ANZ exhibits a strong regulatory capital ratio, recently reporting a Common Equity Tier 1 capital ratio of 13.18% at 31 March 2023, comfortably above minimum requirements and approximately AUD12.7bn above APRA's "unquestionably strong" target of 10.25%. Composition of regulatory capital is comparable with peers for ANZ, with common equity accounting for 88% of Tier 1 capital. The quality of earnings is strong and again comparable with averages across Australia given the bank's predominant exposure to residential mortgage and business lending, with net interest income accounting for approximately 83.7% of operating revenues. Net interest income is typically viewed favourably in terms of earnings quality, as it has many recurring characteristics that are largely dependent of the ability of households and business to repay their loans.
- Relatively low-risk lending book: ANZ's asset quality benefits from a focus on relatively lower risk residential mortgage lending across its various segments, currently at 56.6% of total gross loans. Although this is a lower proportion compared to its peers (CBA, WBC, NAB), this is explained by ANZ's greater exposure to business lending (approximately 40.7% of loans). Despite this segment being viewed as riskier, ANZ continues to report solid credit metrics with nonperforming loans (as

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measured by impaired and past due) of 0.60% (toward the lower end of global peers). Single-name concentrations within ANZ's corporate and institutional book are relatively modest by global standards.

- Sound macro environment: Australian financials benefit from operating in an economy characterised as having a very high degree of economic resilience with low susceptibility to event risk. While the Australian economy has recovered relatively strongly from the direct impacts of the pandemic, the current high inflation environment and associated interest rate increases by the Reserve Bank of Australia have the potential to put strain on the post-pandemic recovery, with increased pressure on consumers. The current low level of unemployment and significant savings accumulated over the past two years should provide a buffer. Nevertheless, ANZ maintains adequate level of credit provisioning to account for this uncertain outlook. Australian banks including ANZ are overseen by a highly regarded prudential regulator, APRA, who oversees banking, insurance and superannuation, with the aim of maintaining the integrity, safety and soundness of financial institutions.
- Strong investment-grade credit ratings down the capital structure: ANZ, along with its peers, remains one of the highest rated financial institutions across the globe, which extends down the capital structure (including the most junior-ranked securities (Tier 1 perpetual hybrids), which are rated investment grade).

### Risks

- Relatively high reliance on wholesale funding: Although the major banks benefit from a strong funding franchise, both domestically and offshore, and across various currencies and instruments, they remain highly reliant on wholesale funding compared with global peers. In recent years, the major banks have greatly extended the maturity of their wholesale term debt, reducing the exposure to a short-term dislocation in wholesale funding markets.
- Modest diversity by global peer standards: Like its domestic peers, ANZ exhibits a modest level of diversity by both product and geography, with its lending base heavily weighted toward residential mortgages and business lending. This leaves the bank primarily exposed to the performance of business conditions in Australian and New Zealand, as well as their respective mortgage markets (and as such, the high levels of household debt in both countries). Unlike the other Big 4 banks, ANZ has a relatively larger market share to New Zealand whose economy is smaller and less diversified. The exposure to residential mortgages is somewhat mitigated by mortgage loans that are full recourse and are fundamentally written with the intention to remain on the balance sheet of the bank.

### Risks relevant to Subordinated Unsecured Tier 2 instruments

- Subordinated ranking: Tier 2 instruments are unsecured and subordinated instruments, ranking ahead only of ordinary shares and additional Tier 1 hybrids. Tier 2 instruments rank behind senior creditors, which includes depositors and senior unsecured creditors.
- Interest is deferrable (but cumulative): Interest is deferrable for Tier 2 capital instruments, but typically only in the highly unlikely circumstance that the payment would result in the bank becoming insolvent. Deferred interest does however accumulate.
- Basel III compliant structural features: Tier 2 subordinated instruments are classified as Basel III compliant Tier 2 capital instruments. As such, they contain the following features:
    - Conversion or write-down following a Non-Viability Trigger Event: If the prudential regulator determines that the issuer is at the point of non-viability (loosely defined as the point in which the issuer is failing or likely to fail), the issuer may be required to convert some or all of its Tier 2 hybrids into ordinary shares. Generally speaking, it is expected that any Tier 1 hybrids outstanding will be converted into equity before Tier 2 hybrids. If, for any reason, the conversion does not take place, the face value of Tier 2 hybrids set aside for conversion will be written off and noteholders will not be compensated (including for any unpaid distributions or interest).
    - Optional call dependent on regulatory approval: Tier 2 hybrids include an early call feature where the face value of the instrument may be repaid early in cash. The optional redemption requires regulatory approval, which may not be

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provided. In general, regulators are unlikely to provide approval for a Tier 2 hybrid to be called if it results in a reduction in the issuer's capitalisation; regulators are unlikely to provide approval for a redemption or resale unless the issuer has, or is expected to, issue an instrument of similar size to replace the instrument subject to that call. To the extent the optional call was expected not to be exercised, it is likely that the price of the notes will be negatively affected.

### Risks relevant to Subordinated Unsecured Tier 1 instruments

- Deeply subordinated ranking: Tier 1 hybrids are unsecured and deeply subordinated, ranking ahead only of ordinary shares. Tier 1 hybrids rank behind senior creditors, which includes depositors, senior unsecured creditors, and non-deferrable subordinated debt (Tier 2) instruments.
- Basel III compliant structural features: Tier 1 hybrids are classified as Basel III compliant Additional Tier 1 (AT1) capital instruments. As such, they contain the following features:
  - Optional, non-cumulative interest payment: Payment of interest is optional whereby the issuer may elect not to pay interest, and this will not constitute an event of default. In some circumstances, the issuer may be prevented from paying interest on its Tier 1 hybrids. If interest is not paid, it is non-cumulative, and the issuer is under no obligation to make up the payment at a later date.
  - Conversion or write-down some or all of the face value of the notes: If the issuer's regulatory capital levels fall below a certain level, it may be required to convert some or all of the face value of its Tier 1 hybrids into equity (as outlined below). At the same time, any indication that the issuer's capitalisation is trending toward the 5.125% threshold for a Common Equity Trigger Event Tier 1 is likely to have a materially adverse effect on the capital price of the Tier 1 instruments. Depending on the price of the ordinary shares at the relevant time, investors may suffer loss as the value of ordinary shares received by an investor may be less than the face value of the relevant hybrid. If, for any reason, the conversion does not take place, the face value of Tier 1 hybrids set aside for conversion will be written off and noteholders will not be compensated (including for any unpaid distributions or interest).
    - Common Equity Trigger Event: If the issuer or prudential regulator determines that the then applicable Common Equity Tier 1 capital ratio falls below 5.125% on a consolidated basis, the issuer may be required to convert some or all of its Tier 1 hybrids into ordinary shares.
    - Non-Viability Trigger Event: If the prudential regulator determines that the issuer is at the point of non-viability, the issuer may be required to convert some or all of its Tier 1 hybrids into ordinary shares.
  - No fixed maturity: Tier 1 hybrids do not have a fixed maturity date and are perpetual. This means that the issuer does not have an obligation to repay the notes on the relevant call date(s) and will only do so if it elects to provide a notice of redemption and obtains the relevant regulatory approval beforehand.
  - Optional call dependent on regulatory approval: Tier 1 hybrids include an early call feature where the face value of the instrument may be repaid early in cash. The optional redemption requires regulatory approval, which may not be provided. In general, regulators are unlikely to provide approval for a Tier 1 hybrid to be called if it results in a reduction in the issuer's capitalisation; regulators are unlikely to provide approval for a redemption or resale unless the issuer has, or is expected to, issue an instrument of similar size to replace the instrument subject to that call. To the extent the optional call was expected not to be exercised, it is likely that the price of the notes will be negatively affected, with this negative price movement being potentially material.

### Factors specific to the Perpetual Subordinated Tier 2 notes

- Perpetual Subordinated Tier 2 notes are regulatory capital instruments that were introduced prior to Basel III (pre-2013). As pre-Basel III instruments, they do not feature conversion or write-down features that are found in Basel III Tier 1 and Tier 2 instruments (and as such, rank above the forementioned capital instruments). However, they share two main risks common in Tier 1 and Tier 2 instruments:

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- No fixed maturity: Like Tier 1 hybrids, Perpetual Subordinated Tier 2 notes have no fixed maturity. They are callable quarterly, subject to regulatory approval.
- Interest is deferrable: Interest is deferrable and cumulative. Interest payment is optional (although typically only in the event it would result in the issuer becoming insolvent) unless the issuer has paid a dividend on ordinary shares in the 12 months prior to the interest payment date. If interest is not paid, it will accumulate and will be required to be paid no later than the next payment date after payment of a dividend on ordinary shares.

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FIIG The fixed income experts

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## Summary Bond Details

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| XS2353399780 | GBP 500m | Unsec. Sub. T2 | 1.809% | Semi-Annual | 16 Sep 2026 | 16 Sep 2031 |
| AU3FN0070330 | AUD 300m | Unsec. Sub. T2 | 3M BBSW + 2.70%[2] | Quarterly | 12 Aug 2027 | 12 Aug 2032 |
| AU3CB0291466 | AUD 1,450m | Unsec. Sub. T2 | 5.906% | Semi-Annual | 12 Aug 2027 | 12 Aug 2032 |
| AU3CB0299352 | AUD 275m | Unsec. Sub. T2 | 5.845%[3] | Semi-Annual | 16 May 2028 | 16 May 2033 |
| AU3FN0077939 | AUD 875m | Unsec. Sub. T2 | 3M BBSW + 2.35% | Quarterly | 16 May 2028 | 16 May 2033 |
| AU3CB0292472 | AUD 900m | Unsec. Sub. T2 | 6.405%[4] | Semi-Annual | 20 Sep 2029 | 20 Sep 2034 |
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