

# ANZ DEBT INVESTOR UPDATE

AUSTRALIA AND NEW ZEALAND  
BANKING GROUP LIMITED  
August 2017



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The Bank reports and describes in this document non-GAAP financial measures (as defined in SEC Regulation G) of the Bank, in particular, Cash Profit measures for certain periods. Non-GAAP financial measures are not calculated in accordance with IFRS. Non-GAAP financial measures should be considered in addition to, and not as substitutes for or superior to, financial measures of financial performance or financial position prepared in accordance with IFRS. [For a description of adjusted pro-forma measures, see page 34-35 of the 2017 Half Year U.S. Disclosure Document.]

In addition, the Bank has also reported and described in this document Adjusted Pro Forma measures. These measures are non-GAAP financial measures (as defined in SEC Regulation G). Adjusted Pro Forma measures are Cash Profit adjusted to remove the impact of 'Specified items' and this includes the pro forma impact on the results of Asian minority investments on cessation of equity accounting, the reclassification of Asia Retail and Wealth as a held for sale asset and, in the prior year, restructuring expenses, software capitalisation changes, the derivative valuation methodology changes, the gain on sale and pro forma impact of the sale of the Esanda Dealer Finance business, and valuation adjustments for Asian minority interests. Adjusted Pro forma Cash Profit is presented to assist readers to understand the estimated growth rates of the ongoing business performance of the Group. However, this measure should not be considered a substitute for or superior to, financial measures of financial performance or financial position prepared in accordance with IFRS. [For a description of adjusted pro-forma measures, see page 34-35 of the 2017 Half Year U.S. Disclosure Document.]

The information contained in this document is provided as at the date of this document and is subject to change without notice.

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# 3Q17 TRADING UPDATE



# 3Q17 TRADING UPDATE

Comparisons are Cash Profit<sup>1</sup> based and for the third quarter Financial Year 2017 to 30 June to the average of the first two quarters of Financial Year 2017 unless otherwise noted.

## Group

- Cash Profit was \$1.79 billion (up 5.3%). Profit Before Provisions increased 0.3%.
- Revenue decreased 0.3% which in part reflected a normalisation of the Markets business performance after an unusually strong first half along with the sale of 100 Queen Street.
- Expenses reduced 1% and continue to be well managed.
- Net Interest Margin (NIM) was stable<sup>2</sup>, up several basis points excluding Markets. Australia Division NIM improved offsetting a decline in Institutional NIM. The Australian Bank Levy will impact the NIM in the fourth quarter being reflected within the cost of funds.
- The reshaping of the Institutional Division asset base continued with Risk Weighted Assets (RWA) reducing a further \$3 billion to \$156 billion, a cumulative reduction of \$12 billion (-7%) during the Financial Year to date. The changing profile of the book has resulted in a decline in the Division's provision charge and an improvement in the risk adjusted return.
- Above system growth in residential mortgages in Australia has been primarily driven by the Owner Occupier segment. The Division is tracking well in respect of meeting various macro prudential requirements regarding mortgage growth.

## Credit Quality

- The total provision charge of \$243 million was comprised of an Individual Provision (IP) charge of \$308 million and a Collective Provision (CP) release. The release of CP was largely driven by continued reshaping of the Institutional portfolio along with some transfers to IP.

## Capital & Funding

- APRA Common Equity Tier 1 (CET1) ratio was 9.8% at 30 June.
- CET1 ratio incorporates 51 basis points of net organic capital generation offset by the Interim Dividend (59 bps) and adoption of the new RWA models for Australian Residential Mortgages.<sup>3</sup> Proforma CET 1 was 10.5%.<sup>4</sup>

1. Cash Profit excludes non-core items included in Statutory profit and is provided to assist with understanding the results of the ongoing business activities of the Group

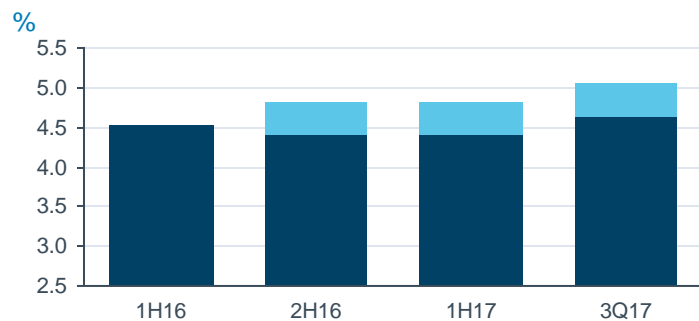
2. Reference point is the Group NIM at 30 March 2017 of 200 basis points as reported in the Consolidated Financial Report & Dividend Announcement page 20.

3. In an ASX released 1 June 2017 ANZ advised the average risk weight for its Australian residential mortgage lending book would increase to a little over 28.5% following completion of the Australian Prudential Regulation Authority's review of ANZ's mortgage capital model. The average risk weight outcome is a dynamic calculation.

4. Pro forma Common Equity Tier 1 (CET1) incorporates the capital benefits arising from the disposal of assets which have been announced but are yet to be completed and remain subject to the necessary approvals

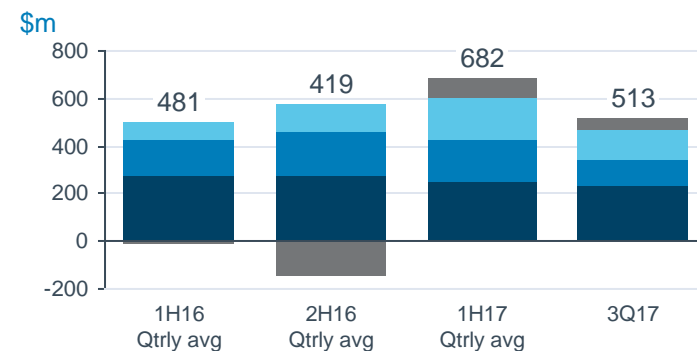
# GROUP FINANCIAL HIGHLIGHTS - PROFITABILITY

## Group Net Interest Income / Credit RWA<sup>1</sup>



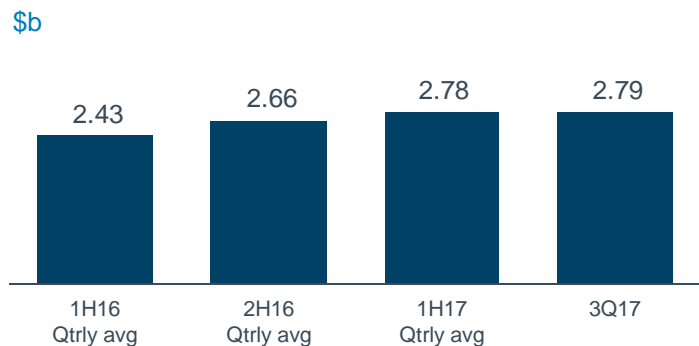
■ Adjusting for APRA regulatory changes to housing CRWAs  
■ Net interest income / CRWAs

## Institutional Markets Income

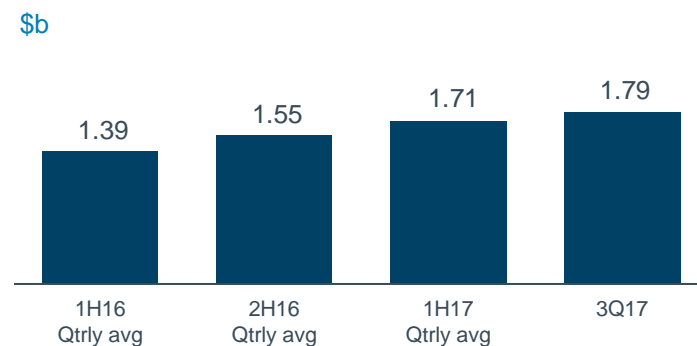


■ Sales ■ Trading ■ Balance Sheet ■ Val'n adj.

## Profit Before Provisions (Cash basis)



## Net Profit After Tax (Cash basis)

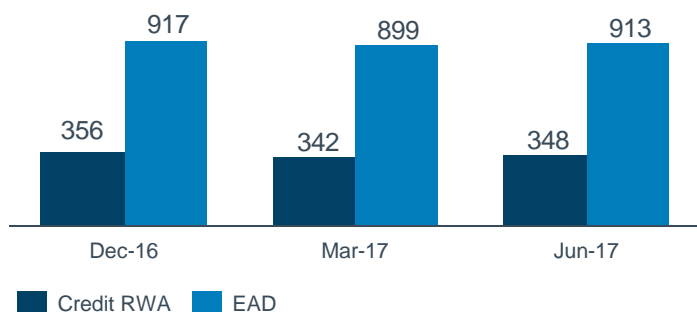


1. Excluding Markets income

# GROUP FINANCIAL HIGHLIGHTS – BALANCE SHEET

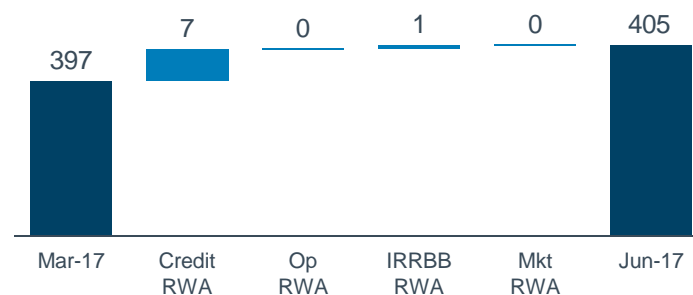
## Total Credit RWAs & Exposure at Default (EAD)

\$b



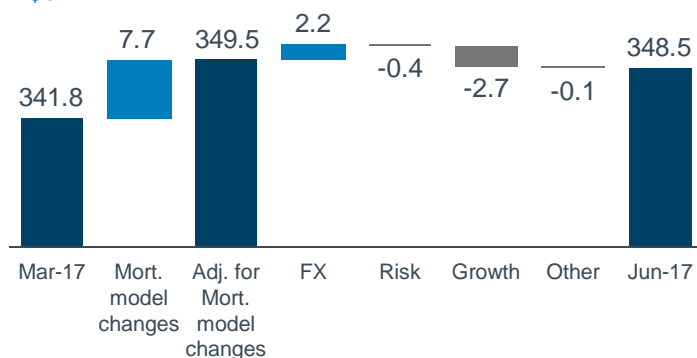
## Total Risk Weighted Assets – 3Q17

\$b



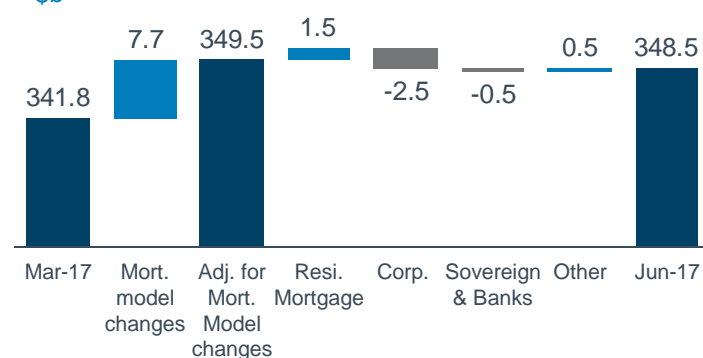
## Credit Risk Weighted Assets – 3Q17<sup>1</sup>

\$b



## Credit Risk Weighted Assets – 3Q17<sup>1</sup>

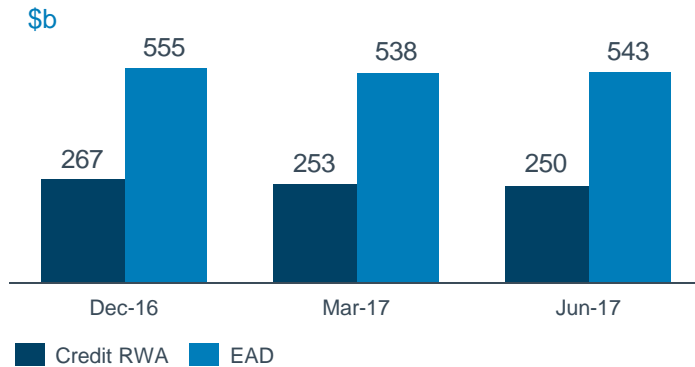
\$b



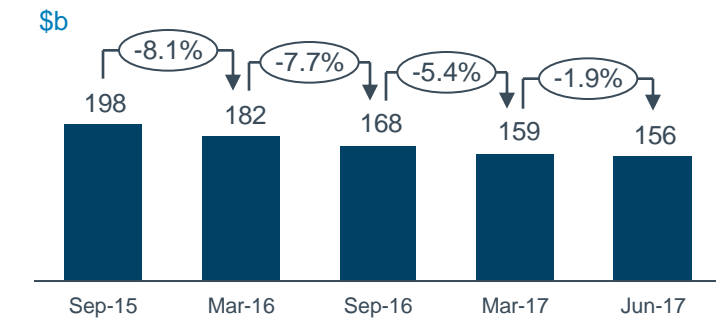
1. Increase in Risk Weighted Assets was impacted by model changes to Australia Residential Mortgage risk weighted assets (new ANZ mortgage capital models approved by APRA as noted in ANZ news release of 1 June 2017)

# GROUP FINANCIAL HIGHLIGHTS – BALANCE SHEET

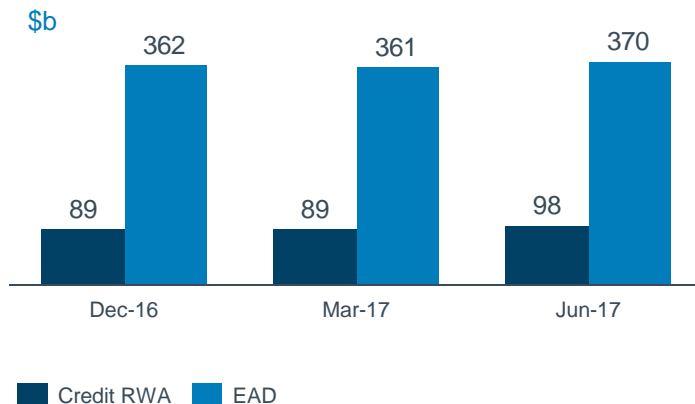
## Non Housing credit RWAs & EAD<sup>1</sup>



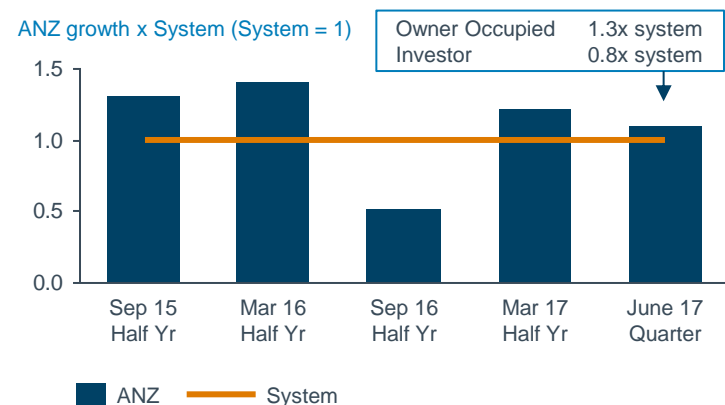
## Institutional RWA



## Total Housing Credit RWA & EAD<sup>2</sup>



## Aus. Household Lending Growth<sup>3</sup>

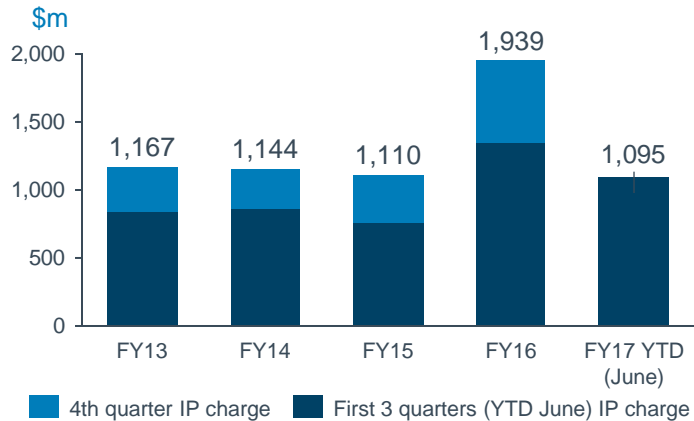


- Non Housing based on APS330 Pillar 3, all Credit RWA categories excluding Residential Mortgage category
- Housing based on APS330 Pillar 3 Residential Mortgage category. Increase in Risk Weighted Assets was impacted by model changes to Australia Residential Mortgage risk weighted assets (new ANZ mortgage capital models approved by APRA as noted in ANZ news release of 1 June 2017)
- Source: ANZ analysis of APRA monthly banking statistics

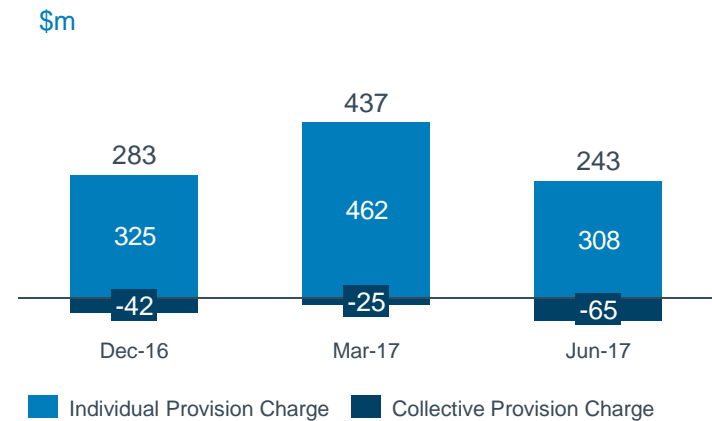


# CREDIT QUALITY & CAPITAL

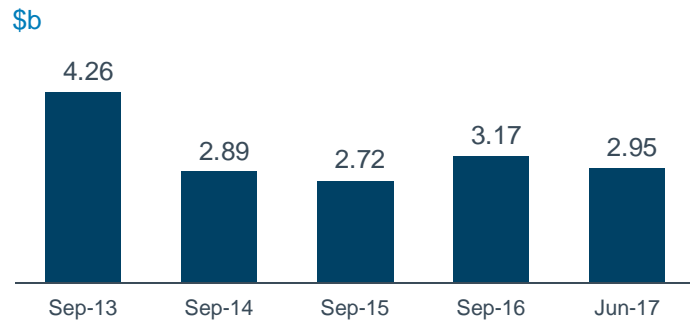
## Individual Provision Charge



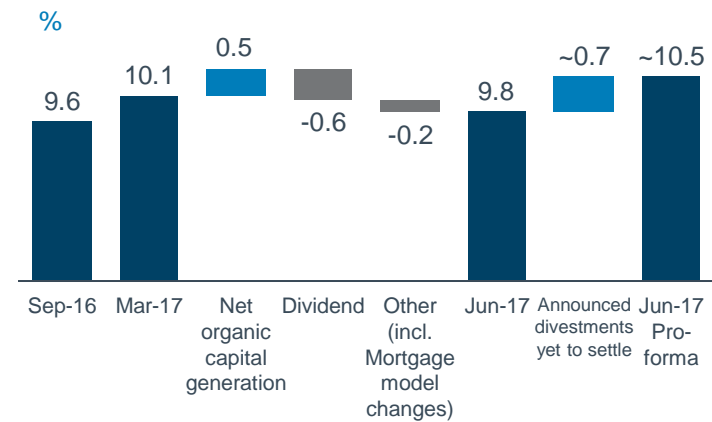
## Total Provision Charge - Financial year to date



## Gross Impaired Assets



## Capital (CET1)



# 1H17 RESULTS PACK



# STRATEGIC FOCUS

**1. Creating a simpler, better balanced bank**

**2. Focusing on areas where we can win**

**3. Building a superior everyday experience for customers and our people in order to compete in the digital age**

**4. Driving a purpose and values led transformation**

## WORK TO DATE – 1H17 PROGRESS

1. Completed senior executive team
2. Further rebalancing of the portfolio
3. More progress on disposals
4. Continued reshaping of workforce
5. Adjusted operating model
6. Changed cost trajectory
7. Better response to changing expectations

## OUR FOCUS

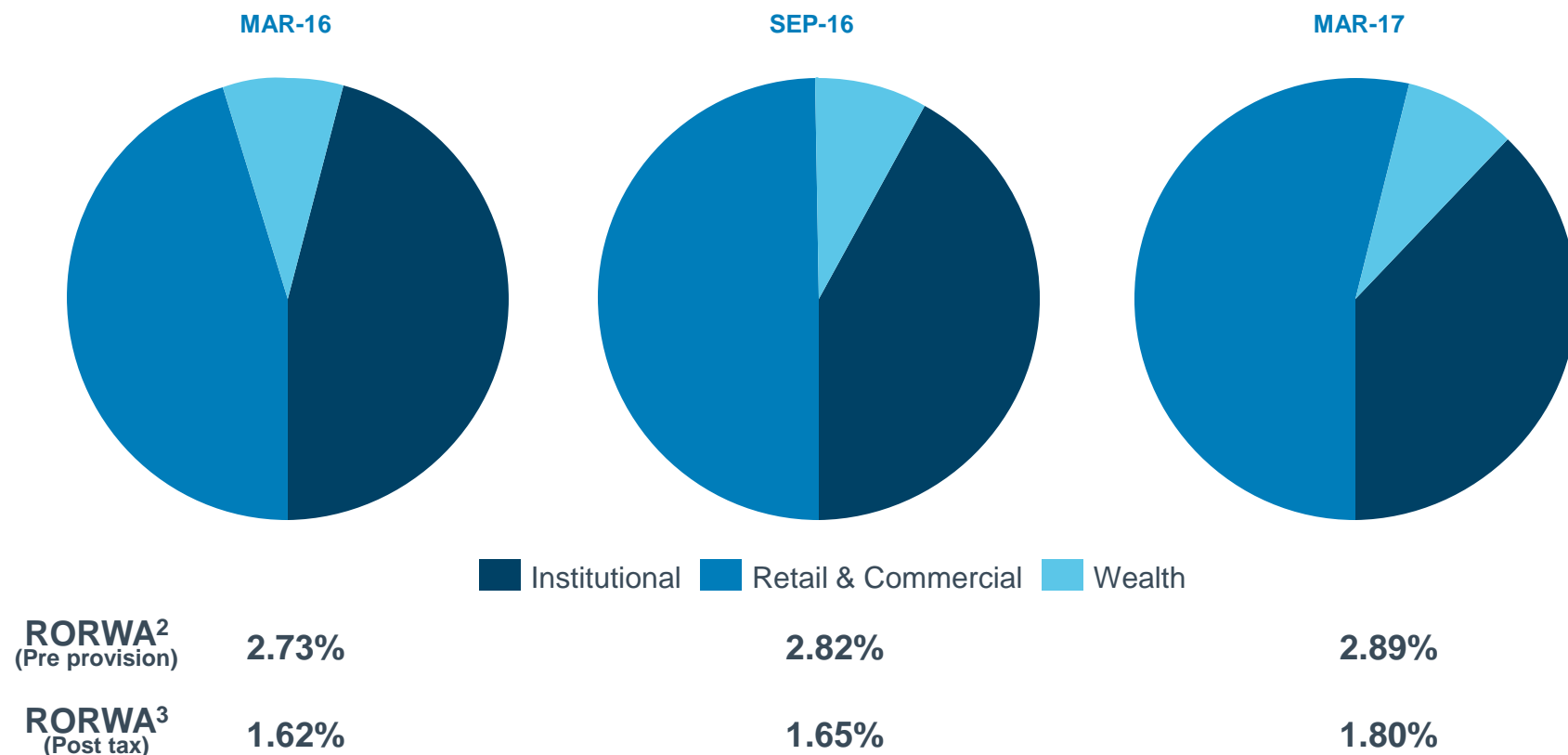
1. Consistent execution
2. Responsible growth in Retail & Commercial
3. Ongoing re-positioning of Institutional
4. Further rationalisation of non-core assets
5. Continued focus on productivity
6. Implementing 'Scaled Agile'

# PROGRESS ON PORTFOLIO REBALANCING

A BETTER BALANCED, HIGHER RETURN BUSINESS

## CAPITAL ALLOCATION<sup>1</sup>

% of total Capital allocated (Sep 16 & Mar 17 on a post announced divestments basis)



1. Sep-16 and Mar-17 include the impact of higher residential mortgage risk weights from regulatory change. Mar-17 further Pro-forma adjusted for the sale of Asia Retail and Wealth businesses in 5 Asian countries and the announced disposal of UDC and SRCB. Institutional capital allocation is shown under the 2015 IIB structure, including Global Institutional, Asia minority interests and Asia Retail & Pacific

2. Return on Risk Weighted Assets (RORWA) (pre provision) is calculated on annualised Profit Before Provisions (Adjusted Pro-forma basis for Mar-16, Sep-16 & Mar-17) / Average Risk Weighted Assets

3. RORWA (post tax) is calculated on annualised cash profit (Adjusted Pro-forma basis for Mar-16, Sep-16 & Mar-17) / Average Risk Weighted Assets

# STRATEGIC PRIORITIES

## PROGRESS



Creating a simpler, better balanced bank

Reduce operating costs & risks  
Remove product and management complexity.  
Exit low return and non-core businesses.  
Reduce reliance on low return aspects of Institutional.

- APRA CET1 ratio 10.1% (up 52bps); costs down 2%
- FTE down 1%
- Announced sale of SRCB, UDC, Asia Retail & Wealth in 6 countries
- Further reduction in Credit Risk Weighted Assets in Institutional, with continued growth in Australia division



Focusing on areas where we can win

Make buying & owning a home or starting, running & growing a small business in Aus. & NZ easy  
Be the best bank in the world for customers driven by movement of goods and capital in our region.

- Home lending FUM up \$8b in Aus & NZ
- 5% increase in Small Business deposits
- 33% of Institutional 1H17 revenue from Cross border flow<sup>2</sup>
- Our Institutional business in Aus & NZ ranks No.1 for overall market and lead penetration and the quality of our service<sup>3</sup>
- Top 4 Corporate Bank in Asia for a fifth successive year<sup>4</sup>



Building a superior everyday experience for our customers and our people

Build more convenient, engaging banking solutions to simplify the lives of customers and our people

- 20% of projects being delivered under the Agile framework that delivered ApplePay™
- Delivery of Honcho and Blade to improve customer experience
- 44 applications decommissioned reducing complexity and risk



Driving a purpose and values led transformation

Create a strong sense of core purpose, ethics & fairness.  
Invest in leaders who can help sense and navigate a rapidly changing environment.

- Re-aligned staff performance objectives, increasing customer focus
- ESG board
- Diversified leadership expertise, new Group Executive Talent and Culture, established new Chief Tech officer and Data officer roles

1. All financial numbers are on an Adjusted Pro-forma basis unless otherwise stated. All growth rates 1H17 vs 2H16 For a description of the adjusted pro-forma adjustments, see page 34-35 of the 2017 Half Year U.S. Disclosure Document. 2. Cross border flows defined as thrown revenue (the region where the relationship with the customer exists is different to the region where the revenue is generated and booked). Region defined as Australia, Pacific, NZ, Asia, Europe and America 3. Peter Lee Associates 2016 Large Corporate and Institutional Relationship Banking surveys, Australia and New Zealand (issued in June and August 2016 respectively). Quality of service is based on No.1 ranking for Relationship Strength Index (RSI) that the bank achieved in the above surveys. 4. Greenwich Associates 2017 Asian Large Corporate Banking Study (issued in March 2017): =No.4

# ASSET DIVESTMENTS

## EARNINGS IMPACTS – BASED ON FULL COMPLETION OF TRANSACTIONS<sup>1</sup>

\$m	Announced divestments			Cessation of Equity Accounting	TOTAL IMPACT
	ASIA RETAIL & WEALTH <sup>2</sup>	SRCB	UDC	Bank of Tianjin	
Revenue	~(850)	~(250)	~(100)	~(150)	~(1,350)
Expenses	~(400) to ~(600)	-	~(30)	-	~(430) to ~(630)
Profit Before Provisions	~(250) to ~(450)	~(250)	~(70)	~(150)	~(720) to ~(920)
Provisions	~(150)	-	~(10)	-	~(160)
Cash Profit (pre tax)	~(100) to ~(300)	~(250)	~(60)	~(150)	~(560) to ~(760)
Cash Profit (post tax)					~(530) to ~(680)
Gain / Loss on sale (approx.)	~(290)	~0	~100	n/a	~(190)
CET1 benefit from sale (approx.)	~15 to 20bp	~40bp	~10bp	n/a	~65 to 70bp
Date of signing	30 Oct. 2016	31 Dec. 2016	11 Jan. 2017	n/a	
Expected completion	Progressively to 1H18	Mid 2017 calendar year	Late 2017 calendar year	n/a	

- All financial impacts detailed above are treated as Cash Profit items
- Due to timing differences with SRCB reclassification to held for sale (\$316m impact in 1H17), and the release of foreign currency translation and available for sale reserves (\$289m release in 2H17) both elements will be excluded from cash profit in each of the impacted half yearly results.

1. Profit and Loss impacts based on most recent full year contribution to ANZ financial performance

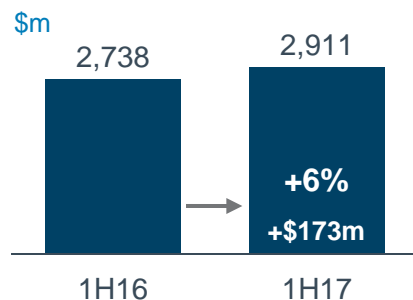
2. Excludes Vietnam

# 1H17 FINANCIAL UPDATE



# FINANCIAL PERFORMANCE

## STATUTORY PROFIT

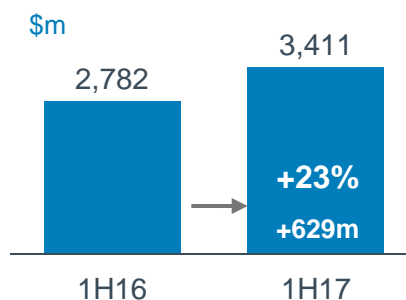


### Statutory Profit movement

\$629m cash profit growth

- \$140m change in stat adj. (ex SRCB)<sup>1</sup>
- \$316m SRCB reclassification<sup>2</sup>

## CASH PROFIT

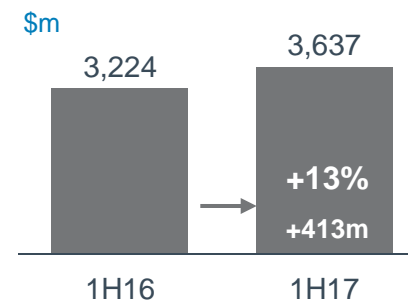


### Cash Profit movement

\$413m operating profit growth

- Specified items in 1H16<sup>3</sup>
- Impact of divestments in 1H17<sup>3</sup>

## ADJUSTED PRO-FORMA PROFIT

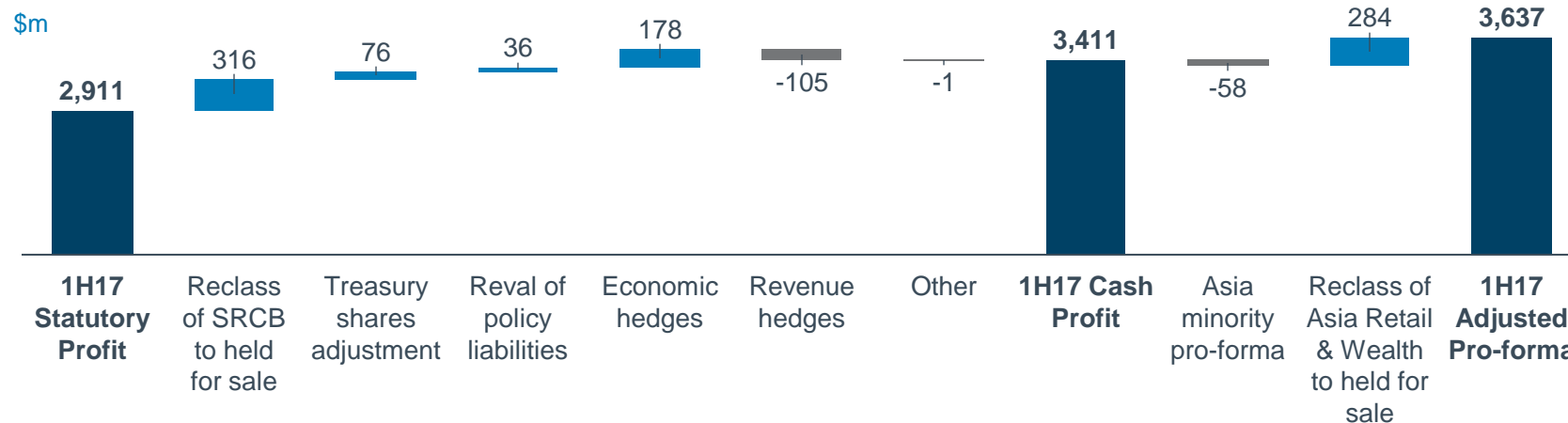


### Adjusted pro-forma movement

\$413m operating profit growth

(Like for like operating performance, excluding specified items in 1H16 & impact of divestments in 1H17)<sup>3</sup>

## 1H17 PROFIT



1. Adjustments largely from movement in treasury shares, revaluation of policy liabilities, fair value adjustments from economic and revenue hedges

2. Classified as a non cash item in light of timing differences in recognition of the net loss on reclassification to held for sale (1H17) and release of reserves on completion (expected 2H17)

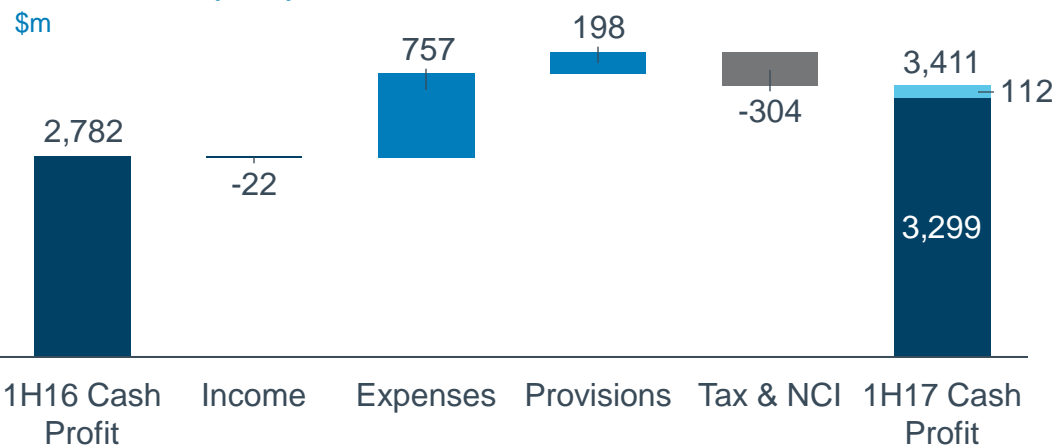
3. For a description of adjusted pro-forma measures, see page 34-35 of the 2017 Half Year U.S. Disclosure Document.



# OPERATING PERFORMANCE

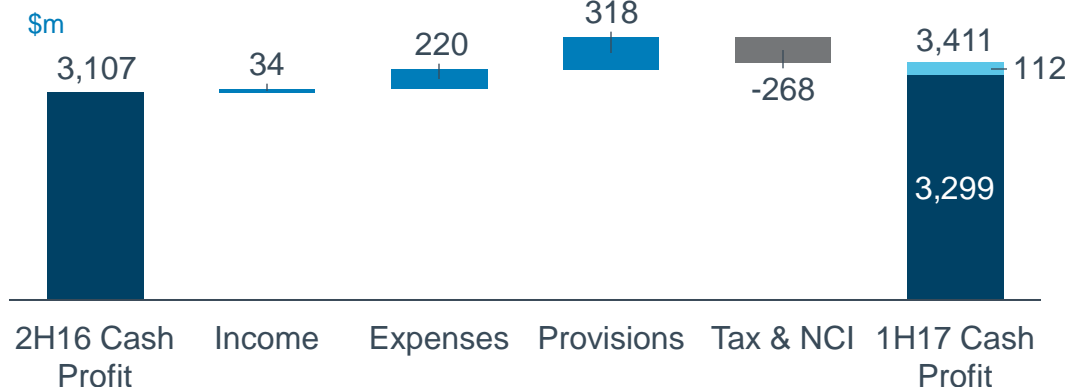
## CASH PROFIT

### 1H17 vs 1H16 (PCP)



	Cash	Adjusted Pro-forma <sup>1</sup>
Income	-0.2%	3.4%
Expenses	-13.8%	-1.1%
PBP	15.2%	7.3%
Provisions	-21.6%	-20.4%
Net Profit	22.6%	12.8%
EPS (basic)	21.7%	12.0%

### 1H17 vs 2H16 (HoH)



	Cash	Adjusted Pro-forma <sup>1</sup>
Income	0.3%	1.8%
Expenses	-4.4%	-1.5%
PBP	4.8%	4.6%
Provisions	-30.6%	-30.0%
Net Profit	9.8%	11.4%
EPS (basic)	9.4%	11.0%

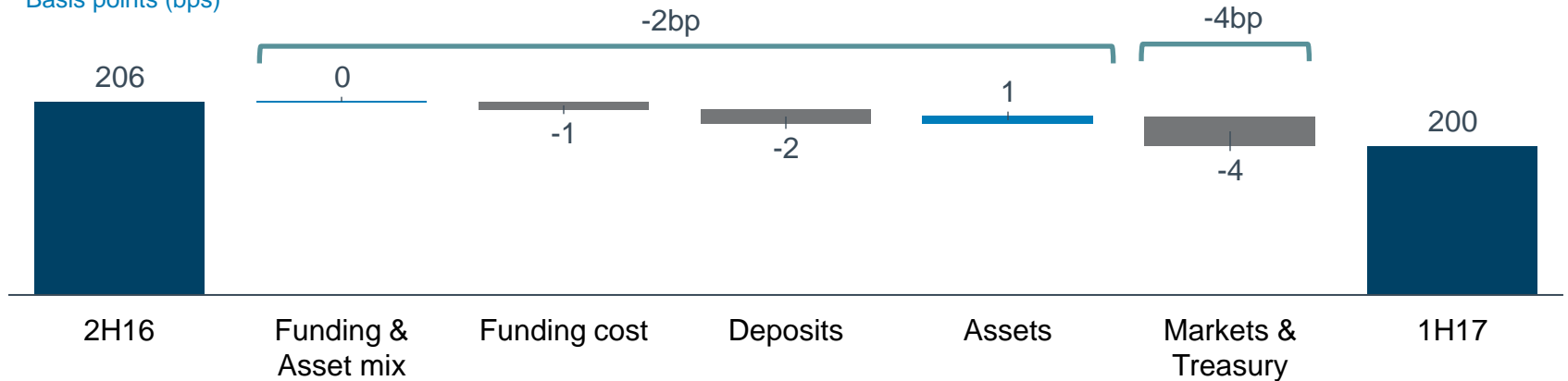
■ Queen St sale

1. For a description of the adjusted pro-forma adjustments, see page 34-35 of the 2017 Half Year U.S. Disclosure Document.

# NET INTEREST MARGINS

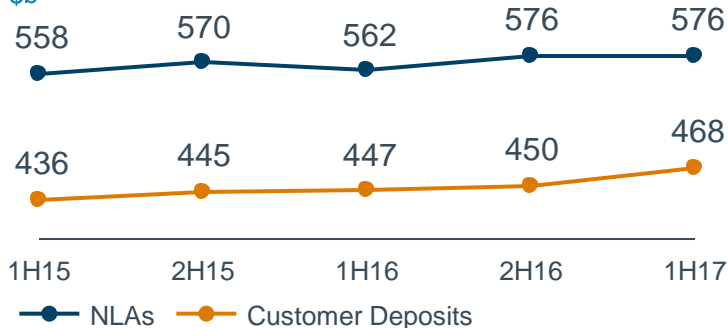
## GROUP NET INTEREST MARGIN

Basis points (bps)



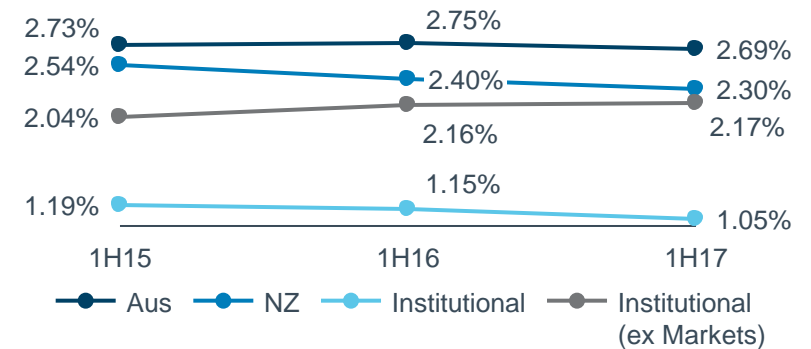
## BALANCE SHEET

\$b



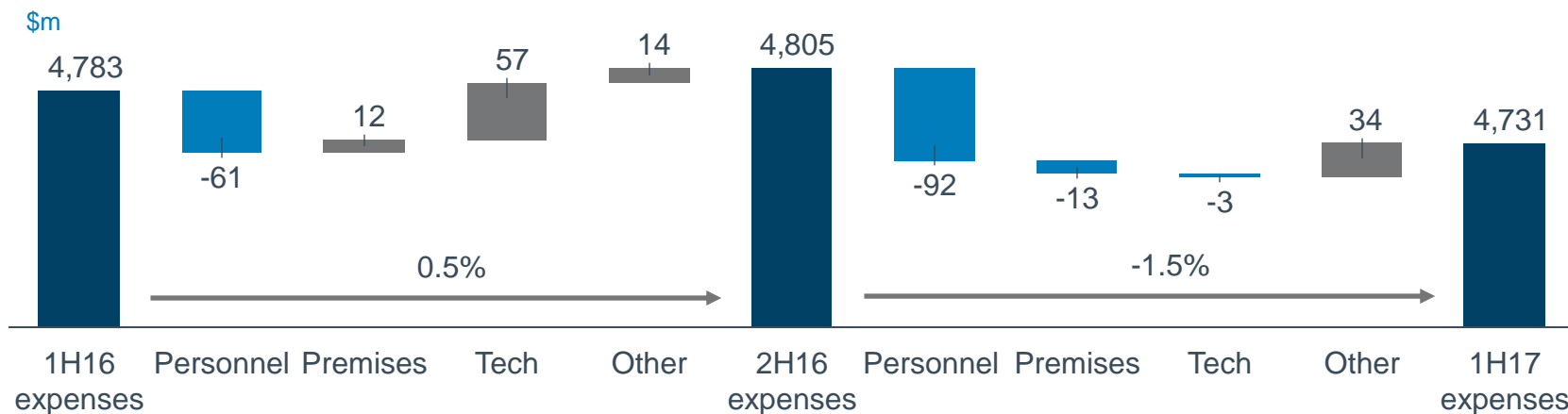
## DIVISIONAL NIM

%

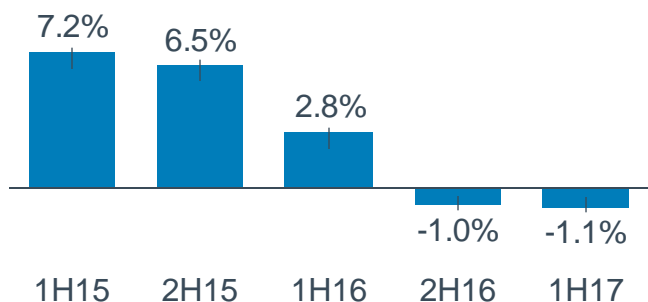


# PRODUCTIVITY

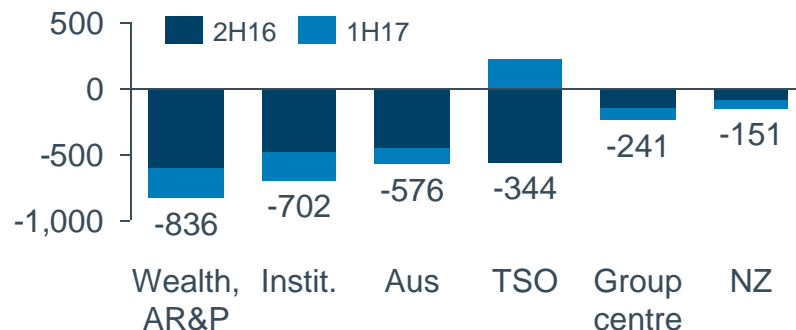
## EXPENSE COMPOSITION<sup>1</sup> (on adjusted pro-forma basis)



## EXPENSE GROWTH<sup>1</sup> (PCP)



## FULL TIME EQUIVALENT STAFF (FTE) CHANGE<sup>2</sup>

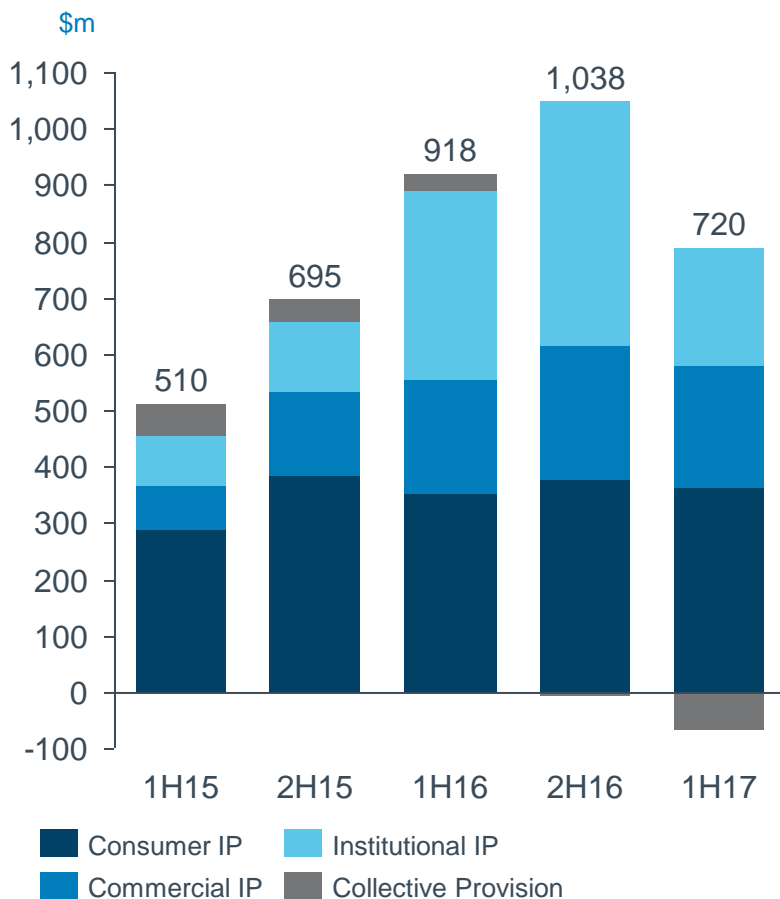


1. Adjusted Pro-Forma basis for 1H16, 2H16, 1H17. For a description of the adjusted pro-forma adjustments, see page 34-35 of the 2017 Half Year U.S. Disclosure Document.

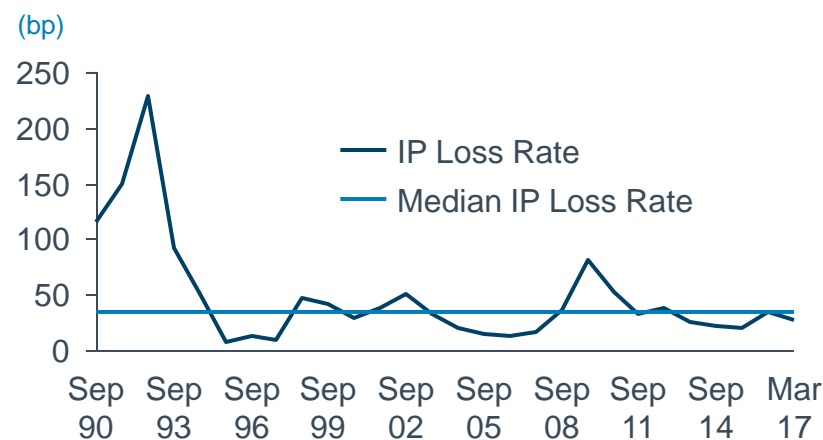
2. AR&P: Asia Retail & Pacific; Instit.: Institutional; TSO: Technology, Services & Operations

# CREDIT QUALITY

## TOTAL PROVISION CHARGE



## ANZ HISTORICAL OBSERVED LOSS RATES



## COLLECTIVE PROVISION CHARGE

\$m

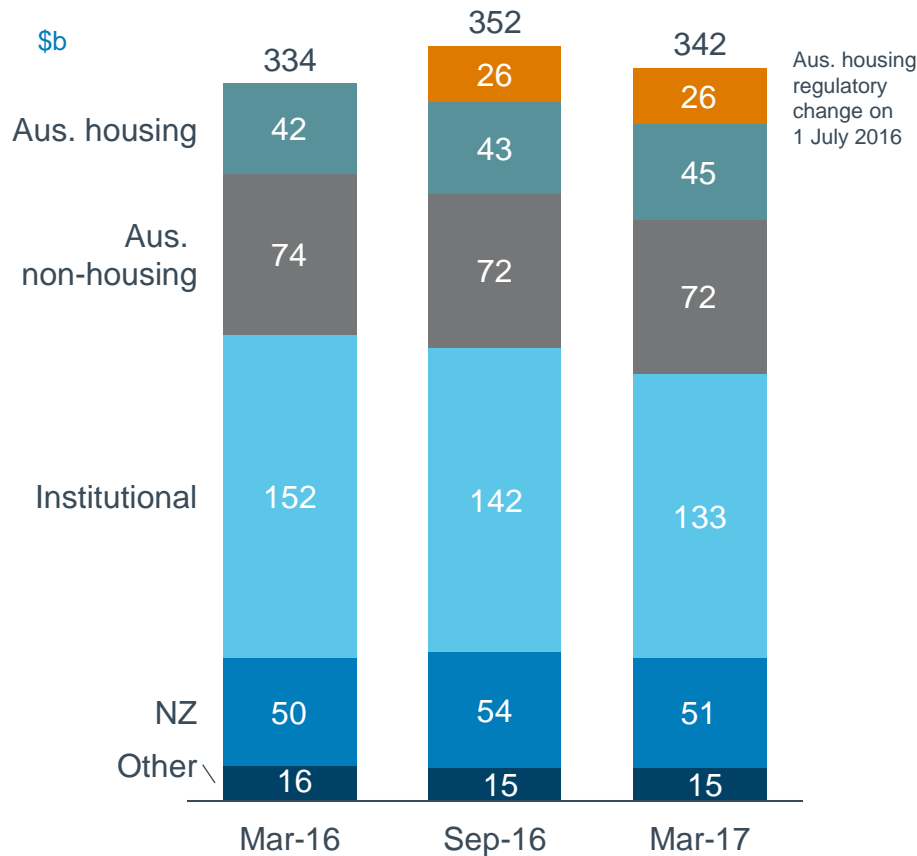
	1H15	2H15	1H16	2H16	1H17
Lending Growth	54	50	56	-59	-30
Risk/Portfolio mix <sup>1</sup>	8	62	-30	50	-78
Eco Cycle	-7	-72	0	0	41

1. 1H17 Risk/Portfolio mix impact of -\$78m includes \$49m transfer to individual provisions. 1H16 impact of -\$30m includes \$39m transfer to individual provisions

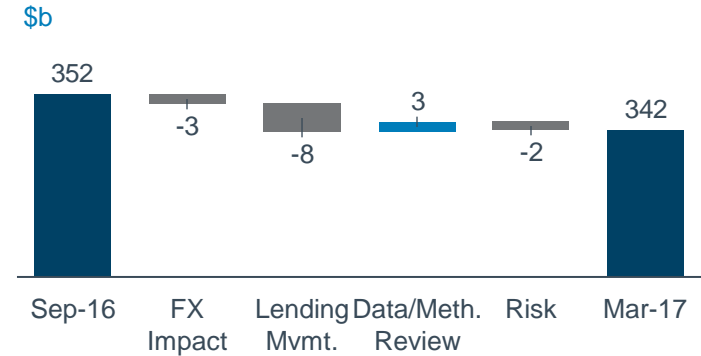
# PORTFOLIO REBALANCING

## CREDIT RISK WEIGHTED ASSETS

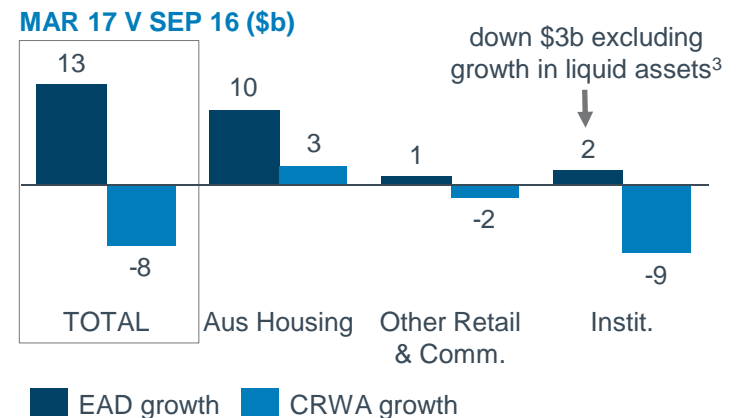
### CREDIT RWAs<sup>1</sup>



### CRWA MOVEMENT



### LENDING GROWTH MOVEMENT <sup>2</sup>



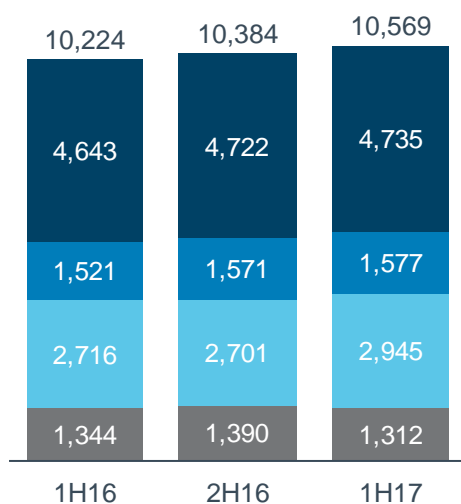
1. Sep-16 & Mar-17 \$26b 'Aus. housing regulatory change on 1 July 2016' category reflects the impact of higher residential mortgage risk weights from regulatory change  
 2. Post CRM EAD, net of credit risk mitigation such as guarantees, credit derivatives, netting and financial collateral. Includes amounts for 'Securitisation' and 'Other Assets' Basel asset classes. Refers to lending movement, excluding FX Impact, Data/Meth Review and Risk.  
 3. HQLA1 securities

# DIVISIONAL CONTRIBUTION

DIVISIONAL RESULTS<sup>1</sup> (Adjusted pro-forma basis)

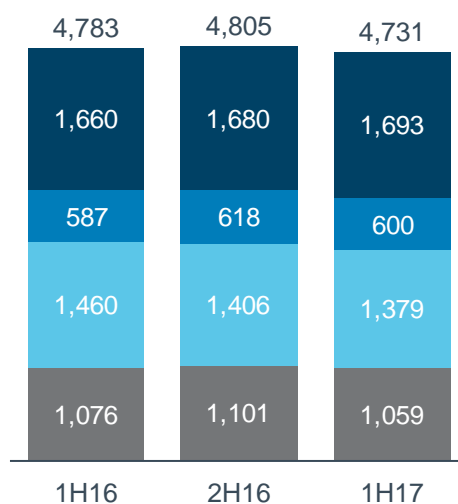
## INCOME

\$m



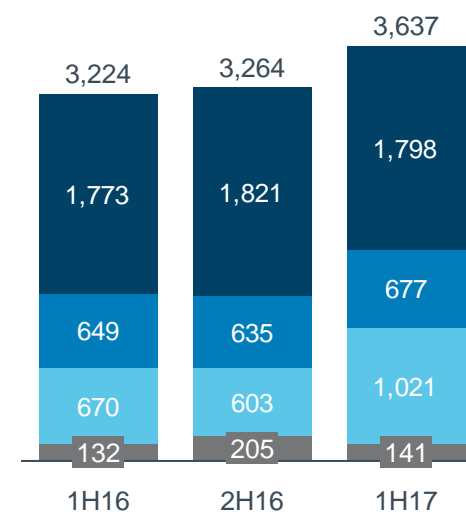
## EXPENSES

\$m



## CASH PROFIT AFTER TAX

\$m



■ Australia ■ New Zealand ■ Institutional ■ Wealth & other

## 1H17 GROWTH

## INCOME

## EXPENSES

## PBP

## NPAT

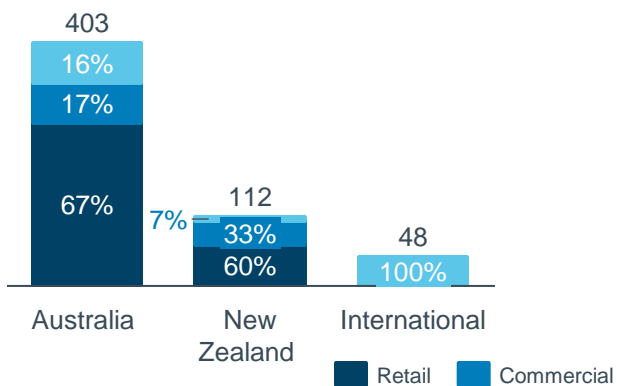
	HOH	PCP	HOH	PCP	HOH	PCP	HOH	PCP
Australia	0%	<b>2%</b>	1%	<b>2%</b>	0%	<b>2%</b>	-1%	<b>1%</b>
New Zealand (NZD)	0%	<b>1%</b>	-3%	<b>0%</b>	2%	<b>2%</b>	6%	<b>2%</b>
Institutional	9%	<b>8%</b>	-2%	<b>-6%</b>	21%	<b>25%</b>	69%	<b>52%</b>
Wealth & Other	-6%	<b>-2%</b>	-4%	<b>-2%</b>	-13%	<b>-6%</b>	-31%	<b>7%</b>

1. Adjusted Pro-forma basis. For a description of the adjusted pro-forma adjustments, see page 34-35 of the 2017 Half Year U.S. Disclosure Document.

# BALANCE SHEET<sup>1</sup>

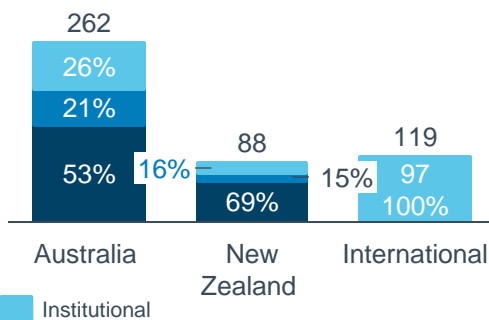
## LENDING BY REGION<sup>2</sup>

\$b



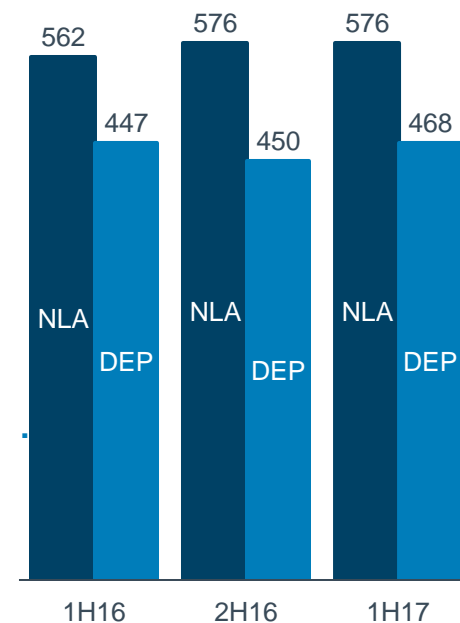
## DEPOSITS BY REGION<sup>3</sup>

\$b



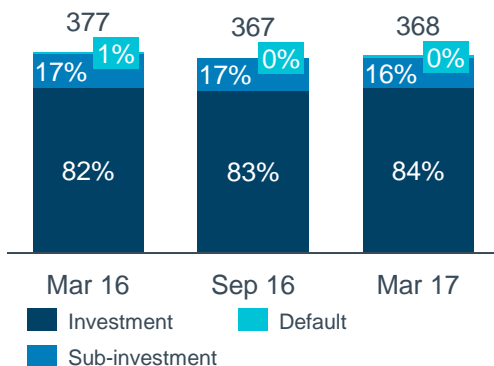
## BALANCE SHEET

\$b



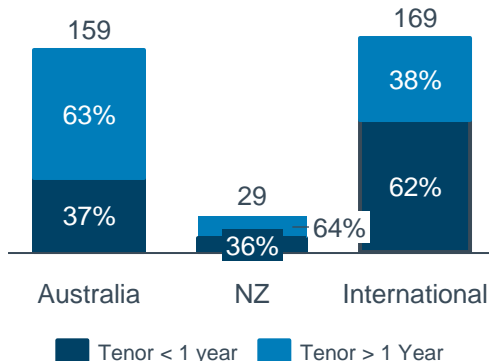
## INSTITUTIONAL GRADE

EAD\$b<sup>4</sup>



## INSTITUTIONAL TENOR

EAD\$b<sup>4</sup>

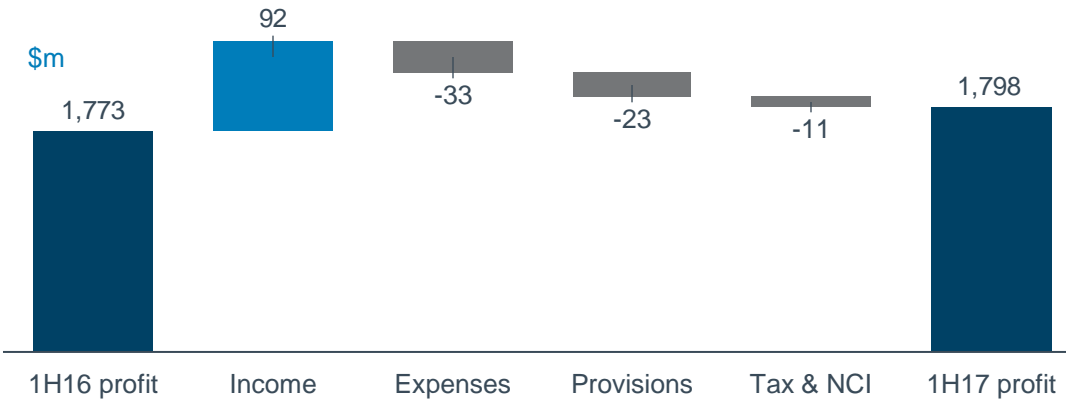


	Lending <sup>2</sup>		Deposits <sup>3</sup>	
	1H16	1H17	1H16	1H17
Retail	58%	60%	44%	45%
Comm	19%	19%	15%	15%
Inst	23%	21%	41%	40%

1. As at 31 March 2017 2. Net Loans and Advances. Excludes TSO & Group Centre, Wealth (\$1.8b) and Retail Asia & Pacific (\$21.5b). Australia includes PNG 3. Customer Deposits. Excludes TSO & Group Centre, Wealth (\$0.3b) and Retail Asia & Pacific (\$21.9b). Australia includes PNG 4. Post CRM EAD, net of credit risk mitigation such as guarantees, credit derivatives, netting and financial collateral. Includes amounts for 'Securitisation' and 'Other Assets' Basel asset classes

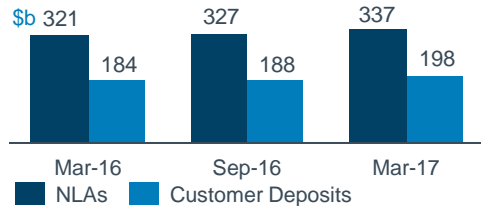
# AUSTRALIA

## AUSTRALIA DIVISION 1H17 PERFORMANCE<sup>1</sup>

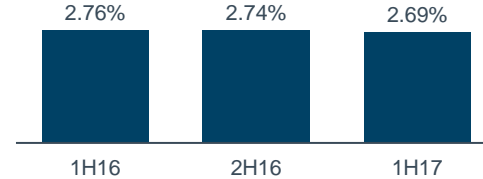


PROFIT GROWTH	HOH	PCP
Retail	-1%	2%
Commercial	-1%	0%
TOTAL	-1%	1%

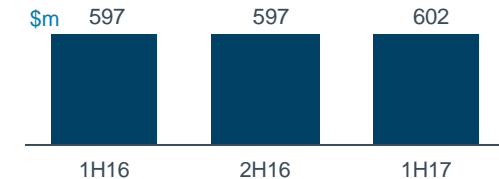
### VOLUMES



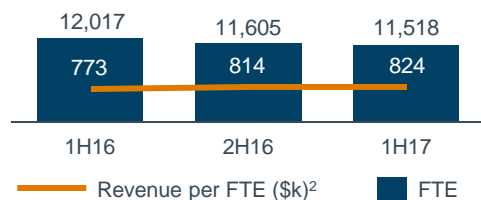
### NET INTEREST MARGIN



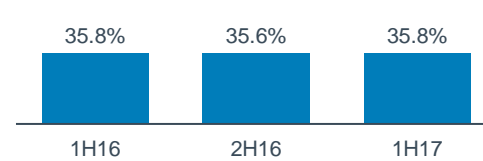
### OTHER OPERATING INCOME



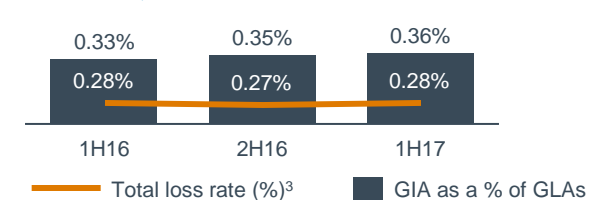
### STAFF



### COST TO INCOME



### ASSET QUALITY

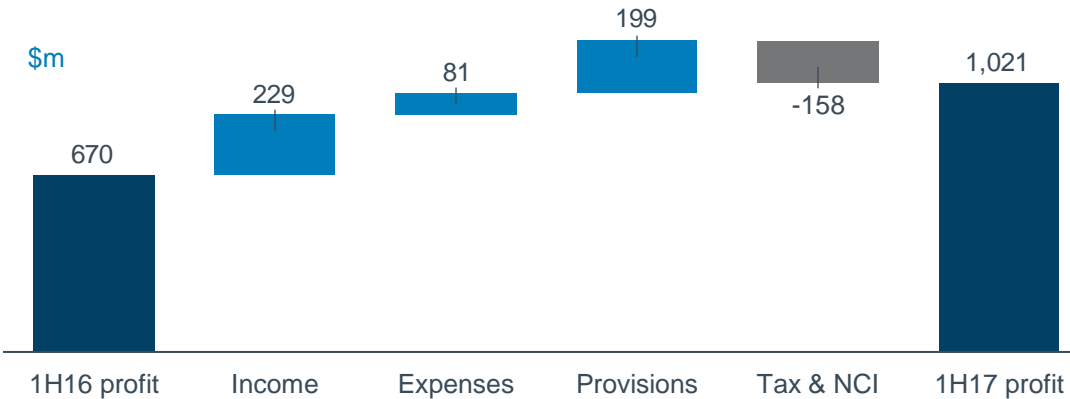


1. Adjusted Pro-form basis. For a description of the adjusted pro-forma adjustments, see page 34-35 of the 2017 Half Year U.S. Disclosure Document.  
 2. Income is on an annualised basis  
 3. Credit impairment charges (annualised) / Average GLA for the period



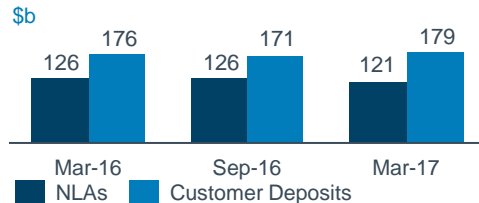
# INSTITUTIONAL

## 1H17 PERFORMANCE<sup>1</sup>

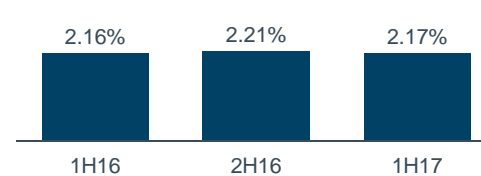


PROFIT GROWTH	HOH	PCP
Markets	46%	169%
Transaction Banking	3%	25%
Loans & SF	150%	13%
TOTAL	69%	52%

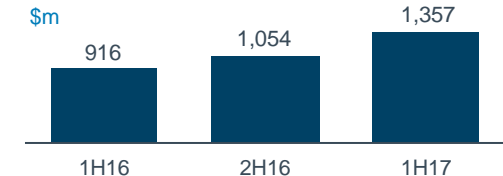
### VOLUMES



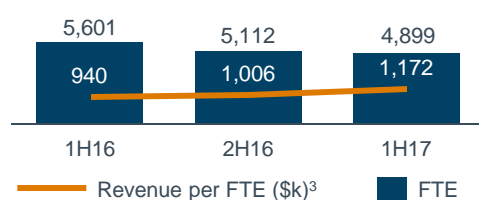
### NET INTEREST MARGIN<sup>2</sup>



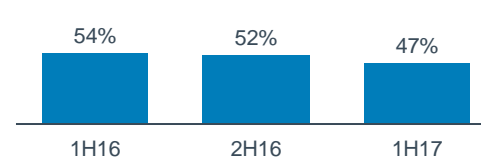
### OTHER OPERATING INCOME



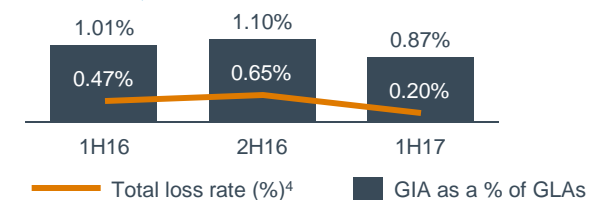
### STAFF



### COST TO INCOME



### ASSET QUALITY



1. On a pro forma basis excluding Specified Items relating to restructuring (FY15 and FY16) and the derivative CVA methodology change (2H16). For a description of the adjusted pro-forma adjustments, see page 34-35 of the 2017 Half Year U.S. Disclosure Document.

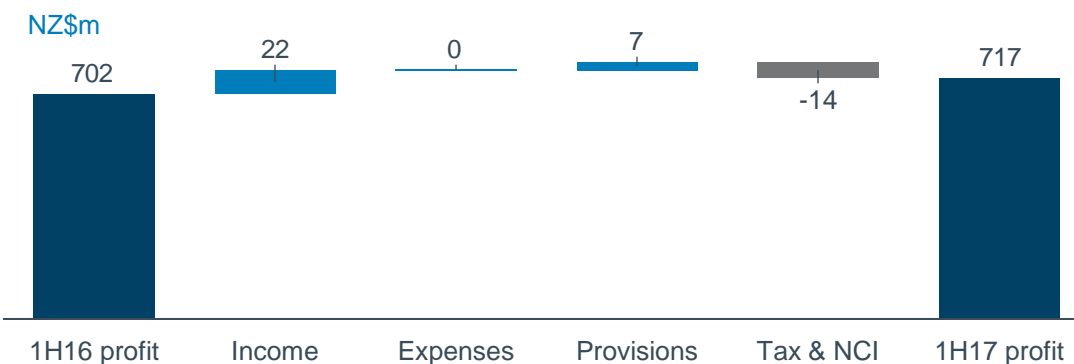
2. Institutional net interest margin excluding Markets

3. Income is on an annualised basis

4. Credit impairment charges (annualised) / Average GLA for the period

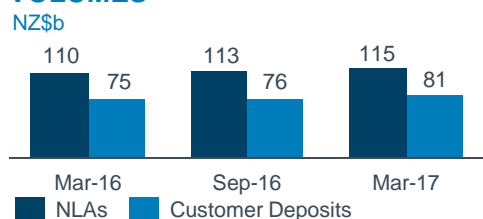
# NEW ZEALAND PERFORMANCE

## NZ DIVISION 1H17 PERFORMANCE<sup>1</sup>

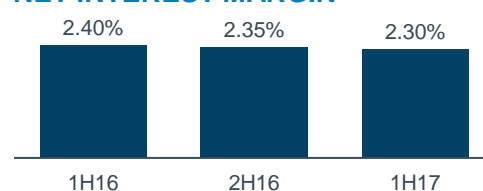


PROFIT GROWTH	HOH	PCP
Retail	2%	7%
Commercial	12%	-2%
TOTAL	6%	2%

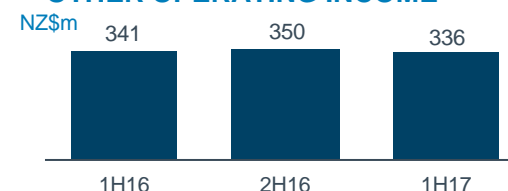
### VOLUMES



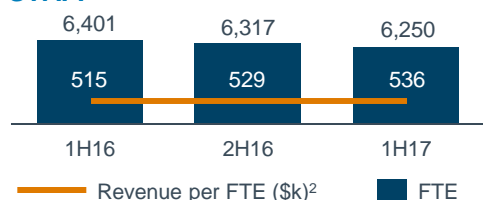
### NET INTEREST MARGIN



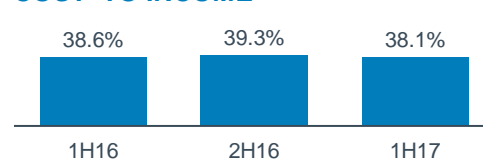
### OTHER OPERATING INCOME



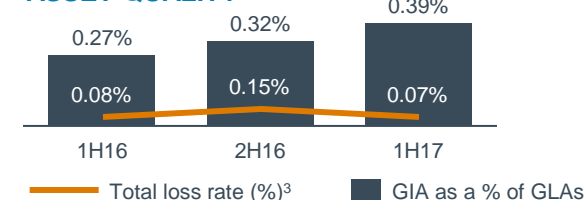
### STAFF



### COST TO INCOME



### ASSET QUALITY



- Adjusted Pro-forma basis. For a description of the adjusted pro-forma adjustments, see page 34-35 of the 2017 Half Year U.S. Disclosure Document.
- Income is on an annualised basis
- Credit impairment charges (annualised) / Average GLA for the period

# TREASURY



# REGULATORY CAPITAL

## CAPITAL UPDATE

### Capital Position

- APRA CET1 ratio of 10.1% on an APRA basis or 15.2% on an Internationally Comparable<sup>1</sup> basis – comfortably above Basel top quartile<sup>2</sup> CET1 of 13.8%.
- APRA Leverage ratio of 5.3% or 6.0%<sup>1</sup> on an Internationally Comparable basis.

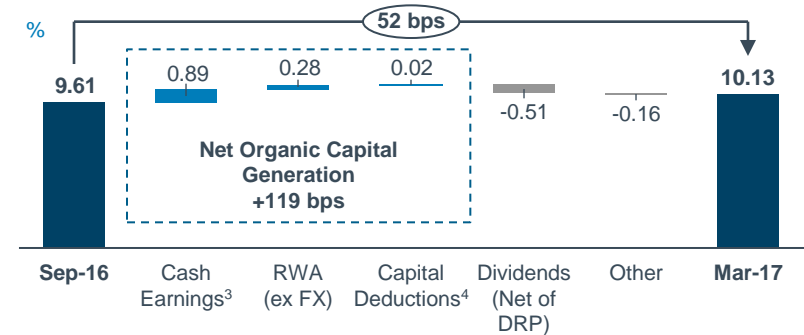
### Organic Capital Generation & Dividend

- 1H17 organic capital generation of 119 bps is 58 bps higher than recent 1H averages<sup>5</sup>, driven mainly by the reduction in Institutional RWA.
- Interim dividend of 80 cents consistent with revised 60%-65% payout target.

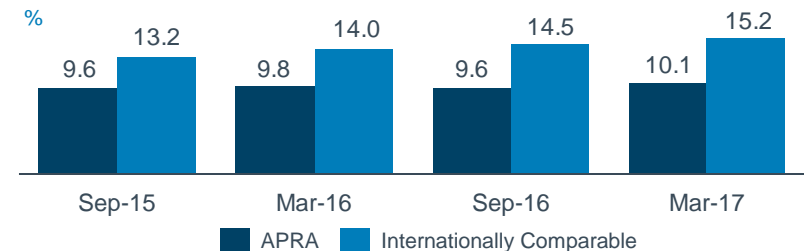
### Capital Outlook

- Announced asset sales (Asia Retail and Wealth business, SRCB and UDC Finance) expected to increase CET1 ratio by 65 to 70 bps, increasing the pro-forma CET1 ratio to ~ 10.8%.
- ANZ intends to neutralise shares issued under the 1H17 Dividend Re-investment Plan (DRP) by acquiring an equivalent number of shares on market (as approved by APRA).
- Capital management strategy and initiatives will be reviewed following further clarity in regards to APRA's "unquestionably strong" requirements including further Basel reforms and any RWA modelling changes .

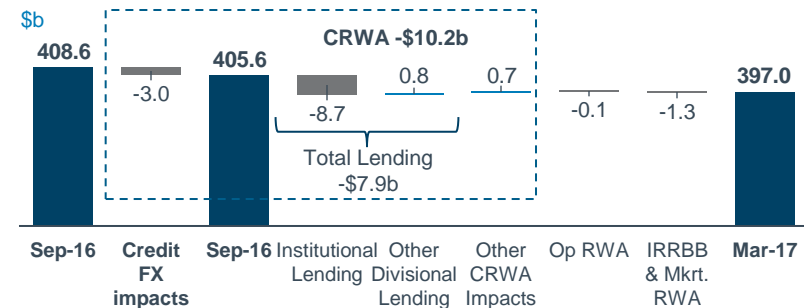
## APRA COMMON EQUITY TIER 1 (CET1)



## BASEL III CET1



## TOTAL RWA MOVEMENT



1. The "Internationally Comparable basis" figures have been calculated by ANZ using its own analysis and assumptions. It is not the subject of comfort or opinions from ANZ's auditors. 2. Based on Group 1 banks as identified by the BIS (internationally active banks with Tier 1 capital of more than €3 billion), Figures have been calculated by ANZ using certain assumptions. The top quartile of this group was 13.8% as at June 2016. 3. Cash Earnings on pro forma basis adjusted for 'Specified items'. 4. Represents the movement in retained earnings in deconsolidated entities, capitalised software, EL v EP shortfall and other intangibles. 5. 2012-2016 1H averages.

# REGULATORY CAPITAL GENERATION

COMMON EQUITY TIER 1 GENERATION (bps)	First half average 1H12 – 1H16	2H16	1H17
Adjusted pro-forma Cash Profit <sup>1</sup>	97	84	89
RWA movement	(21)	22	28
Capital Deductions <sup>2</sup>	(15)	1	2
<b>Net capital generation</b>	<b>61</b>	<b>107</b>	<b>119</b>
Gross dividend	(70)	(60)	(57)
Dividend Reinvestment Plan	11	6	6
<b>Core change in CET1 capital ratio</b>	<b>2</b>	<b>53</b>	<b>68</b>
Other non-core and non-recurring items	7	(73)	(16)
<b>Net change in CET1 capital ratio</b>	<b>9</b>	<b>(20)</b>	<b>52</b>

## Organic Capital Generation

- Net capital generation for 1H17 is 119 bps, which is 58 bps higher than prior period averages. This reflects the benefit of strong balance sheet discipline and the Group's strategic intent to run-off low return assets in Institutional, offsetting lower Cash NPAT.

## Non-Core and non-recurring items

- Non-core and non-recurring items in 1H17 predominantly driven by RWA measurement changes and the movement in Non-cash earnings.

1. Cash profit for 1H16, 2H16 and 1H17 are on Adjusted Pro-forma basis adjusted for 'Specified items'. For a description of the adjusted pro-forma adjustments, see page 34-35 of the 2017 Half Year U.S. Disclosure Document.

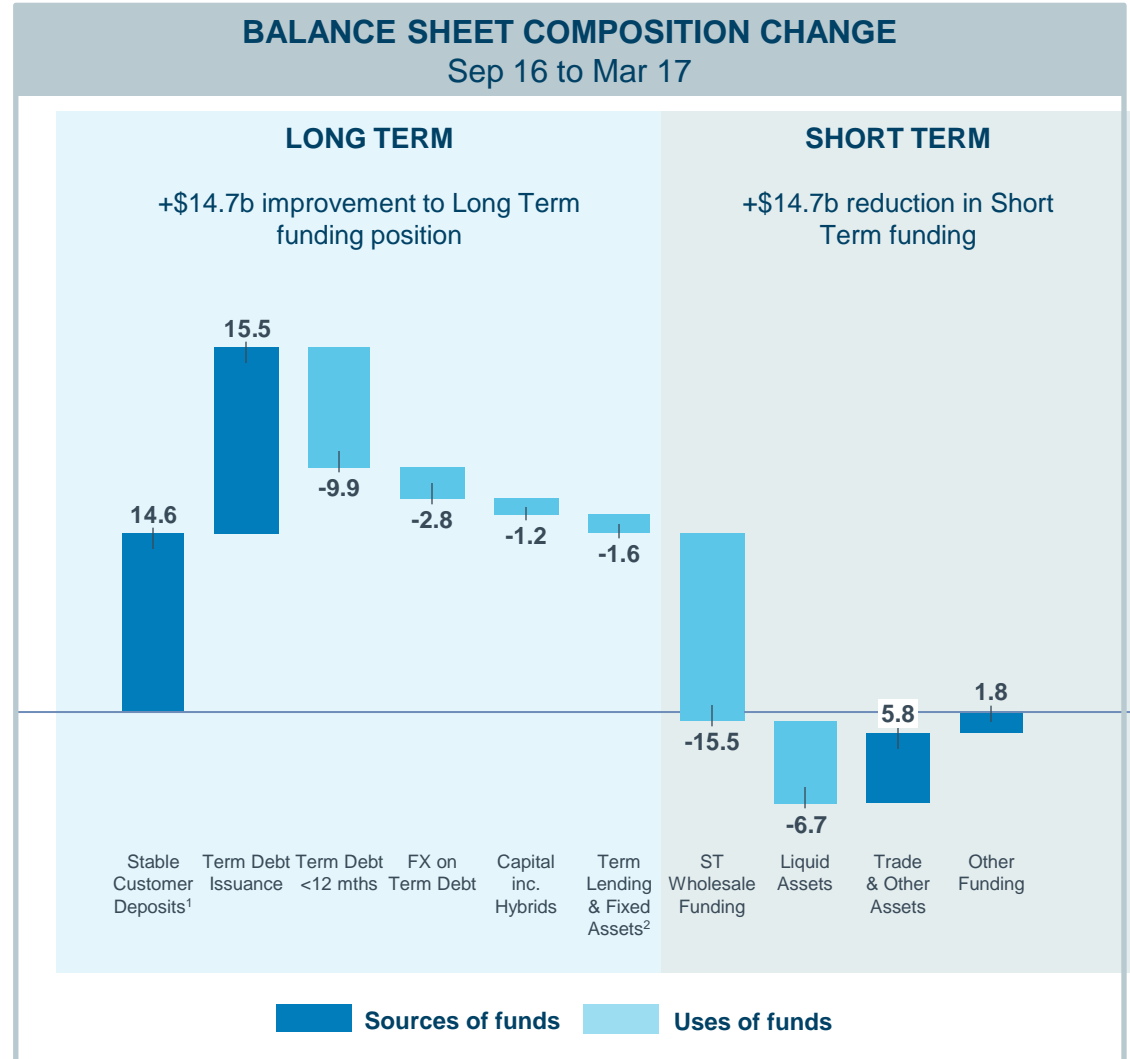
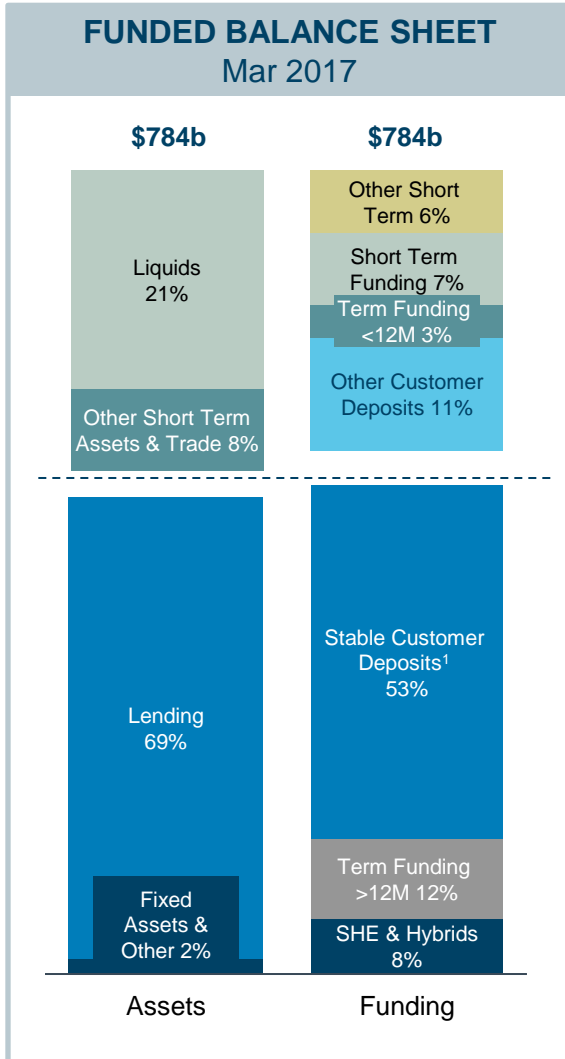
2. Represents movement in retained earnings in deconsolidated entities, capitalised software, EL v EP shortfall and other intangibles.

# INTERNATIONALLY COMPARABLE<sup>1</sup> REGULATORY CAPITAL POSITION

<b>APRA Common Equity Tier 1 (CET1) – 31 March 2017</b>		<b>10.1%</b>
Corporate undrawn EAD and unsecured LGD adjustments	Australian ADI unsecured corporate lending LGDs and undrawn CCFs exceed those applied in many jurisdictions	1.4%
Equity Investments & DTA	APRA requires 100% deduction from CET1 vs. Basel framework which allows concessional threshold prior to deduction	1.1%
Mortgages	APRA requires use of 20% mortgage LGD floor vs. 10% under Basel framework. Additionally, APRA also requires a higher correlation factor vs 15% under Basel framework to target an average risk weighting of at least 25% for Australian residential mortgages	1.3%
Specialised Lending	APRA requires supervisory slotting approach which results in more conservative risk weights than under Basel framework	0.6%
IRRBB RWA	APRA includes in Pillar 1 RWA. This is not required under the Basel framework	0.3%
Other	Includes impact of deductions from CET1 for capitalised expenses and deferred fee income required by APRA, currency conversion threshold and other retail standardised exposures	0.4%
<b>Basel III Internationally Comparable CET1</b>		<b>15.2%</b>
<b>Basel III Internationally Comparable Tier 1 Ratio</b>		<b>18.2%</b>
<b>Basel III Internationally Comparable Total Capital Ratio</b>		<b>21.3%</b>

1. Internationally Comparable methodology aligns with APRA's information paper entitled International Capital Comparison Study (13 July 2015). Basel III Internationally Comparable ratios do not include an estimate of the Basel I capital floor. The "Internationally Comparable basis" figures have been calculated by ANZ using its own analysis and assumptions. It is not the subject of comfort or opinions from ANZ's auditors

# BALANCE SHEET STRUCTURE

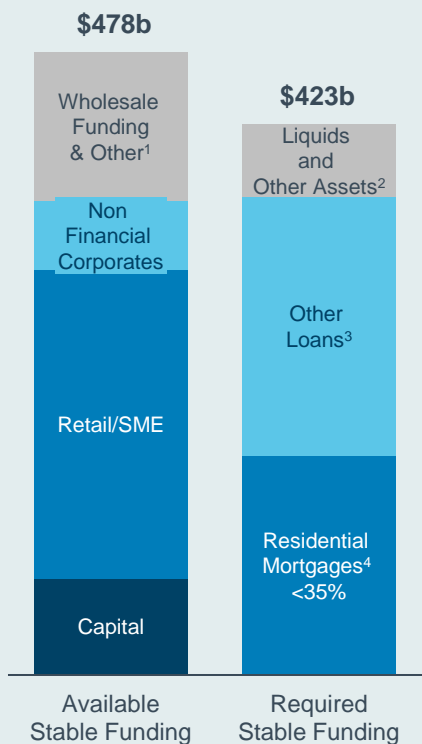


1. Stable customer deposits represent operational type deposits or those sourced from retail / business / corporate customers and the stable component of Other funding liabilities. 2. Excludes trade lending, repo, interbank and bills of acceptances

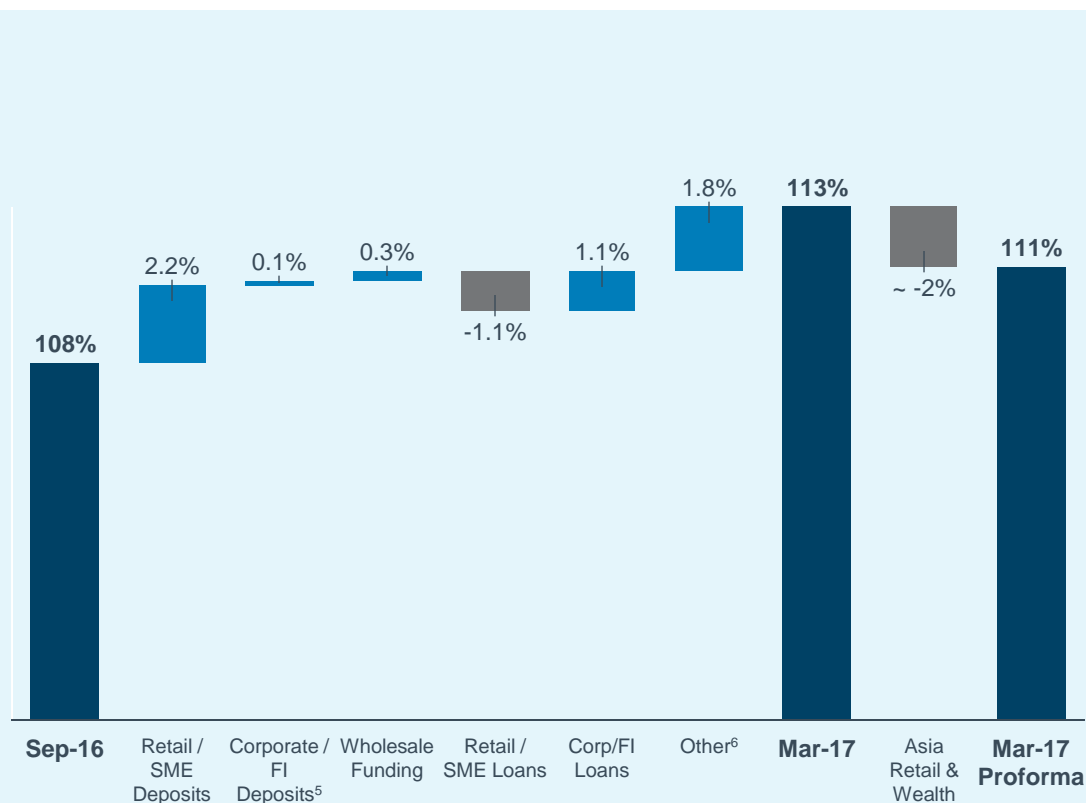
# NET STABLE FUNDING RATIO

Pro-forma NSFR ~111%

## NSFR COMPOSITION Mar 2017



## NSFR MOVEMENT Sep 16 v Mar 17



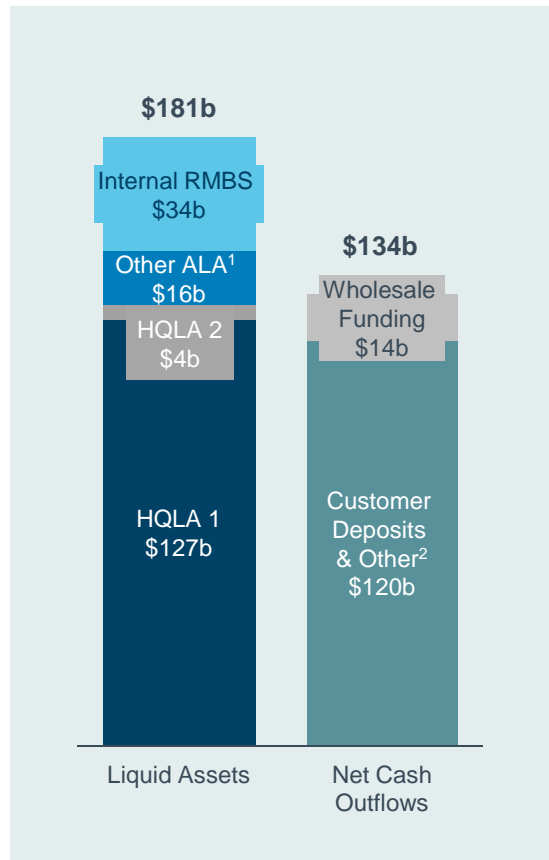
All figures shown on a Level 2 basis and based on current estimates. 1. 'Other' includes Sovereign, PSE and FI Deposits. 2. 'Other Assets' include Off Balance Sheet, Derivatives, Fixed Assets and Other Assets. 3. All lending other than Residential Mortgages <35% Risk Weight. 4. Includes NSFR impact of self-securitised assets backing the Committed Liquidity Facility (CLF). 5. Includes corporate, FI, PSE and central bank deposits. 6. Net of other ASF and other RSF.



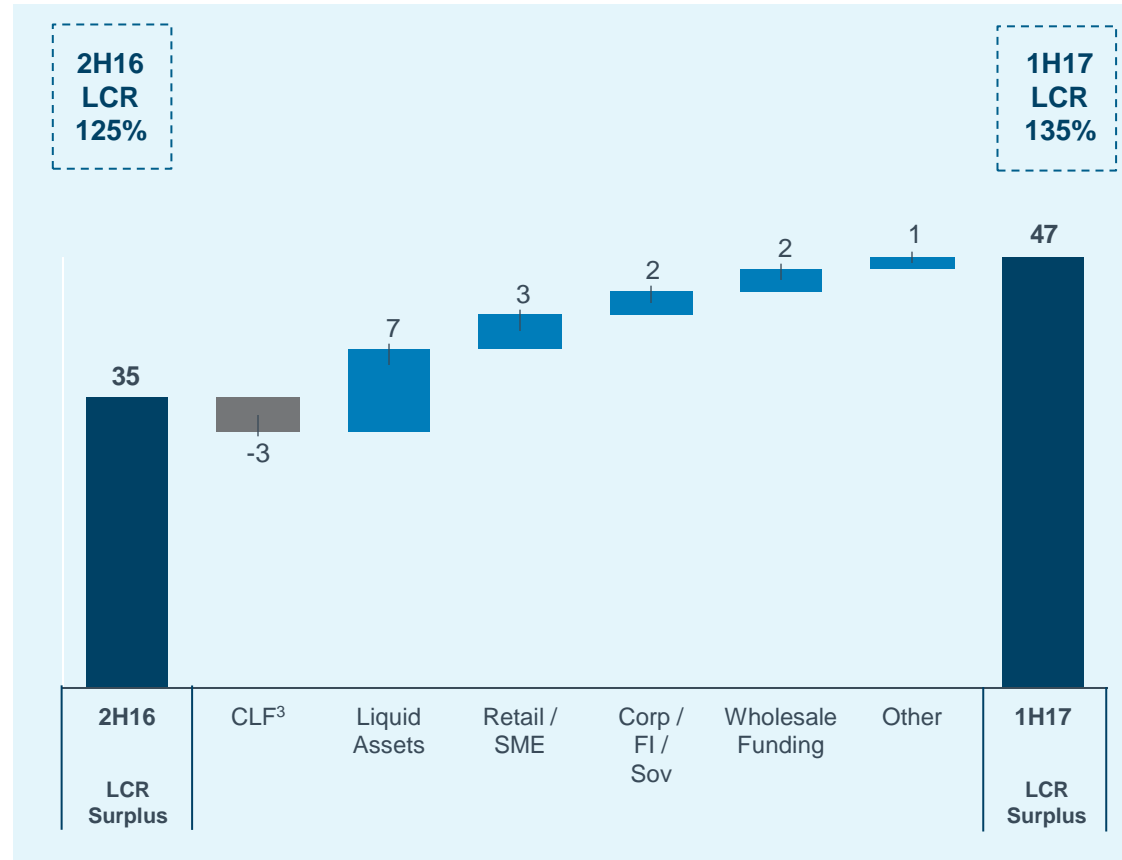
# LIQUIDITY COVERAGE RATIO

1H17 Average LCR 135%

## LCR Composition 1H17



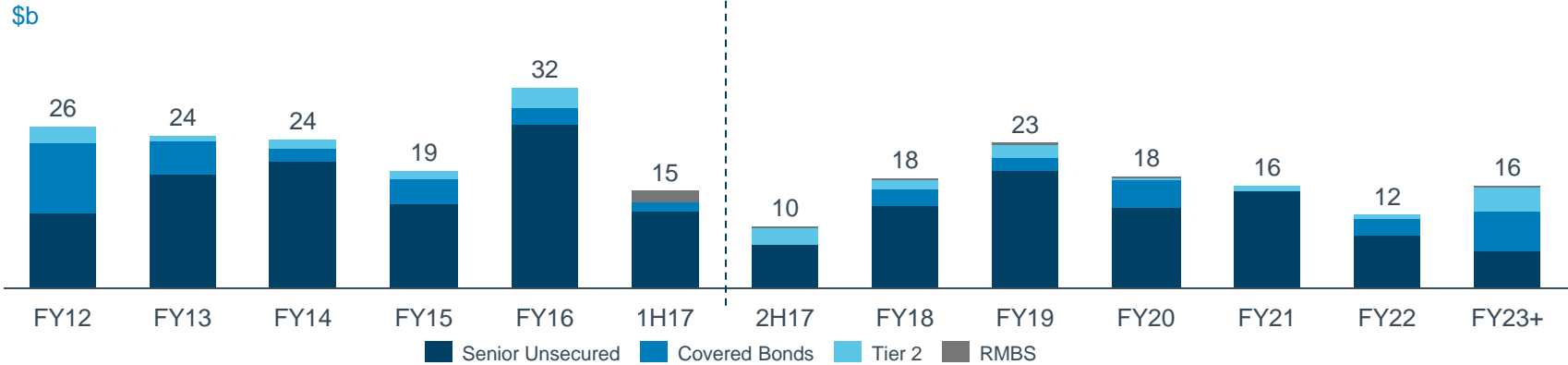
## Movement in Average LCR Surplus (A\$b) 2H16 to 1H17



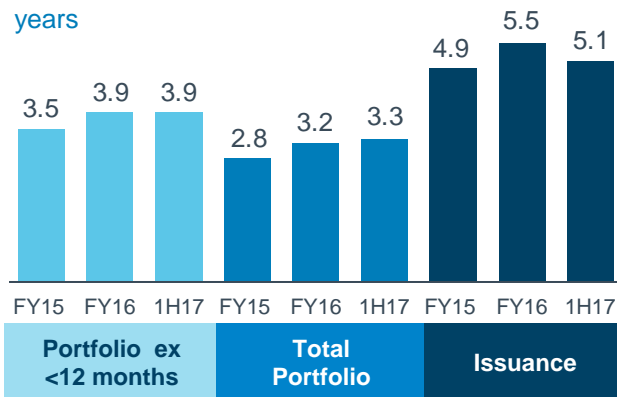
All figures shown on a Level 2 basis. 1. Comprised of assets qualifying as collateral for the Committed Liquidity Facility (CLF), excluding internal RMBS and any assets contained in the RBNZ's Liquidity Policy – Annex: Liquidity Assets – Prudential Supervision Department Document BS13A12. 2. 'Other' includes off-balance sheet and cash inflows. 3. RBA CLF reduced by \$6.5b, from 1 January 2017 (to \$43.8b).

# TERM WHOLESALE FUNDING PORTFOLIO<sup>2</sup>

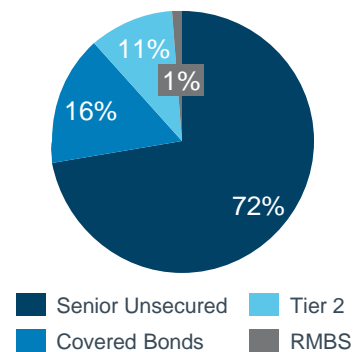
## Issuance<sup>1</sup>



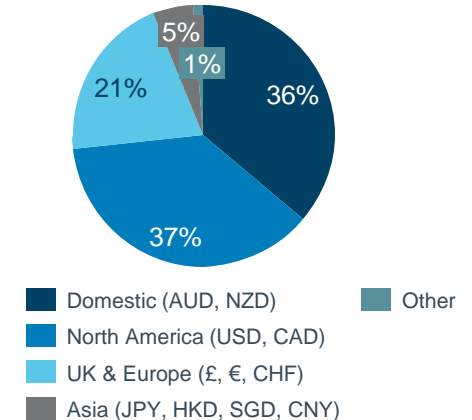
## WEIGHTED AVERAGE TENOR



## PORTFOLIO BY TYPE



## PORTFOLIO BY CURRENCY



All figures based on historical FX. 1. Includes transactions with a call or maturity date greater than 12 months as at the respective reporting date. 2. Excludes AT1. 3. Tier 2 profile is based on the next optional call date

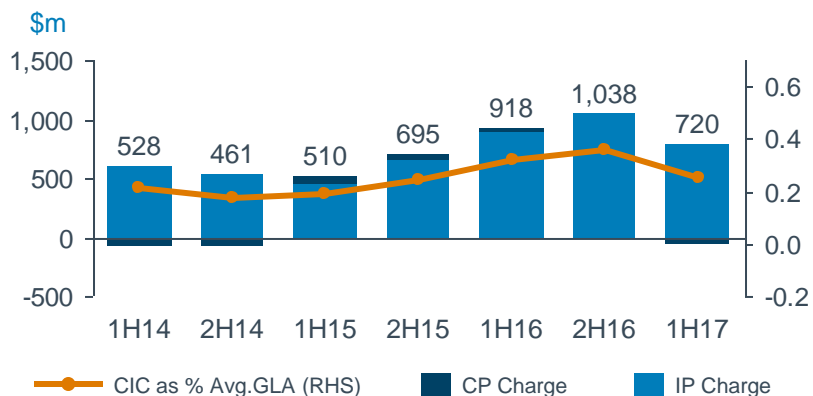
# RISK



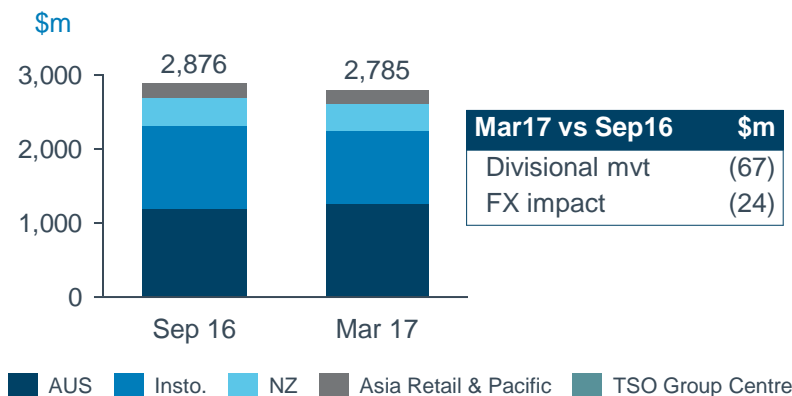
# RISK MANAGEMENT

## TOTAL & COLLECTIVE PROVISION (CP) CHARGE

### TOTAL PROVISION CHARGE



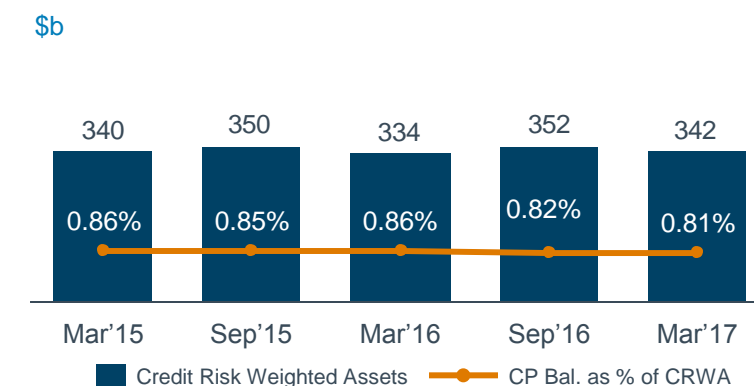
### CP BALANCE BY DIVISION



### TOTAL PROVISION CHARGE COMPOSITION

	1H14	2H14	1H15	2H15	1H16	2H16	1H17
<b>CIC</b>	<b>528</b>	<b>461</b>	<b>510</b>	<b>695</b>	<b>918</b>	<b>1,038</b>	<b>720</b>
<b>CP Composition</b>							
Lending Growth	85	61	54	50	56	-59	-30
Risk/Portfolio Mix	-200	-52	8	62	-30	50	-78
Eco Cycle	41	-90	-7	-72	0	0	41

### CRWA & CP AS A % OF CRWA

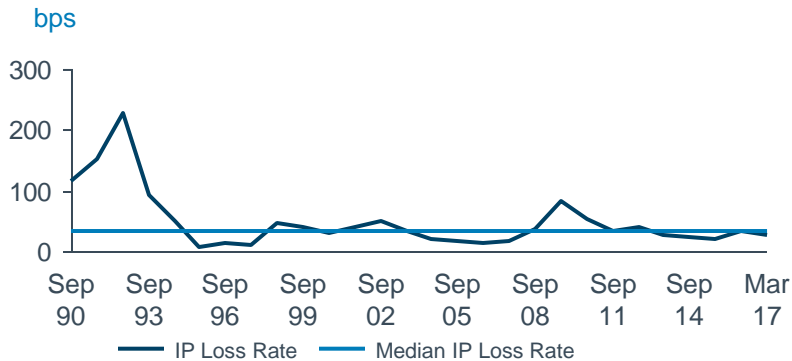


IP: Individual Provision charge CP: Collective Provision charge CIC: Total Credit Impairment charge

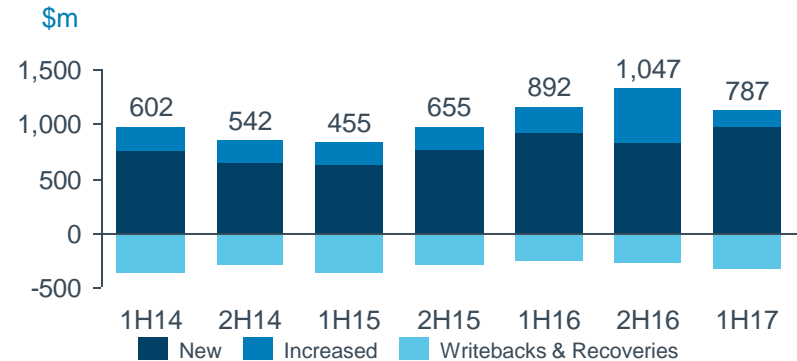
# RISK MANAGEMENT

## INDIVIDUAL PROVISION (IP) CHARGE

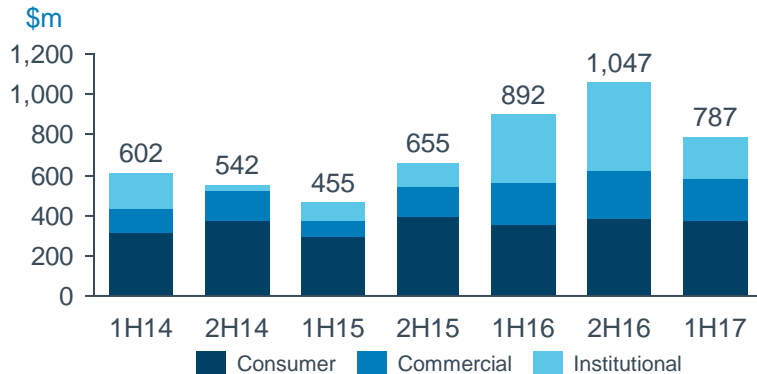
### ANZ HISTORICAL OBSERVED LOSS RATES



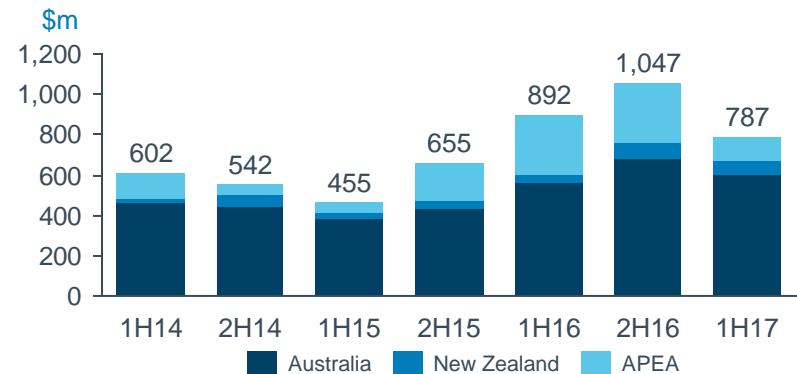
### IP CHARGE COMPOSITION



### IP CHARGE BY SEGMENT



### IP CHARGE BY REGION

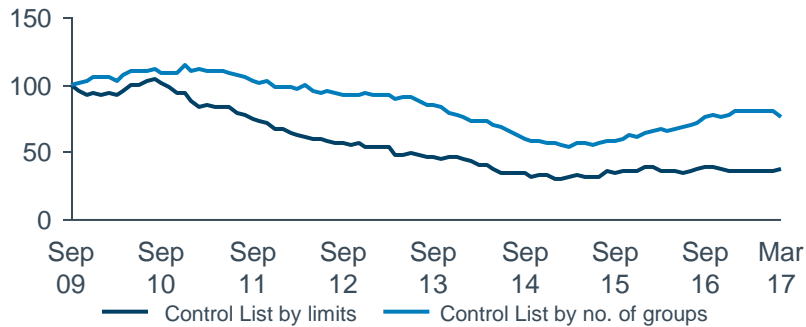


# RISK MANAGEMENT

## IMPAIRED ASSETS

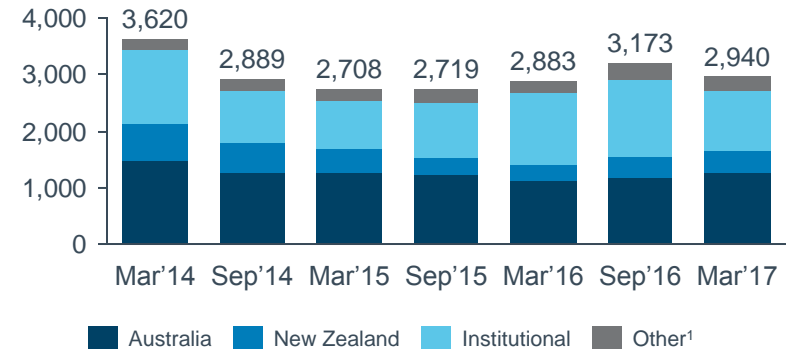
### CONTROL LIST

Index Sep 09 =100



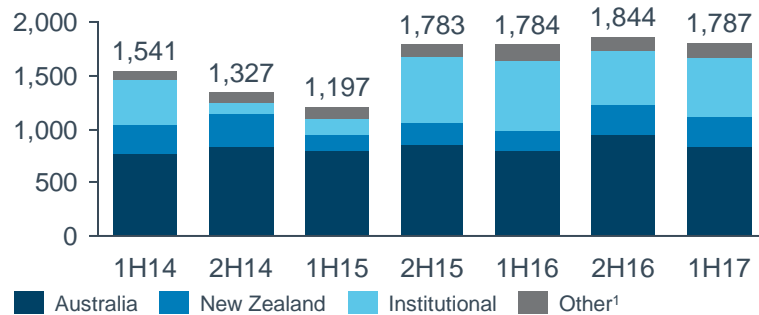
### GROSS IMPAIRED ASSETS BY DIVISION

\$m



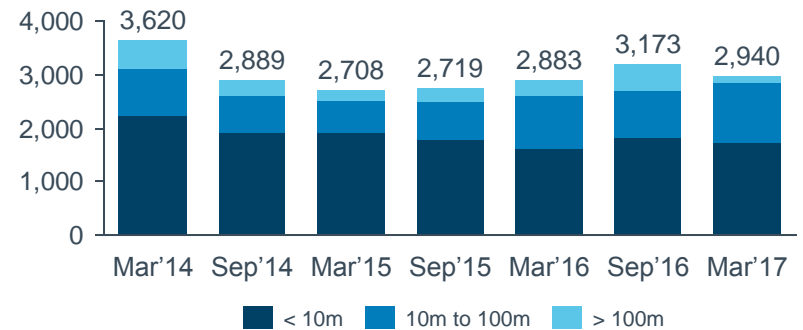
### NEW IMPAIRED ASSETS BY DIVISION

\$m



### GROSS IMPAIRED ASSETS<sup>1</sup> BY EXPOSURE SIZE

\$m



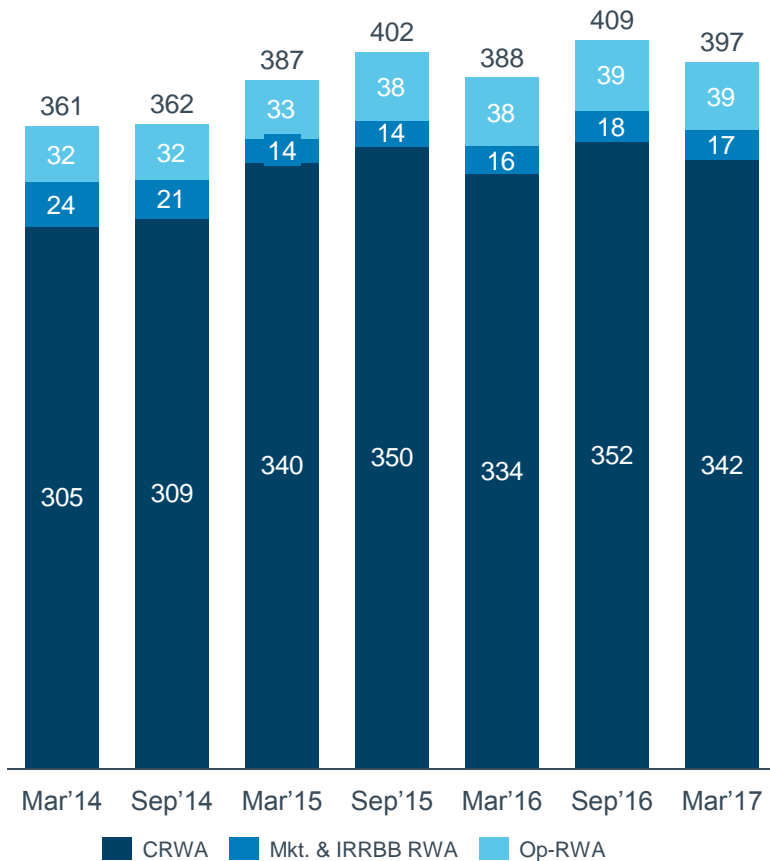
1. Other includes Retail Asia & Pacific and Australia Wealth

# RISK MANAGEMENT

## RISK WEIGHTED ASSETS

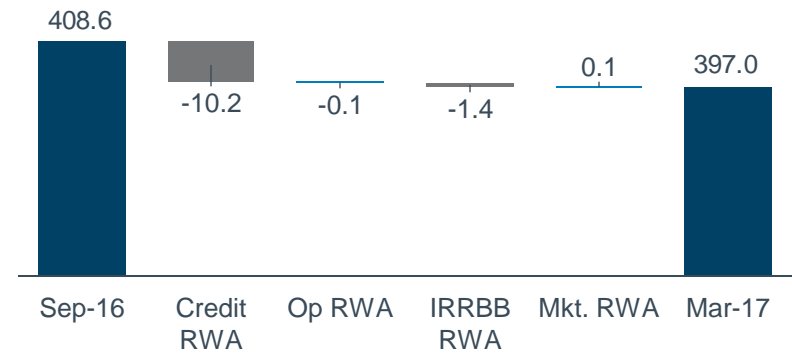
### TOTAL RISK WEIGHTED ASSETS

\$b



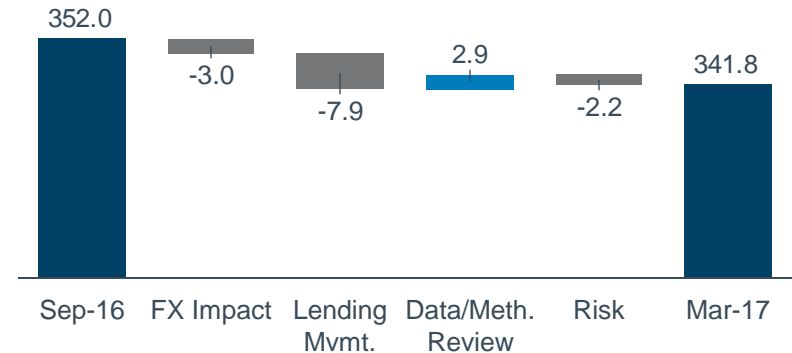
### TOTAL RWA MOVEMENT

\$b



### CRWA MOVEMENT

\$b

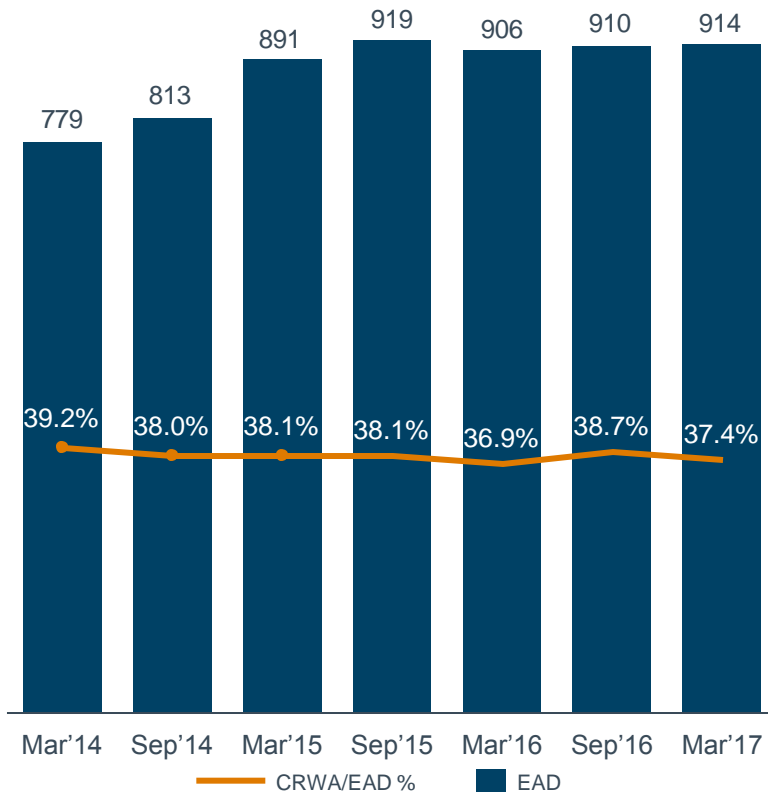


# RISK MANAGEMENT

## RISK WEIGHTED ASSETS

### GROUP EAD<sup>1</sup> & CRWAs

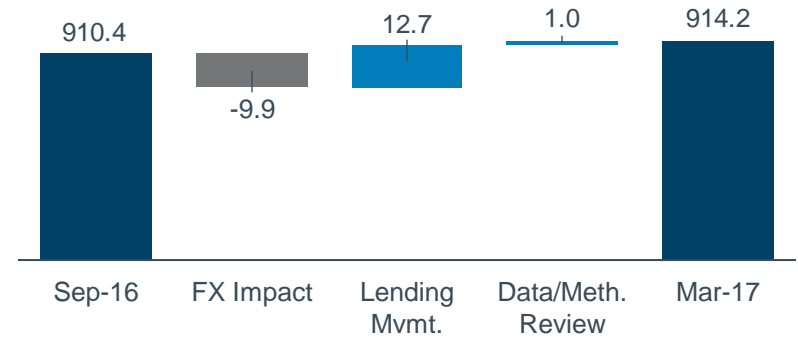
\$b



### GROUP EAD<sup>1</sup> MOVEMENT

MAR 17 V SEP 16

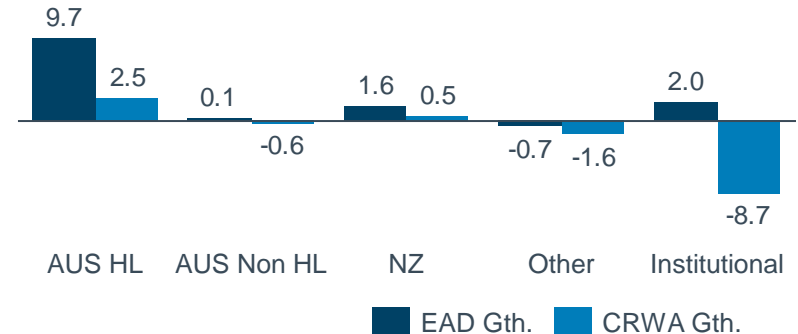
\$b



### GROUP EAD<sup>1</sup> & CRWA GROWTH<sup>2</sup> MOVEMENT

MAR 17 V SEP 16

\$b



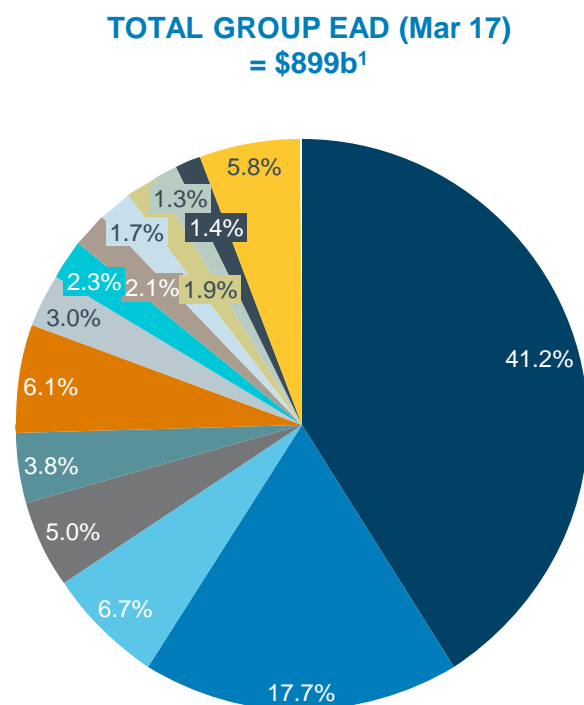
1. Post CRM EAD, net of credit risk mitigation such as guarantees, credit derivatives, netting and financial collateral. Includes amounts for 'Securitisation' and 'Other Assets' Basel asset classes
2. Refers to lending movement, excluding FX Impact, Data/Meth Review and Risk



# RISK MANAGEMENT

## PORTFOLIO COMPOSITION

### EXPOSURE AT DEFAULT (EAD) AS A % OF GROUP TOTAL



Category	% of Group EAD		% of Portfolio in Non Performing		Portfolio Balance in Non Performing
	Sep 16	Mar 17	Sep 16	Mar 17	Mar 17
Consumer Lending	40.6%	41.2%	0.1%	0.1%	\$447m
Finance, Investment & Insurance	17.4%	17.7%	0.1%	0.0%	\$25m
Property Services	6.8%	6.7%	0.4%	0.3%	\$166m
Manufacturing	5.2%	5.0%	1.6%	1.2%	\$550m
Agriculture, Forestry, Fishing	3.9%	3.8%	1.5%	1.4%	\$485m
Government & Official Institutions	6.2%	6.1%	0.0%	0.0%	\$0m
Wholesale trade	3.1%	3.0%	0.5%	0.5%	\$142m
Retail Trade	2.4%	2.3%	1.2%	0.7%	\$154m
Transport & Storage	2.2%	2.1%	0.4%	0.8%	\$146m
Business Services	1.7%	1.7%	0.9%	1.0%	\$146m
Resources (Mining)	1.8%	1.9%	2.9%	2.1%	\$357m
Electricity, Gas & Water Supply	1.3%	1.3%	0.0%	0.1%	\$16m
Construction	1.4%	1.4%	2.0%	1.9%	\$234m
Other	6.0%	5.8%	0.4%	0.6%	\$291m
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>			<b>\$3,159m</b>
<b>Total Group EAD<sup>1</sup> \$b</b>	<b>\$895b</b>	<b>\$899b</b>			

1. EAD excludes amounts for 'Securitisation' and 'Other Assets' Basel classes and manual adjustments. Data provided is as at Mar 17 on a Post CRM basis, net of credit risk mitigation such as guarantees, credit derivatives, netting and financial collateral. Note that APS330 disclosure is reported on a Post CRM basis from 30 June 2016

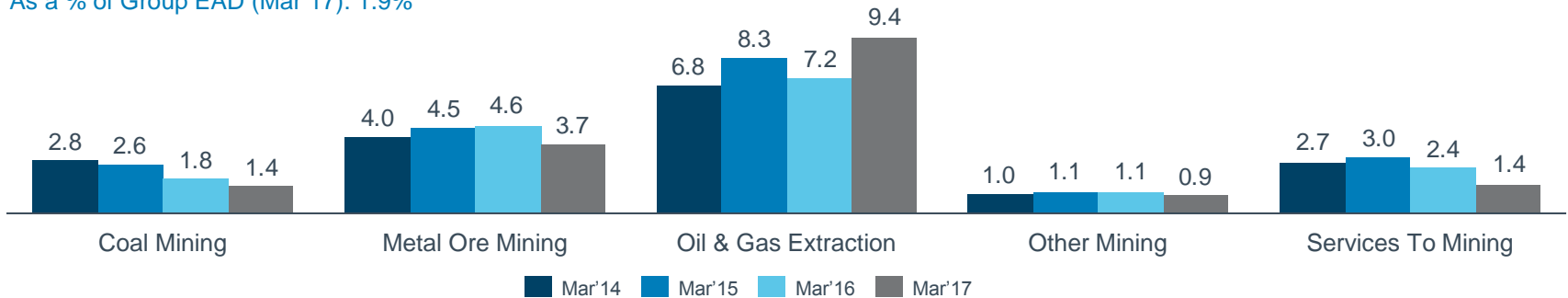
# RISK MANAGEMENT

## GROUP RESOURCES PORTFOLIO

### RESOURCES EXPOSURE BY SECTOR

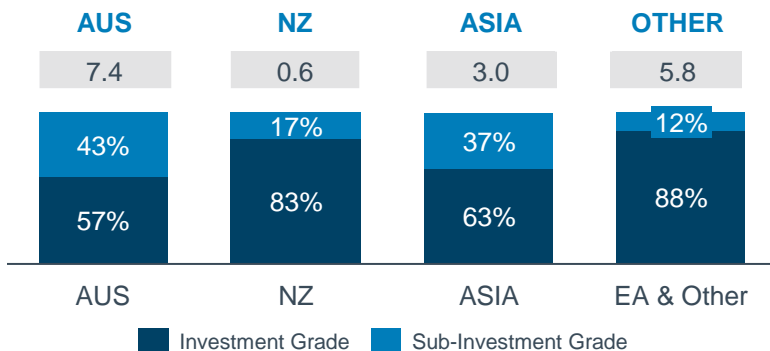
Total EAD (Mar 17): \$17b

As a % of Group EAD (Mar 17): 1.9%



### RESOURCES EXPOSURE CREDIT QUALITY (EAD)

\$b



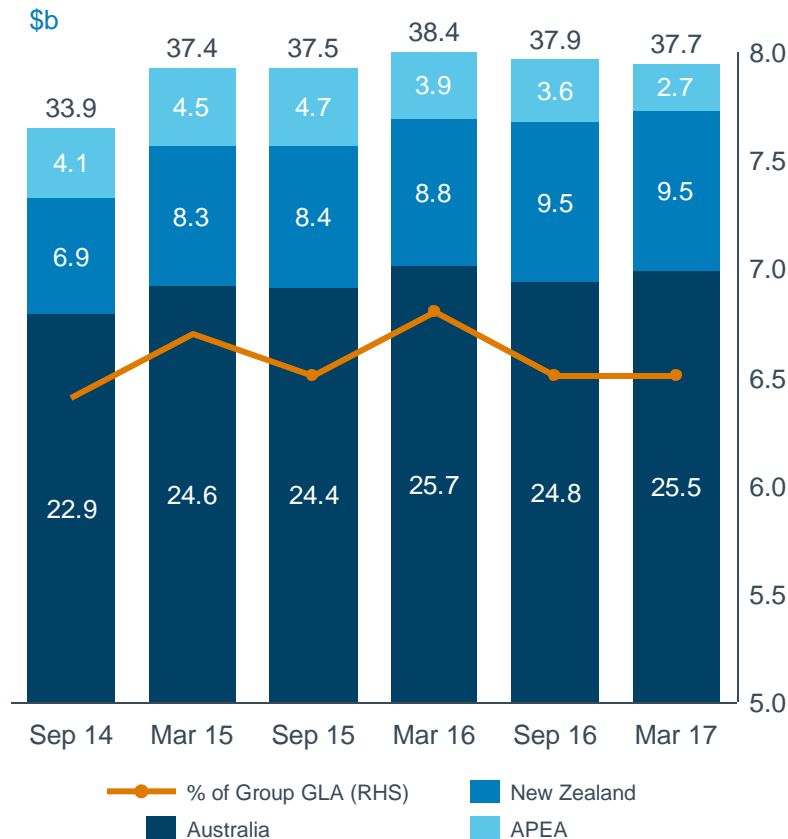
### RESOURCES PORTFOLIO MANAGEMENT

- Portfolio is skewed towards well capitalised and lower cost resource producers. 25% of the book is less than one year duration
- Investment grade exposures represent 70% of portfolio vs. 65% at Sep 16 and Trade business unit accounts for 12% of the total Resources EAD
- Mining services customers are subject to heightened oversight given the cautious outlook for the services sector

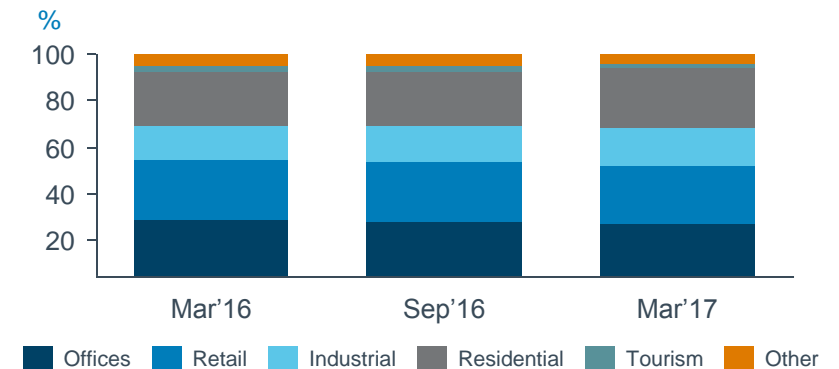
# RISK MANAGEMENT

## COMMERCIAL PROPERTY PORTFOLIO

### COMMERCIAL PROPERTY OUTSTANDINGS BY REGION<sup>1</sup>



### COMMERCIAL PROPERTY OUTSTANDINGS BY SECTOR<sup>1</sup>



### PROPERTY PORTFOLIO MANAGEMENT

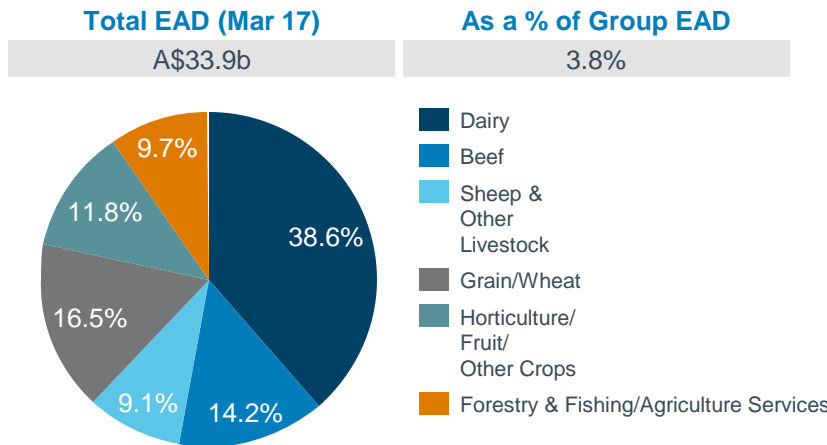
- Australian volumes grew 2.8% across 1H17, primarily driven by draw downs for residential development projects and loans to REITs to restock land inventories.
- Overall New Zealand volumes were flat due to exchange rate movements offsetting underlying portfolio growth. Excluding FX movements a 3.5% half on half increase in draw downs for residential development projects was the main source of growth.
- APEA volumes in 1H17 was primarily driven by run-off of lower return lending.

1. As per ARF230 disclosure  
2. APEA = Asia Pacific, Europe & America

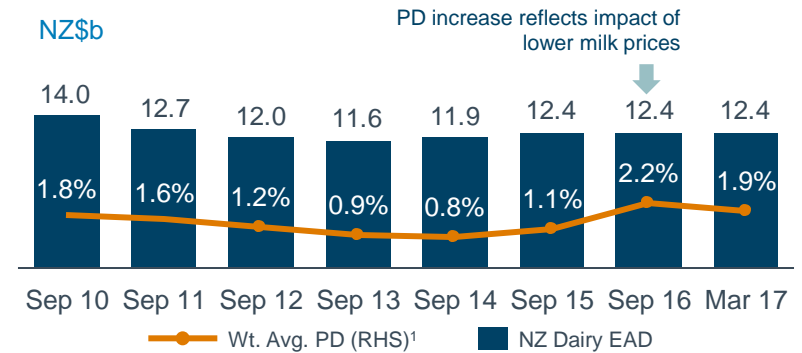
# RISK MANAGEMENT

## GROUP AGRICULTURE PORTFOLIO

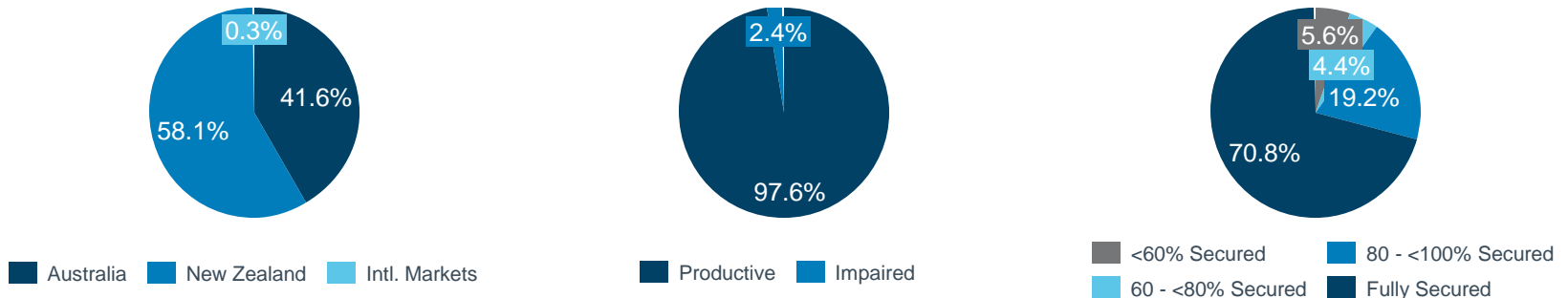
### AGRICULTURE EXPOSURE BY SECTOR (% EAD)



### NEW ZEALAND DAIRY CREDIT QUALITY



### GROUP AGRICULTURE EAD SPLITS<sup>2</sup>



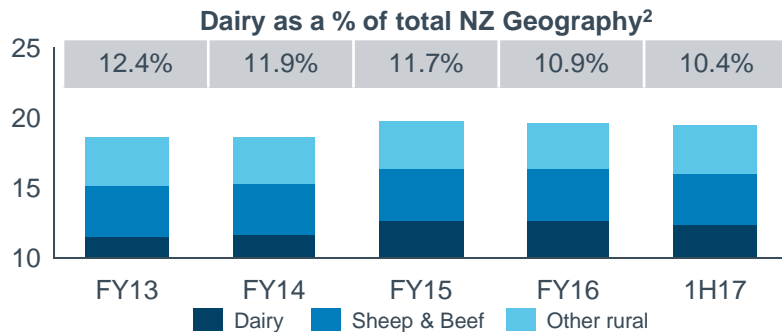
1. Wholesale PD model changes account for 55 bps in FY16  
 2. Security indicator is based on ANZ extended security valuations

# NEW ZEALAND

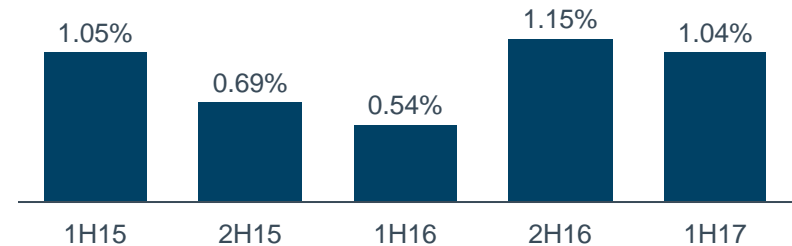
## AGRICULTURE PORTFOLIO<sup>1</sup>

### AGRI PORTFOLIO (GLA)

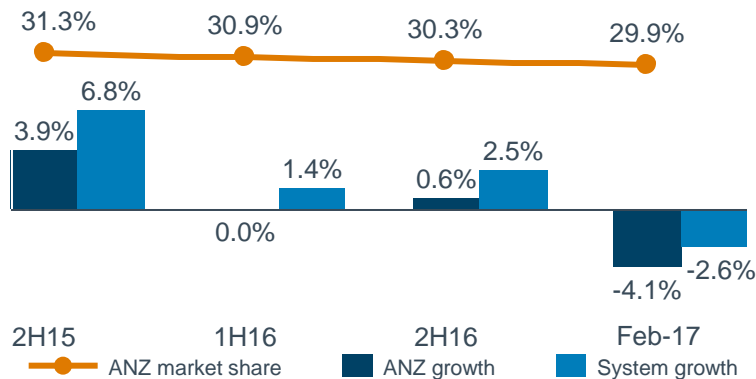
NZ\$b



### AGRI CREDIT QUALITY – GIA AS % OF GLA



### AGRICULTURE MARKET SHARE<sup>3</sup>



### APPROACH TO THE AGRICULTURE SECTOR

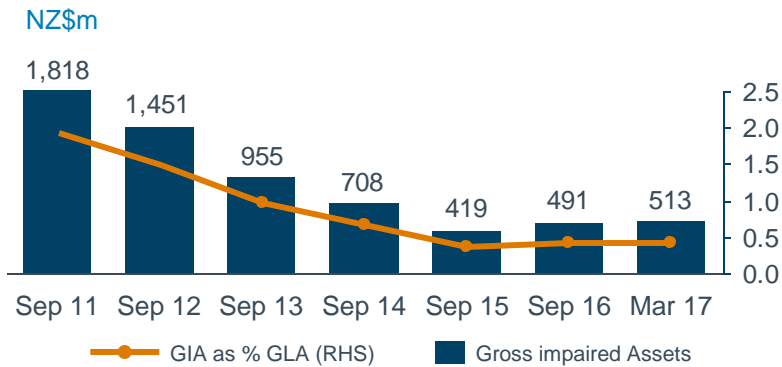
<b>Portfolio:</b> (NZ\$19b)	Agri portfolio comprises 63% Dairy, 20% Sheep & Beef, 17% Other
<b>Profile</b>	Customer base remains well established and highly secured. GIA as a % of GLA increased in FY16 driven by a downturn in the dairy sector. The portfolio has performed well and this measure has improved in 1H17. We are now seeing dairy prices rise leaving farmers with positive cash flow in 2017
<b>Customer approach</b>	Long-standing relationships with a focus on supporting existing customers and diversifying our portfolio

1. NZ Geography (Gross Loans and Advances)  
 2. Due to change in methodology for calculating the split of the Agri Portfolio GLA, dairy percentages for prior periods have been restated  
 3. Source: RBNZ, share of all banks as of February 2017. Changes in RBNZ data reporting from February 2017 onwards has resulted in a step change in data vs prior periods

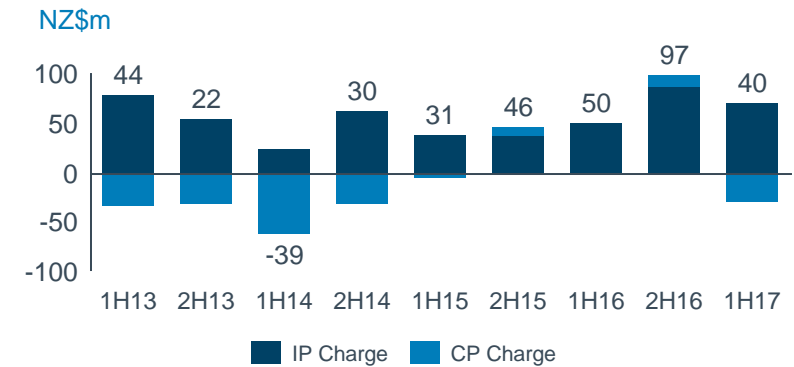
# RISK MANAGEMENT

## NEW ZEALAND

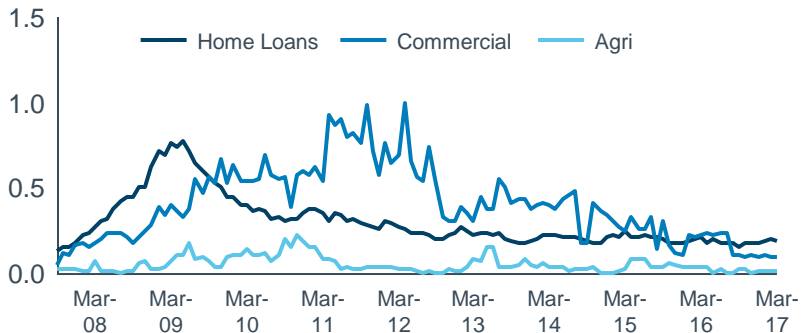
### NEW ZEALAND GEOGRAPHY GROSS IMPAIRED ASSETS



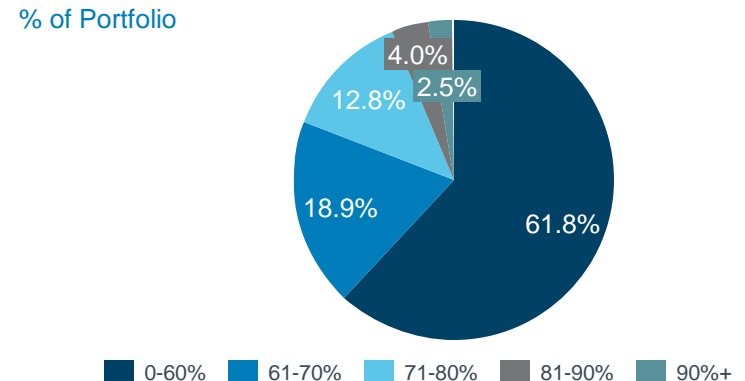
### NEW ZEALAND GEOGRAPHY TOTAL PROVISION CHARGE<sup>2</sup>



### NEW ZEALAND DIVISION 90+DAYS DELINQUENCIES



### MORTGAGE DYNAMIC LOAN TO VALUE RATIO<sup>1</sup>



1. Average dynamic LVR as at Feb 2017 (not weighed by balance)

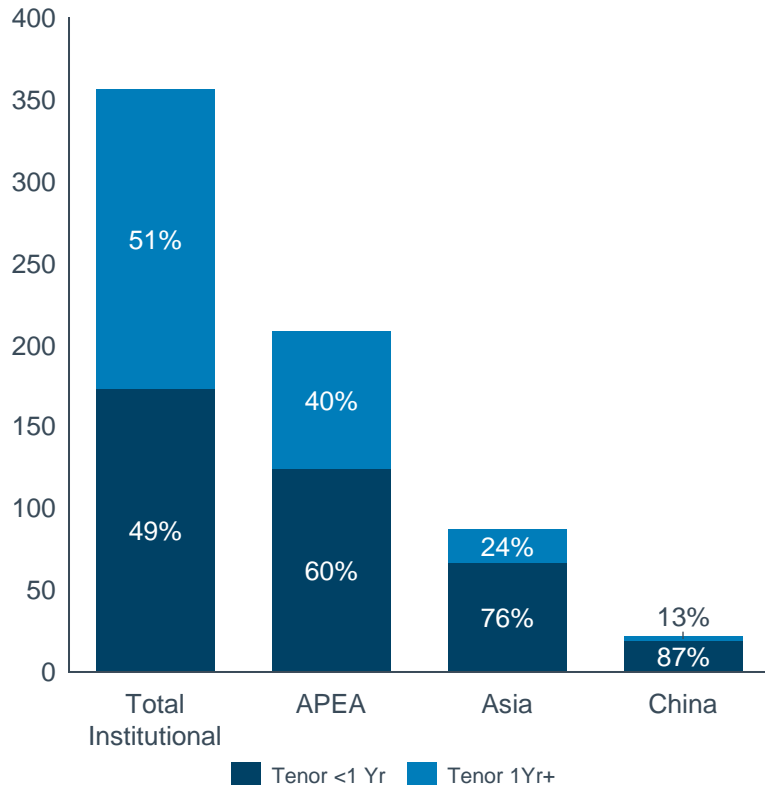
2. Credit valuation adjustments (CVA) for customers with CCR10 are reported differently for cash profit and headline views of earnings. In the headline (statutory) view of provision reported above, changes in CVA are reported in Other Operating Income, but in the cash profit view of earnings the change in CVA is reclassified to IP

# RISK MANAGEMENT

## ANZ INSTITUTIONAL PORTFOLIO (COUNTRY OF INCORPORATION<sup>1</sup>)

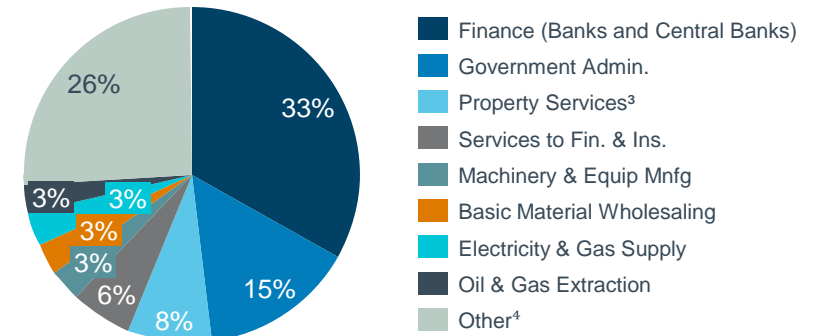
### INSTITUTIONAL PORTFOLIO SIZE & TENOR (EAD<sup>2</sup>)

\$b



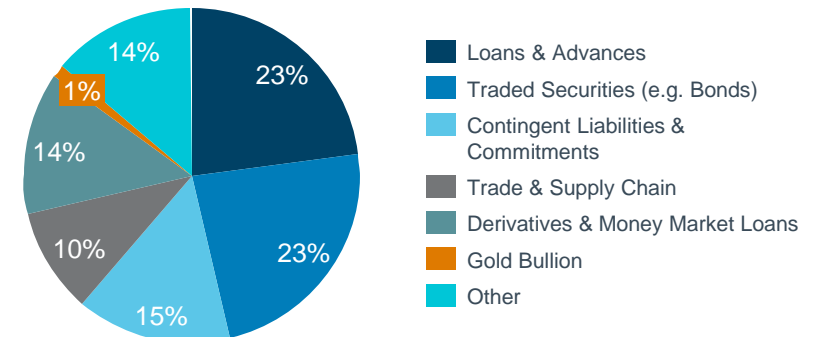
### ANZ INSTITUTIONAL INDUSTRY COMPOSITION

EAD (Mar 17): A\$356b<sup>2</sup>



### ANZ INSTITUTIONAL PRODUCT COMPOSITION

EAD (Mar 17): A\$356b<sup>2</sup>



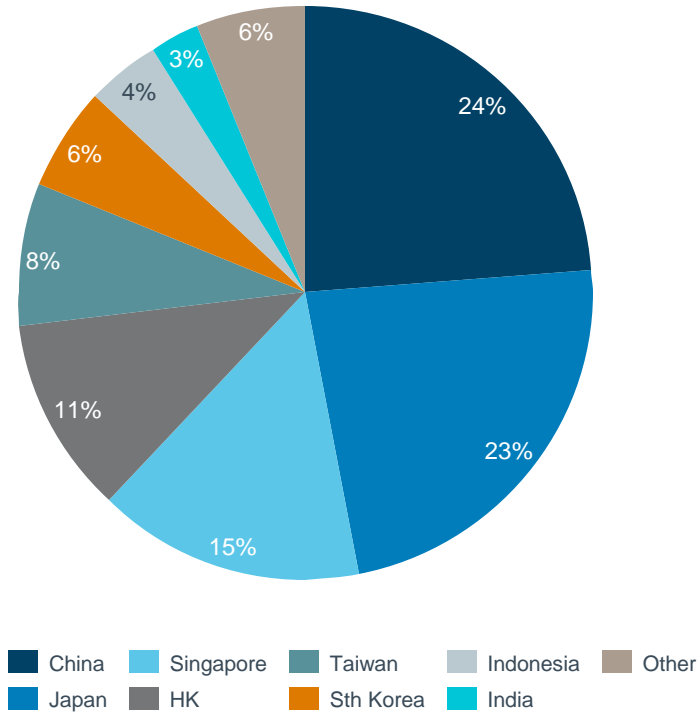
1. Country is defined by the counterparty's Country of Incorporation. 2. Data provided is as at Mar17 on a Post CRM basis, net of credit risk mitigation such as guarantees, credit derivatives, netting and financial collateral. Position excludes Basel Asset Class 'Securitisation', 'Other Assets', 'Retail' and manual adjustments. 3. ~88% of the ANZ Institutional "Property Services" portfolio is to entities incorporated in either Australia or New Zealand. 4. Other is comprised of 48 different industries with none comprising more than 2.4% of the Institutional portfolio.

# RISK MANAGEMENT

## ANZ ASIAN INSTITUTIONAL PORTFOLIO (COUNTRY OF INCORPORATION<sup>1</sup>)

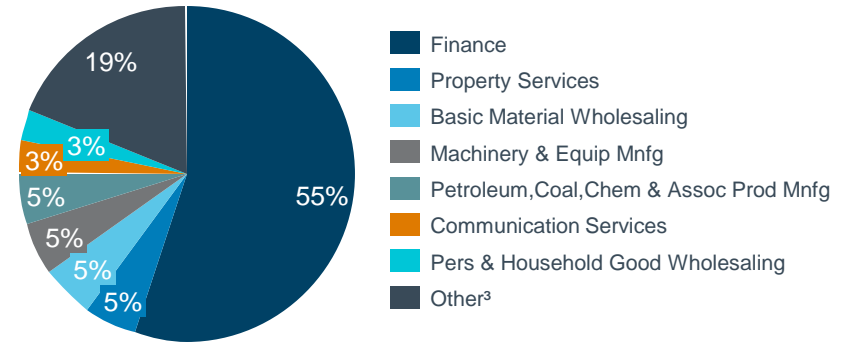
### COUNTRY OF INCORPORATION<sup>1</sup>

EAD (Mar 17): A\$87b<sup>2</sup>



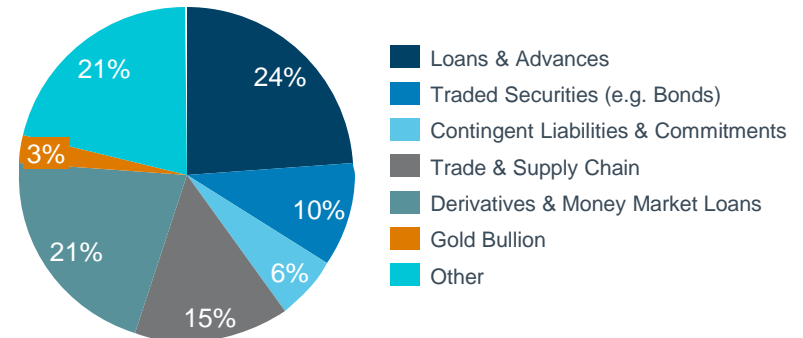
### ANZ ASIA INDUSTRY COMPOSITION

EAD (Mar 17): A\$87b<sup>2</sup>



### ANZ ASIA PRODUCT COMPOSITION

EAD (Mar 17): A\$87b<sup>2</sup>



1. Country is defined by the counterparty's Country of Incorporation. 2. Data provided is as at Mar17 on a Post CRM basis, net of credit risk mitigation such as guarantees, credit derivatives, netting and financial collateral. Position excludes Basel Asset Class 'Securitisation', 'Other Assets', 'Retail' and manual adjustments. 3. "Other" within industry is comprised of 46 different industries with none comprising more than 2.7% of the Asian Institutional portfolio; Other product category is predominantly exposure due from other financial institutions.



# RISK MANAGEMENT

## ANZ CHINA PORTFOLIO (COUNTRY OF INCORPORATION<sup>1</sup>)

### COUNTRY OF INCORPORATION<sup>1</sup>

EAD (Mar 17): A\$21b<sup>2</sup>

#### China EAD

- Total China EAD of A\$21b, with 39% or A\$8.2b booked onshore in China

#### Tenor

- ~87% of EAD has a tenor less than 1 year

#### Risk rating

- China exposure has a stronger average credit rating compared to Asia, Australia and NZ

#### Industry

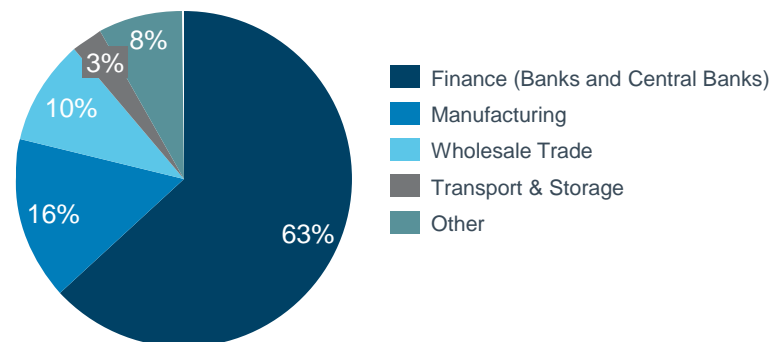
- 63% of China exposures to Financial institutions, with ~54% of this to China's central bank and its Top 5 largest banks

#### Products

- Largest growth in 'Derivatives & Money Market Loans' (+A\$1.9b) mostly from increase in Money Market Loans whilst reduction in 'Other' (A\$1.7b) due to decline in Nostro accounts
- Within Loans and Advances ~77% have a tenor of less than 1 year, up from 74% as at Sep 16

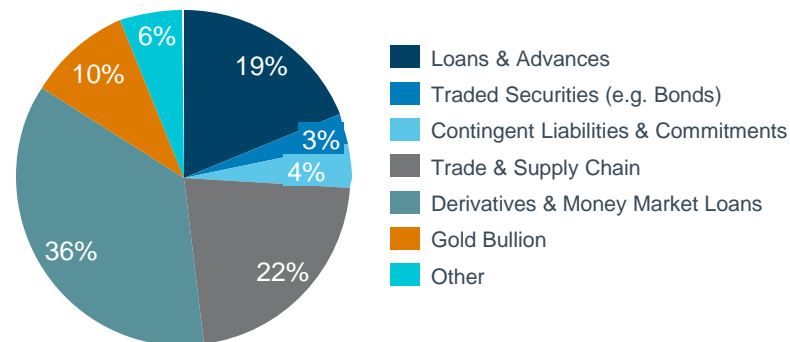
### ANZ CHINA INDUSTRY COMPOSITION

EAD (Mar 17): A\$21b<sup>2</sup>



### ANZ CHINA PRODUCT COMPOSITION

EAD (Mar 17): A\$21b<sup>2</sup>



1. Country is defined by the counterparty's Country of Incorporation

2. Data provided is as at Mar17 on a Post CRM basis, net of credit risk mitigation such as guarantees, credit derivatives, netting and financial collateral. Position excludes Basel Asset Class 'Securitisation', 'Other Assets', 'Retail' and manual adjustments.

# MORTGAGE PORTFOLIO



# AUSTRALIA HOME LOANS

## PORTFOLIO OVERVIEW

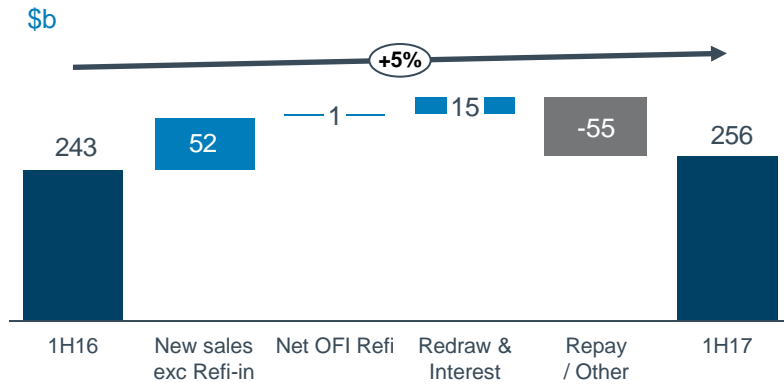
	Portfolio <sup>1</sup>		Flow	Portfolio	
	1H16	1H17	1H17	1H16	1H17
Number of Home Loan accounts	976k	992k	89k <sup>2</sup>		
Total FUM <sup>1</sup>	\$243b	\$256b	\$34b		
Average Loan Size	\$249k	\$258k	\$382k		
% Owner Occupied	60%	62%	67%		
% Investor	36%	34%	31%		
% Equity Line of Credit	4%	4%	2%		
% Paying Variable Rate Loan <sup>3</sup>	87%	85%	84%		
% Paying Fixed Rate Loan <sup>3</sup>	13%	15%	16%		
% Paying Interest Only <sup>3</sup>	38%	37%	43%		
% Paying Principal & Interest <sup>3</sup>	62%	63%	57%		
% Broker originated	48%	50%	55%		
				Average LVR at Origination <sup>4,5,6</sup>	71% 70%
				Average Dynamic LVR <sup>5,6,7</sup>	51% 51%
				Market Share <sup>8</sup>	15.6% 15.6%
				% Ahead of Repayments <sup>9</sup>	40% 39%
				Offset Balances <sup>10</sup>	\$24b \$26b
				% First Home Buyer	7% 6%
				% Low Doc <sup>11</sup>	7% 5%
				Home Loan IP Loss Rate	0.01% 0.03%
				Group IP Loss Rate	0.32% 0.27%
				% of Australia Geography Lending <sup>12</sup>	63% 63%
				% of Group Lending <sup>12,13</sup>	43% 44%

1. Home Loans (exclusive of Non Performing Loans, exclusive of offset balances) 2. New accounts includes increases to existing accounts and split loans (fixed and variable components of the same loan) 3. Excludes Equity Manager 4. Originated 1H16 for 1H16, originated 1H17 for 1H17 5. Unweighted 6. Including capitalised premiums 7. Valuations updated Mar'17 where available 8. Source for Australia: APRA 9. % of Owner Occupied and Investment Loans that are one month or more ahead of repayments. Excludes Equity Loans 10. Balances of Offset accounts connected to existing Instalment Loans 11. Low Doc is comprised of less than or equal to 60% LVR mortgages primarily for self-employed without scheduled PAYG income. However, it also has ~A\$500m of less than or equal to 80% LVR mortgages, primarily booked pre-2008 12. Based on Gross Loans and Advances 13. Based on Group Cash Profit basis.

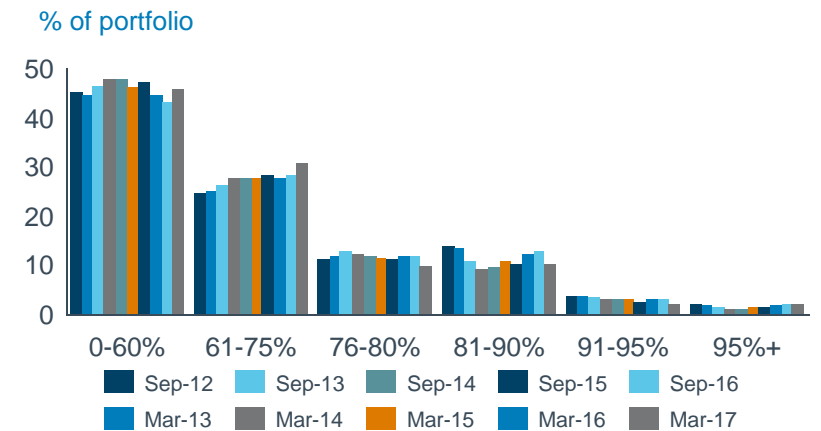
# AUSTRALIA HOME LOANS

## PORTFOLIO TRENDS

### HOME LOAN BALANCE & LENDING FLOWS<sup>1</sup>

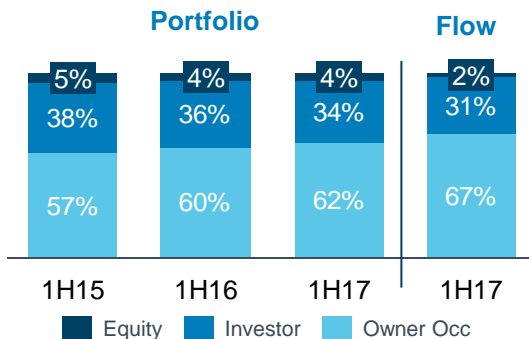


### HOME LOAN PORTFOLIO: LOAN TO VALUE RATIO<sup>1,2,3</sup>

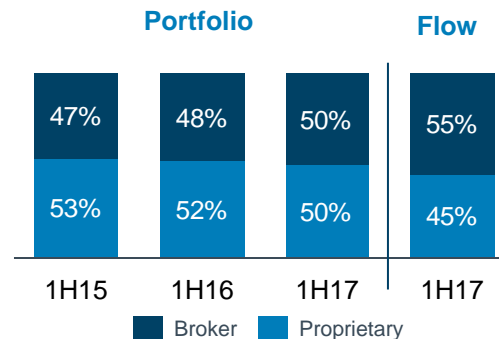


### PORTFOLIO<sup>1</sup> & FLOW COMPOSITION

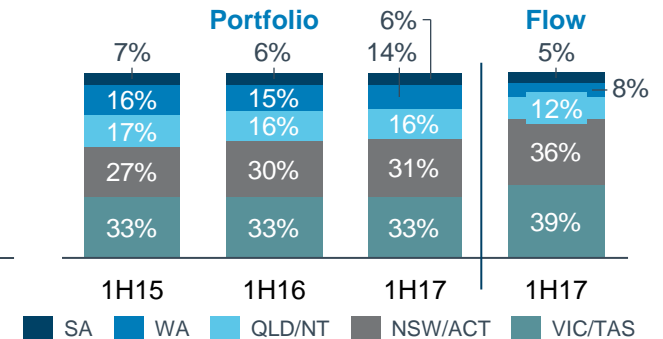
#### By purpose:



#### By channel:



#### By location:

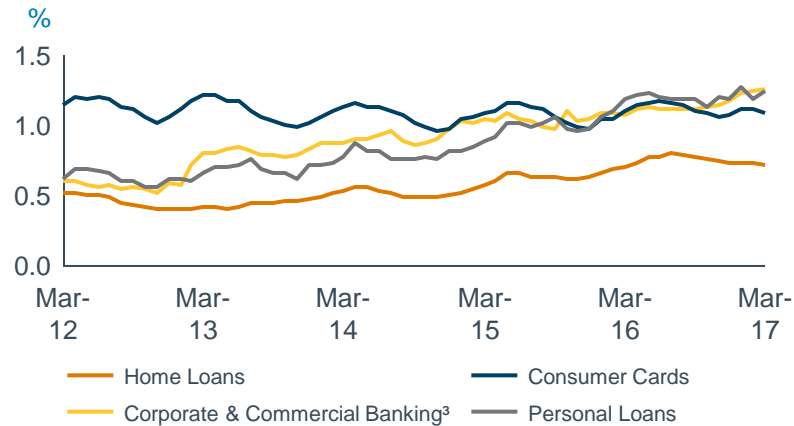


1. Exclusive of Non Performing Loans. 2. Including capitalised premiums 3. Dynamic LVR reported. Valuations updated Mar-17 where available

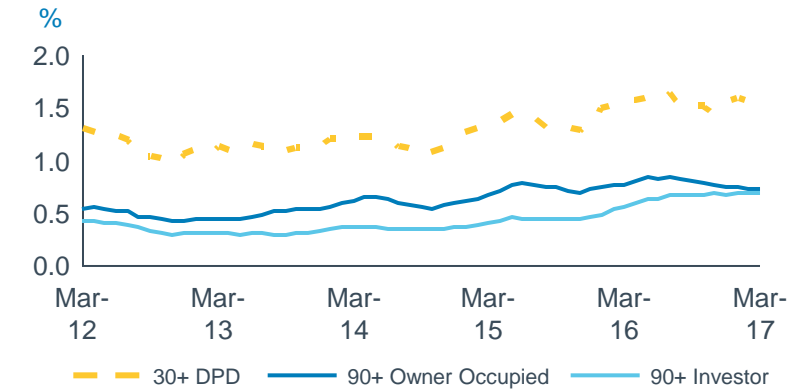
# AUSTRALIA DIVISION

## PORTFOLIO PERFORMANCE

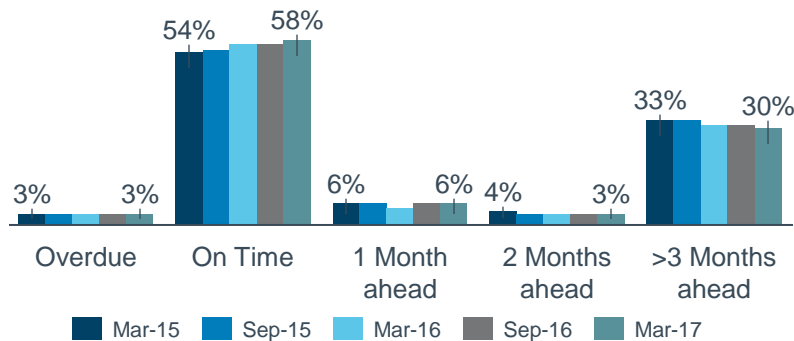
### PRODUCT 90+ DAY DELINQUENCIES<sup>1</sup>



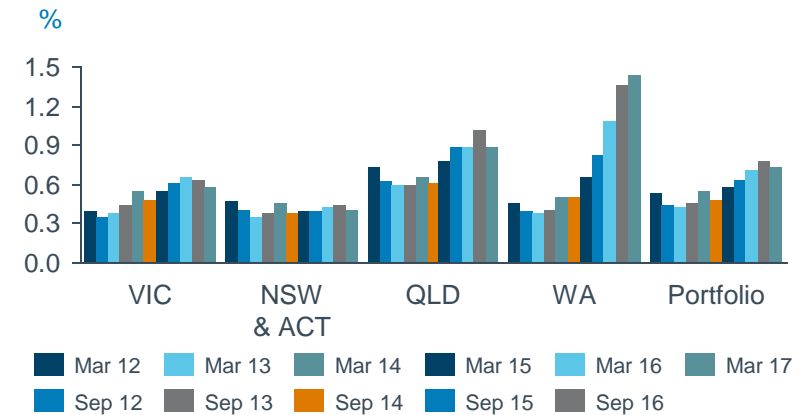
### HOME LOAN DELINQUENCIES<sup>1</sup>



### HOME LOANS REPAYMENT PROFILE<sup>4</sup>



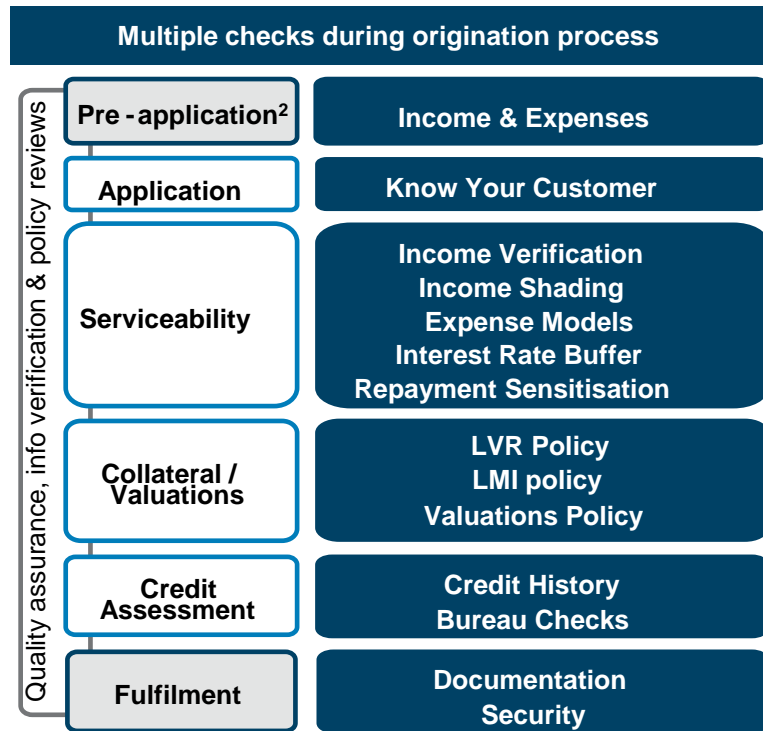
### HOME LOANS 90+ DPD BY STATE<sup>1,2</sup>



1. Exclusive of Non Performing Loans 2. VIC, NSW & ACT, QLD and WA represent 91% of total portfolio, with remaining 9% distributed between TAS, NT and SA 3. Comprises Small Business, Commercial Cards and Asset Finance 4. Repayment profile on % of Owner Occupied and Investment loans. Excludes Equity Manager, non performing loans and offset balances

# AUSTRALIA HOME LOANS

## UNDERWRITING PRACTICES AND MATERIAL POLICY CHANGES<sup>1</sup>



- End-to-end home lending responsibility managed within ANZ
- Effective hardship & collections processes
- Full recourse lending
- ANZ assessment process across all channels

### Serviceability

- Interest rate floor applied to new and existing mortgage lending introduced at 7.25%
- Introduction of an income adjusted living expense floor (HEM)
- Introduction of a 20% haircut for overtime and commission income
- Increased income discount factor for residential rental income from 20% to 25%

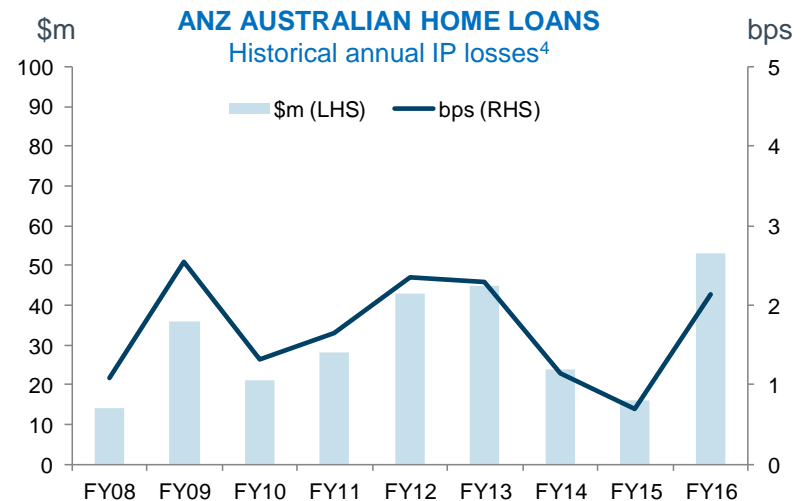
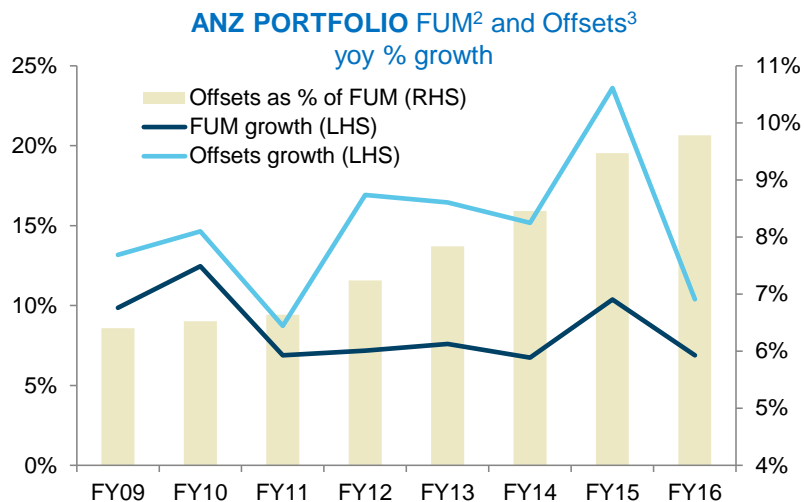
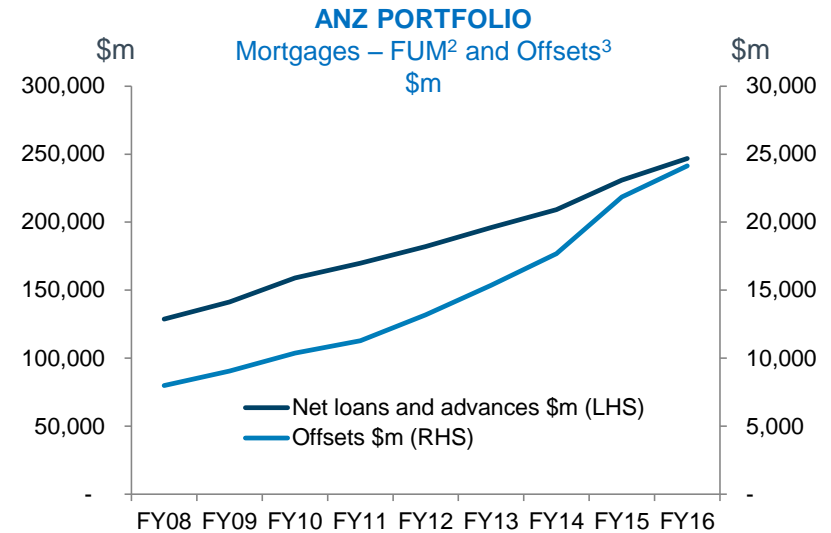
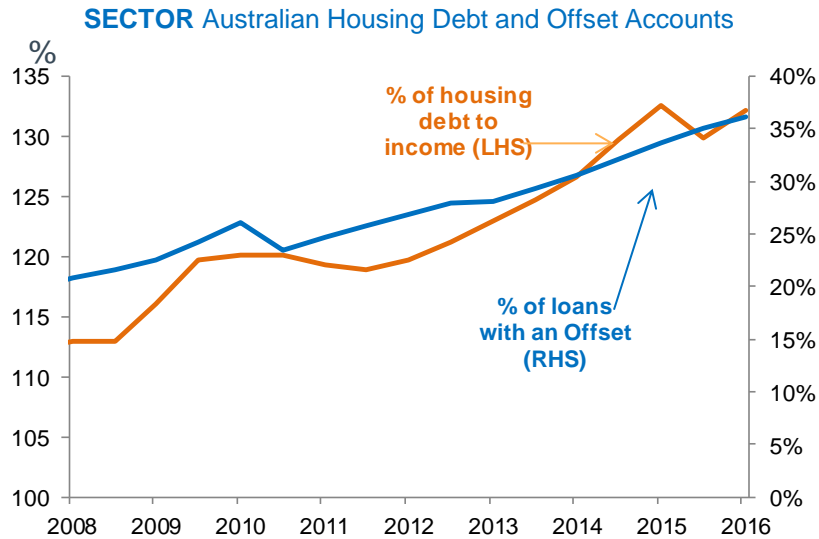
### Material Policy changes

- LVR cap reduced to 90% for investment loans
- LVR cap reduced to 70% in high risk mining towns
- Decreased maximum interest only term of owner occupied interest only loans to 5 years
- Withdrawal of lending to non-residents
- Limited acceptance of foreign income to demonstrate serviceability and tightened controls on verification
- Tightening of acceptances for guarantees
- LVR cap introduced on new Interest Only Owner Occupied at 90%
- Reduced LVR cap of 80% for external refinances for Interest Only Owner Occupied

1. 2015 to 2017 changes to lending standards and underwriting  
 2. Customers have the ability to assess their capacity to borrow on ANZ tools

# AUSTRALIAN HOME LOANS

## OFFSET ACCOUNTS



1. Sources: APRA, RBA. Offset accounts of all APRA ADIs. 2. Home Loans (exclusive of Non Performing Loans, exclusive of offset balances). 3. Balances of Offset accounts connected to existing Instalment Loans. 4. IP loss rate based on IP charge in the period, as a percentage of end of period net loans and advances. Does not include collective credit impairment charge/(release).

# AUSTRALIAN HOME LOANS

## STRESS TESTING THE AUSTRALIAN MORTGAGE PORTFOLIO

- ANZ conducts regular stress tests of its loan portfolios to meet risk management objectives and satisfy regulatory requirements.
- Stress tests are highly assumption-driven; results will depend on economic assumptions, on modelling assumptions, and on assumptions about actions taken in response to the economic scenario.
- This illustrative recession scenario assumes significant reductions in consumer spending and business investment, which lead to eight consecutive quarters of negative GDP growth. This results in a significant increase in unemployment and material nationwide falls in property prices.
- Estimated portfolio losses under these stressed conditions are manageable and within the Group's capital base, with cumulative total losses of A\$1.6b over three years (net of LMI recoveries).

Assumptions	Current	Year 1	Year 2	Year 3
Unemployment rate	5.8%	9.0%	10.5%	11.5%
Cash Rate	1.5%	0.25%	0.25%	0.25%
Real GDP year ended growth	3.1	-3.8%	-2.4%	4.7%
Cumulative reduction in house prices	-	-26.8%	-38.3%	-32.7%
Portfolio size <sup>1</sup> (A\$b)	274	275	264	253

Outcomes	Base	Year 1	Year 2	Year 3
Net Losses (A\$m)	-	193	698	745
Net losses (bps)	-	7	26	29

1. Exposure at default.



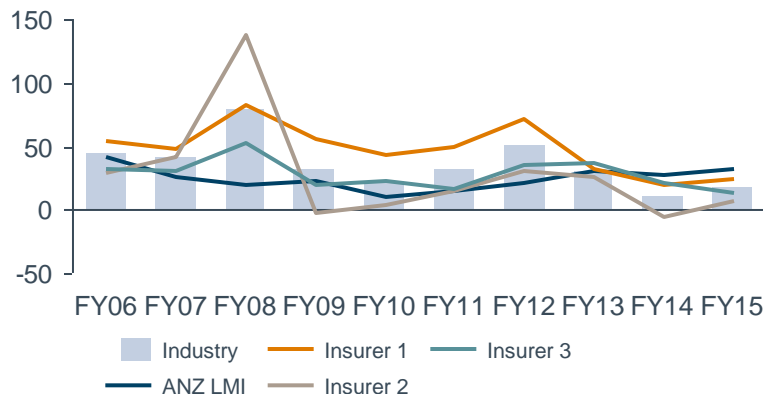
# RISK MANAGEMENT

ANZLMI HAS MAINTAINED STABLE LOSS RATIOS

## FINANCIAL YEAR 2016 RESULTS

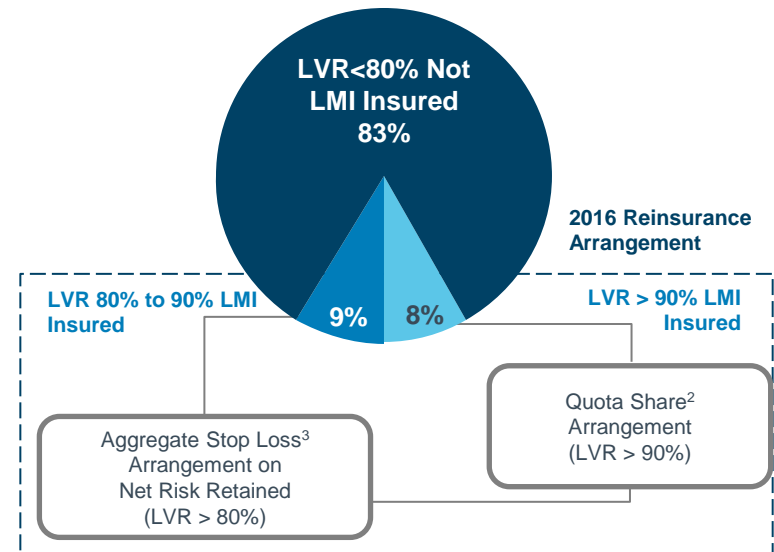
Gross Written Premium (\$m)	\$196m
Net Claims Paid (\$m)	\$26m
Loss Rate (of Exposure)	5.1 bps

## ANZLMI MAINTAINS LOW LOSS RATIOS<sup>1</sup>



## LMI & REINSURANCE STRUCTURE

Australian Home Loan portfolio LMI and Reinsurance Structure at 30 Sep 2016 (% FUM)



ANZLMI uses a **diversified panel of reinsurers** (10+) comprising a mix of APRA authorised reinsurers and reinsurers with highly rated security

Reinsurance is comprised of a **Quota Share arrangement<sup>2</sup>** with reinsurers for mortgages 90% LVR and above and in addition an **Aggregate Stop Loss arrangement<sup>3</sup>** for policies over 80% LVR

1. Negative Loss ratios are the result of reductions in outstanding claims provisions. Source: APRA general insurance statistics (loss ratio net of reinsurance) ; 2. Quota Share arrangement - reinsurer assumes an agreed reinsured % whereby reinsurer shares all premiums and losses accordingly with ANZLMI ; 3. Aggregate Stop Loss arrangement –reinsurer indemnifies ANZLMI for an aggregate (or cumulative) amount of losses in excess of a specified aggregate amount. When the sum of the losses exceeds the pre-agreed amount, the reinsurer will be liable to pay the excess up to a pre-agreed upper limit.

# NEW ZEALAND MORTGAGES

## PORTFOLIO OVERVIEW <sup>1</sup>

	Portfolio		Growth
	1H16	1H17	1H17
Number of Home Loan accounts	508k	515k	1.4%
Total FUM	NZ\$70b	NZ\$75b	6.5%
Average Loan Size at Origination	NZ\$295k	NZ\$295k	-0.0%
Average Loan Size	NZ\$138k	NZ\$145k	5.1%
% of NZ Geography Lending	60%	61%	107bps
% of Group Lending	11%	12%	60bps
% Owner Occupied	73%	73%	-32bps
% Investor	27%	27%	32bps
% Paying Variable Rate Loan	24%	22%	-259bps
% Paying Fixed Rate Loan	76%	78%	259bps
% Broker originated	32%	34%	174bps

	Portfolio		Growth
	1H16	1H17	1H17
Average LVR at Origination <sup>2</sup>	63%	59%	-392bps
Average Dynamic LVR <sup>3</sup>	46%	42%	-376bps
Market Share <sup>4</sup>	32%	31%	-38bps
% Paying Interest Only <sup>5</sup>	24%	23%	-84bps
% Paying Principal & Interest	76%	77%	84bps
% First Home Buyer	N/A	N/A	N/A
% Low Doc	0.55%	0.48%	-7bps
Mortgage Loss Rates	0.00%	-0.01%	-1bps
Group IP Loss Rates	0.32%	0.27%	-5bps

1. New Zealand Geography

2. Average LVR at origination (not weighted by balance)

4. Source for New Zealand: RBNZ as at February 2017

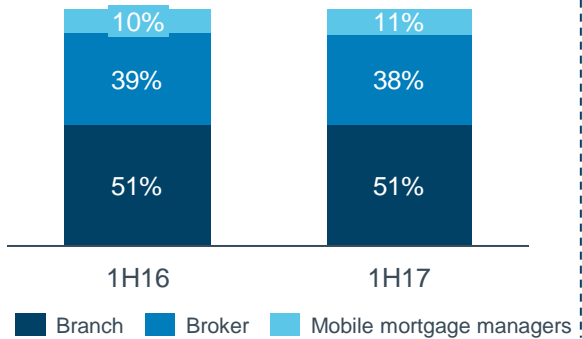
3. Average dynamic LVR as at March 2017 (not weighted by balance)

5. Excludes revolving credit facilities

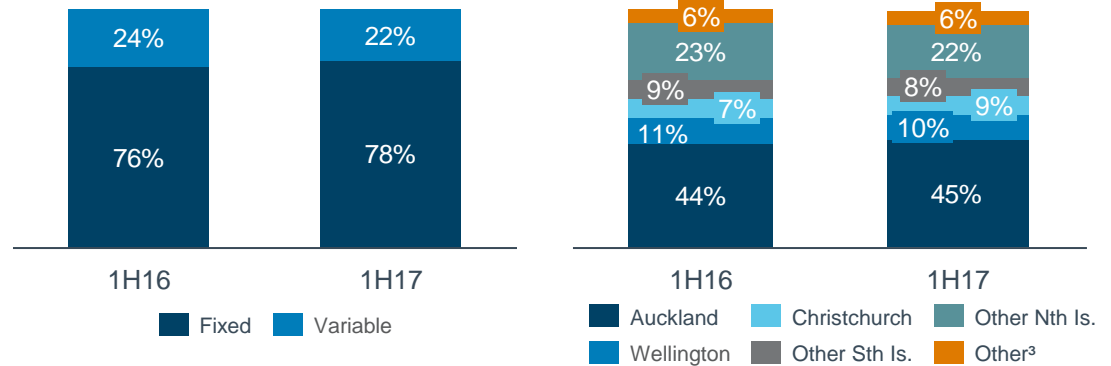
# NEW ZEALAND

## HOME LENDING<sup>1</sup>

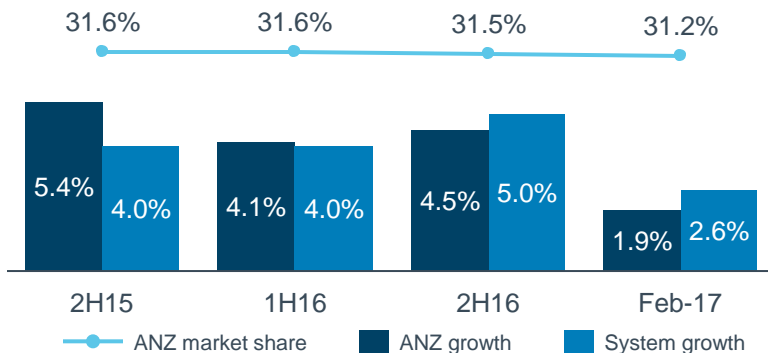
### FLOW<sup>2</sup>



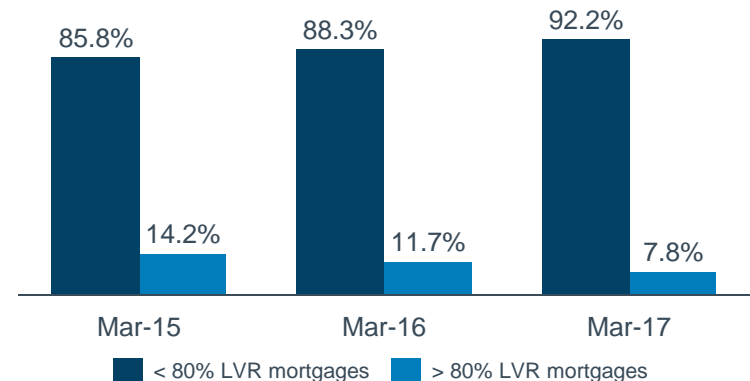
### PORTFOLIO



### MARKET SHARE<sup>4</sup>



### MORTGAGES LOAN TO VALUE RATIO<sup>5</sup>



1. New Zealand Geography  
 2. Retail and Small Business Banking mortgage flow. Branch includes Small Business Banking Managers Lending Services, Property Finance

3. Other includes loans booked centrally (Business Direct, Contact Centre, Lending Services, Property Finance)  
 4. Source: RBNZ, Changes in RBNZ data reporting from February 2017 onwards has resulted in a step change in data vs prior periods

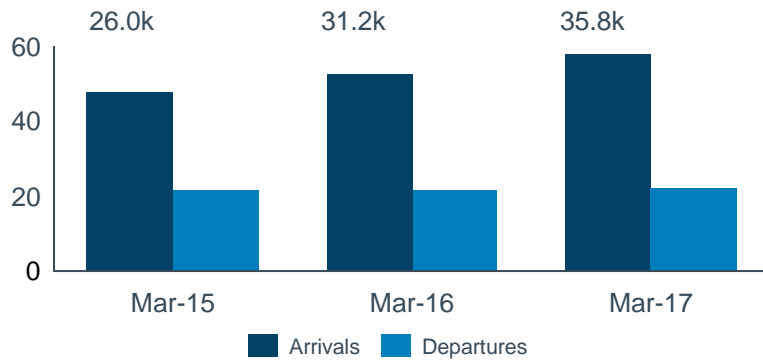
5. Dynamic basis, as of March 2017

# NEW ZEALAND

## AUCKLAND

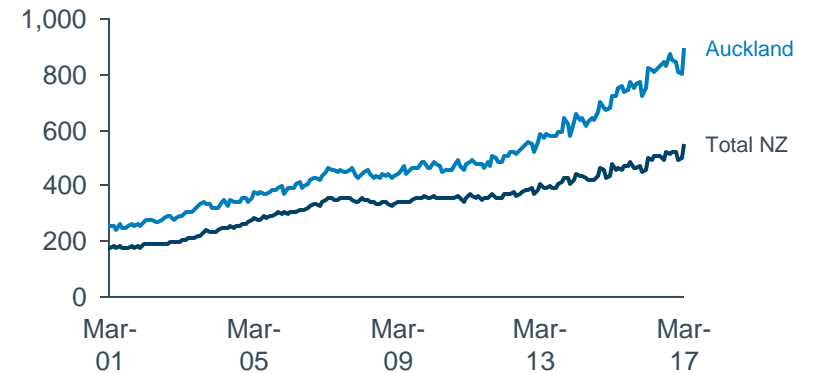
### NET MIGRATION FOR AUCKLAND<sup>1</sup>

Net Migration (000's)

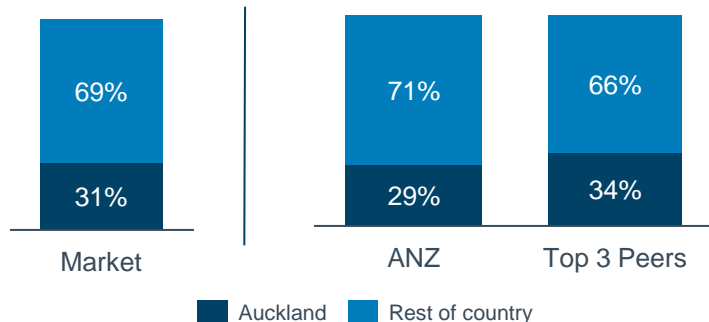


### HOUSE PRICES<sup>2</sup>

\$'000 NZD

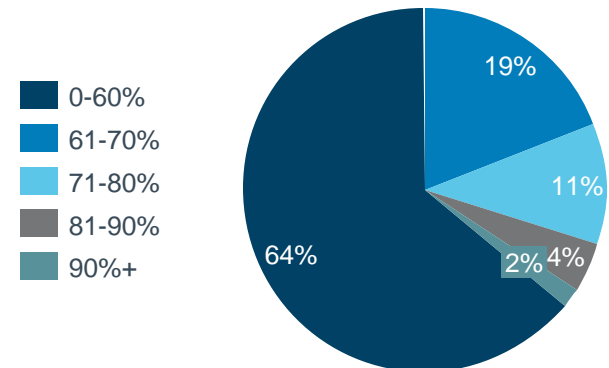


### EXPOSURE TO AUCKLAND HOME LOANS<sup>3</sup>



### ANZ MORTGAGE LVR PROFILE FOR AUCKLAND<sup>4</sup>

%



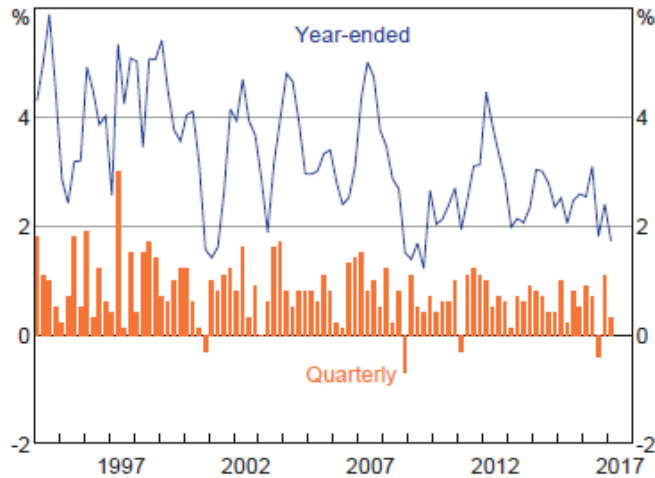
1. Statistics NZ; six month rolling average  
 2. REINZ  
 3. CoreLogic, stock (number) of mortgage registrations. Top 3 peer banks are ASB, WBC and BNZ, as of March 2017  
 4. Dynamic basis, as of March 2017

# AUSTRALIAN ECONOMICS UPDATE



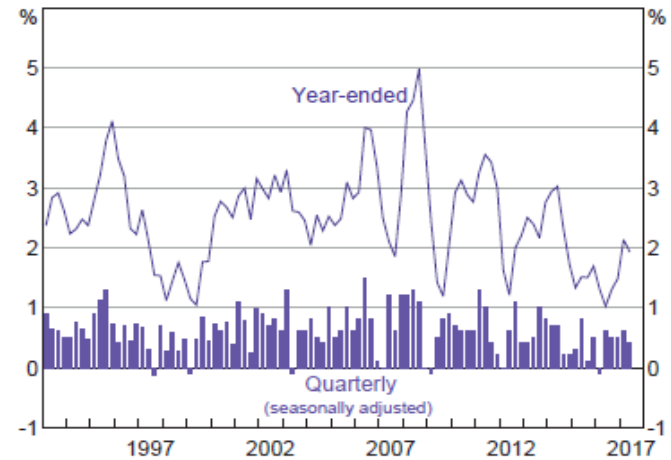
# AUSTRALIAN ECONOMY

## GDP GROWTH<sup>1</sup>



Source: ABS

## CONSUMER PRICE INFLATION\*<sup>1</sup>

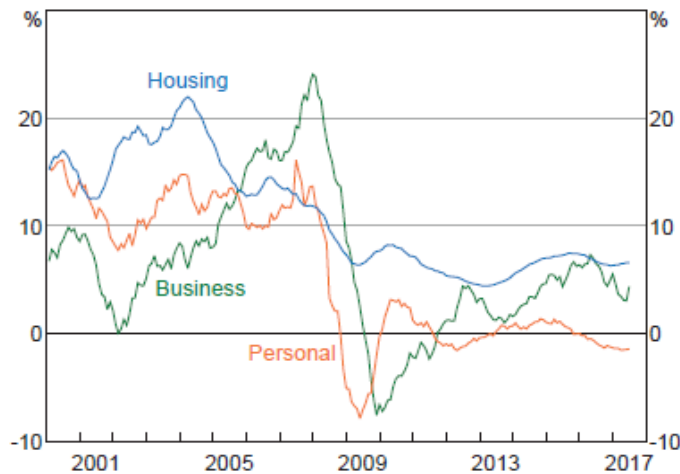


\* Excluding interest charges prior to the September quarter 1998 and adjusted for the tax changes of 1999-2000

Sources: ABS; RBA

## CREDIT GROWTH BY SECTOR <sup>1</sup>

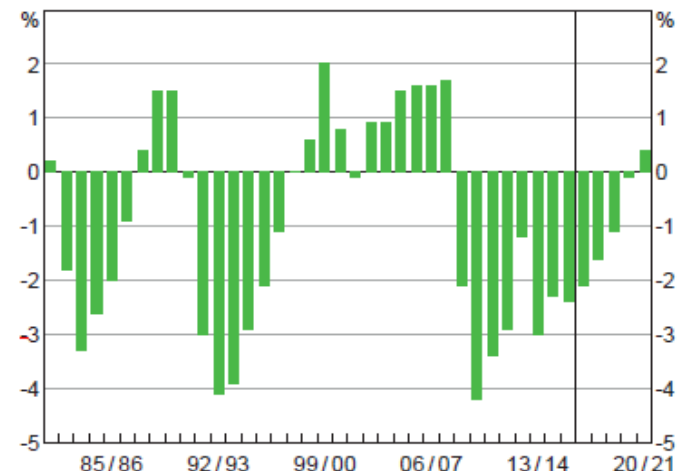
(year ended)



Sources: ABS; APRA; RBA

## AUSTRALIAN GOVERNMENT BUDGET BALANCE\*<sup>1</sup>

Per cent of nominal GDP

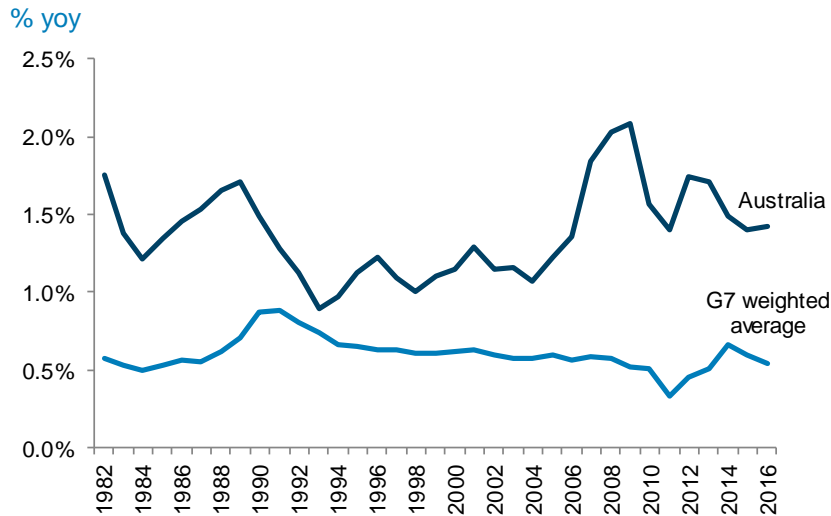


\* Underlying cash balance; 2017/18 Budget

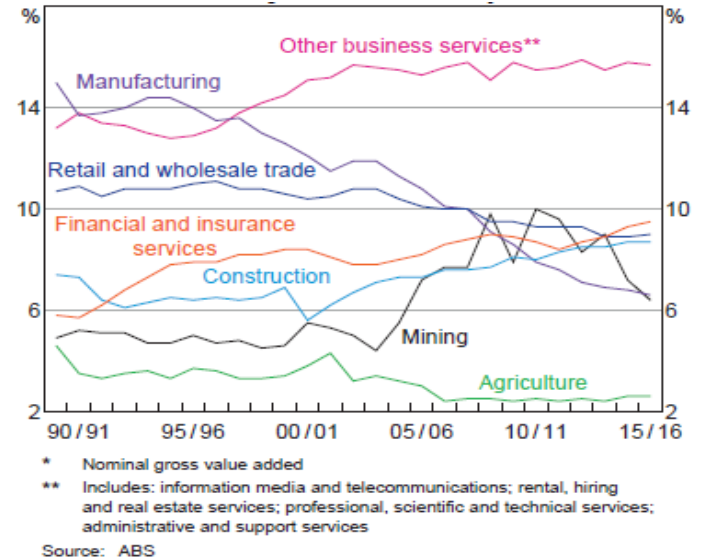
Source: Australian Treasury

# AUSTRALIAN ECONOMY AND POPULATION

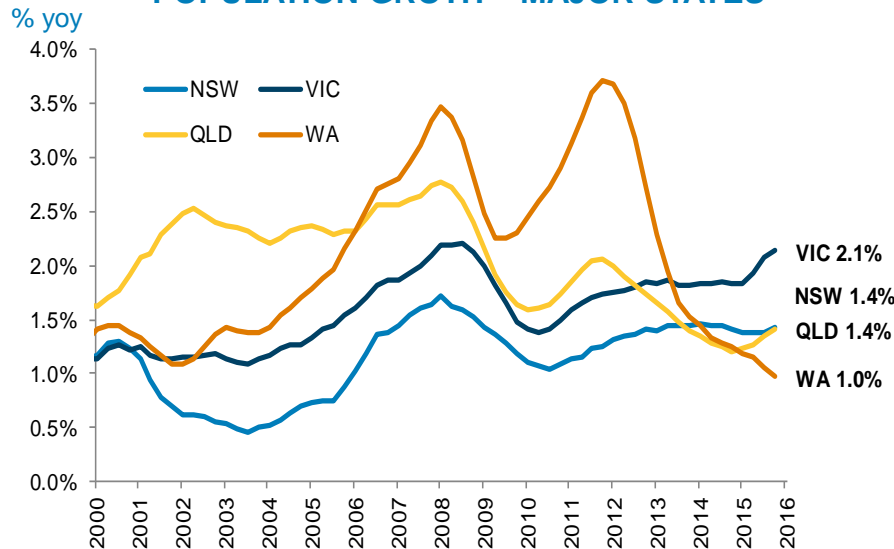
## POPULATION GROWTH<sup>1</sup> – AUSTRALIA AND G7



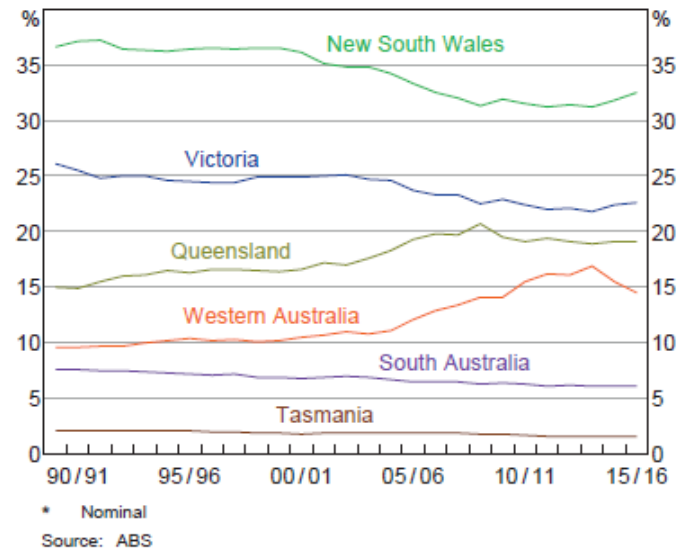
## INDUSTRY SHARE OF OUTPUT<sup>2</sup>



## POPULATION GROTH – MAJOR STATES<sup>3</sup>

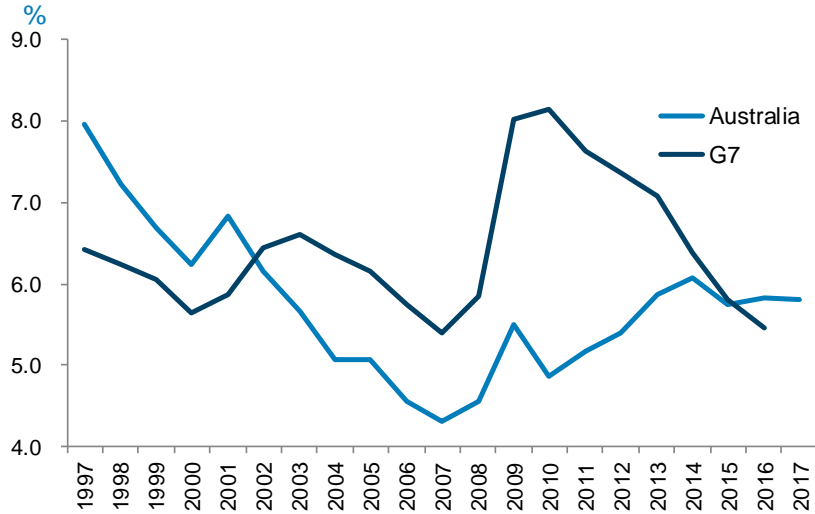


## STATE SHARE OF OUTPUT<sup>\*2</sup>

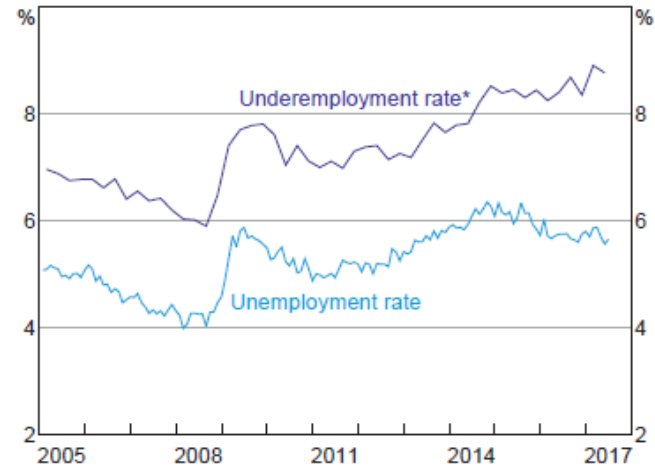


# AUSTRALIAN LABOUR MARKET

## UNEMPLOYMENT RATE<sup>1</sup> – AUSTRALIA AND G7

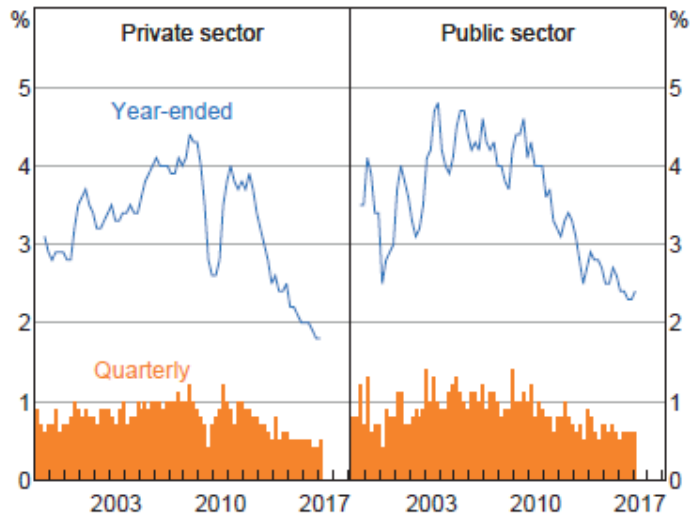


## UNEMPLOYMENT AND UNDEREMPLOYMENT<sup>2</sup>



\* Full-time workers on reduced hours for economic reasons and part-time workers who would like, and are available, to work more hours  
Source: ABS

## WAGE PRICE INDEX GROWTH<sup>2</sup>



Source: ABS

## WAGE GROWTH AND INFLATION<sup>3</sup>



— Domestic market services inflation (lhs)\* — Non-farm unit labour costs, forward 1 year, (rhs)

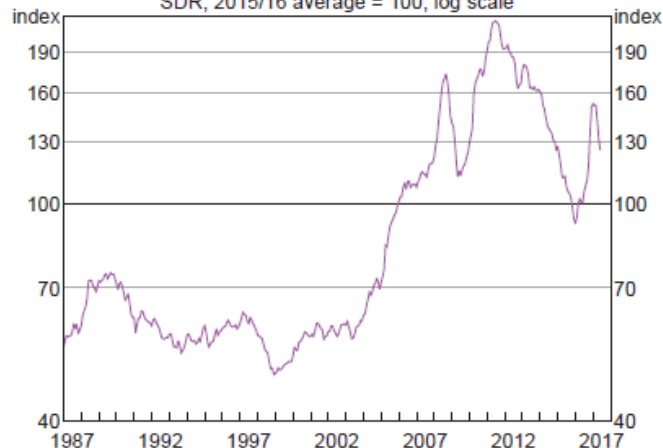
\* Excludes deposit & loan facilities to June quarter 2011, housing services



# COMMODITY PRICES<sup>1</sup>

## RBA Index of Commodity Prices

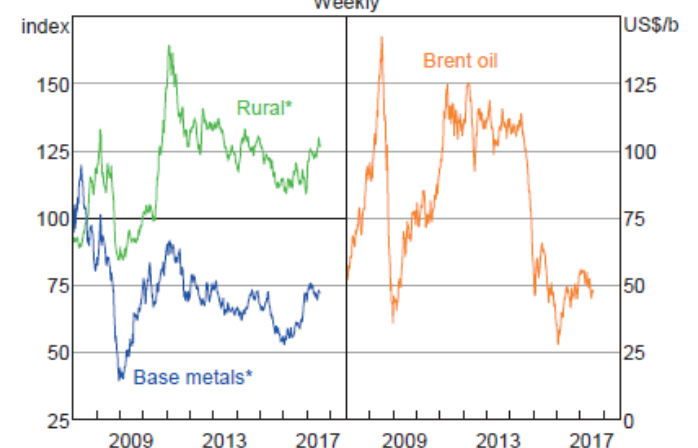
SDR, 2015/16 average = 100, log scale



Source: RBA

## Base Metals, Rural and Oil Prices

Weekly

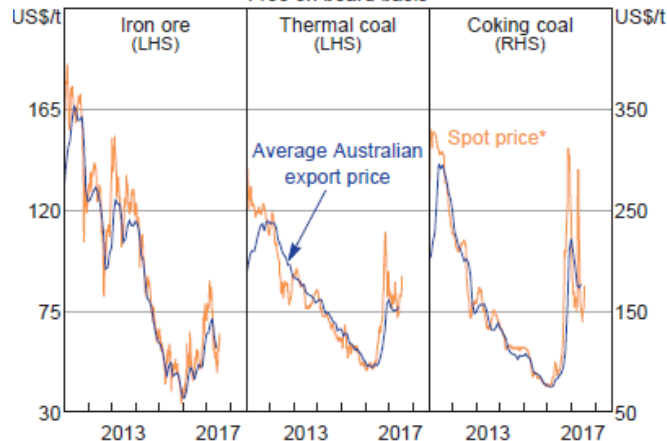


\* RBA Index of Commodity Prices sub-indices; SDR terms; 2007 average = 100

Sources: Bloomberg; RBA

## Bulk Commodity Prices

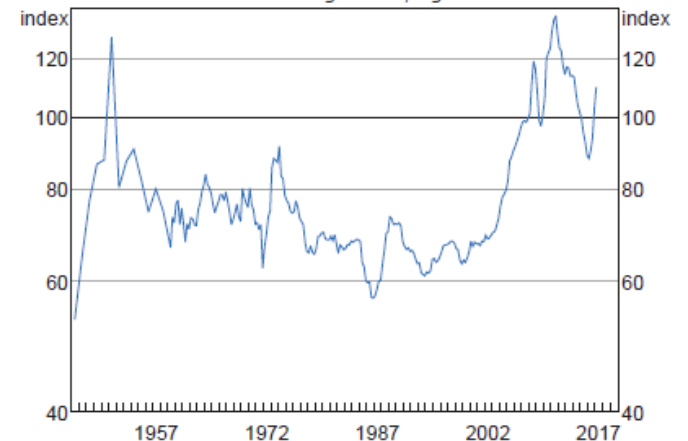
Free on board basis



\* Iron ore fines; Newcastle thermal coal and premium hard coking coal  
Sources: ABS; Bloomberg; IHS; RBA

## Terms of Trade\*

2014/15 average = 100, log scale

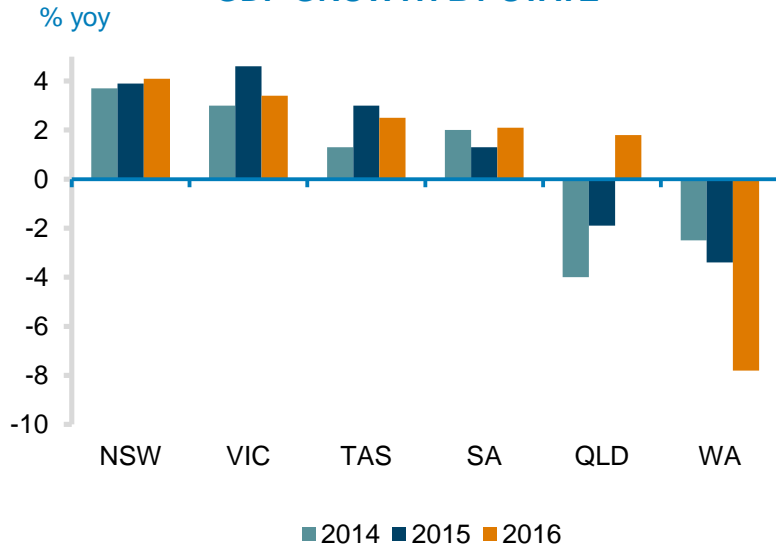


\* Annual data are used prior to 1960

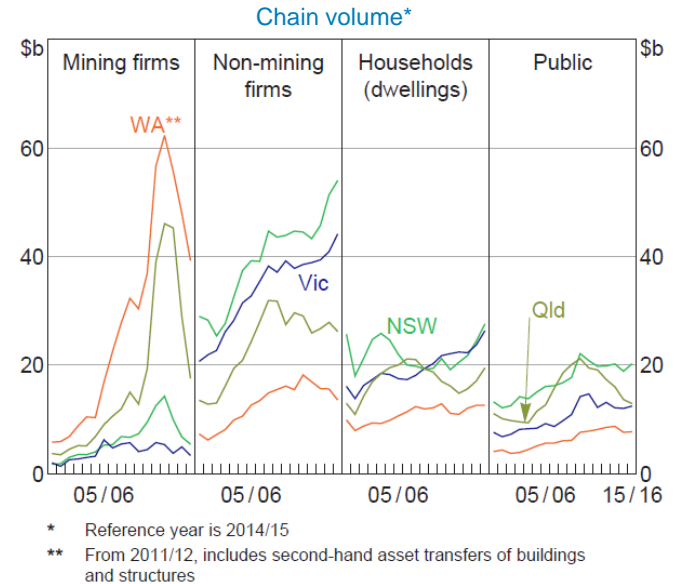
Sources: ABS; RBA

# AUSTRALIAN ECONOMY – STATE BY STATE

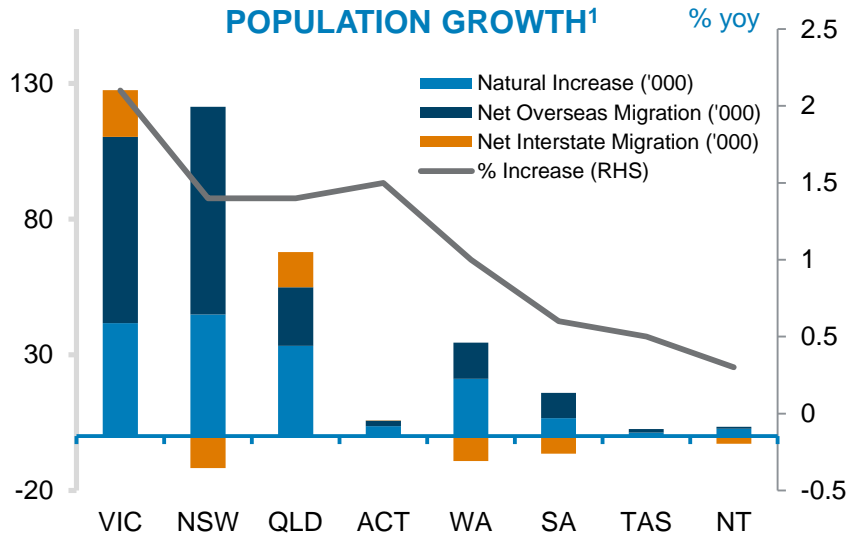
## GDP GROWTH BY STATE<sup>1</sup>



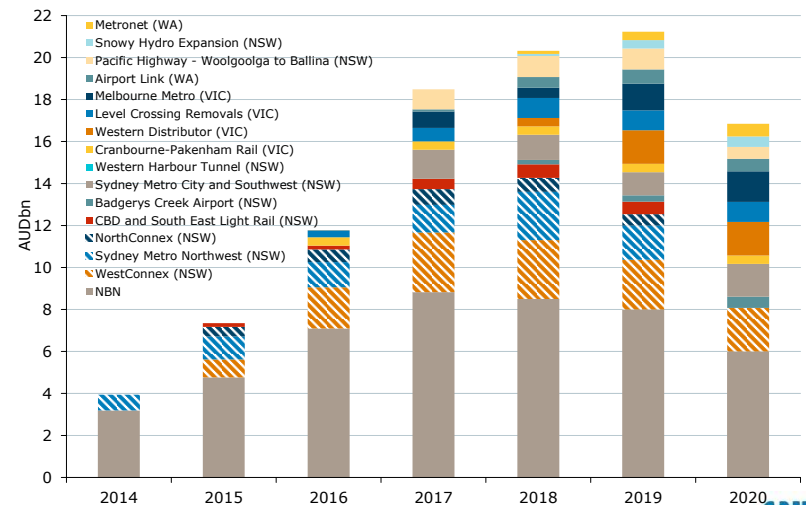
## INVESTMENT BY STATE<sup>2</sup>



## POPULATION GROWTH<sup>1</sup>

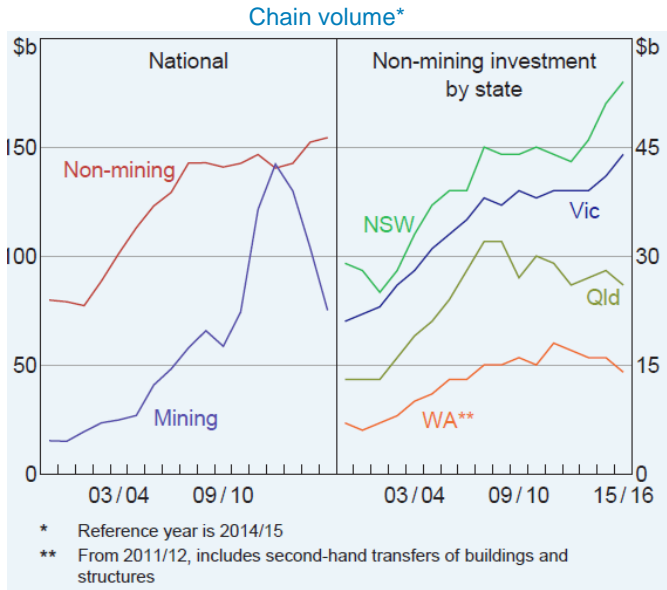


## MAJOR INFRASTRUCTURE PROJECTS<sup>3</sup>

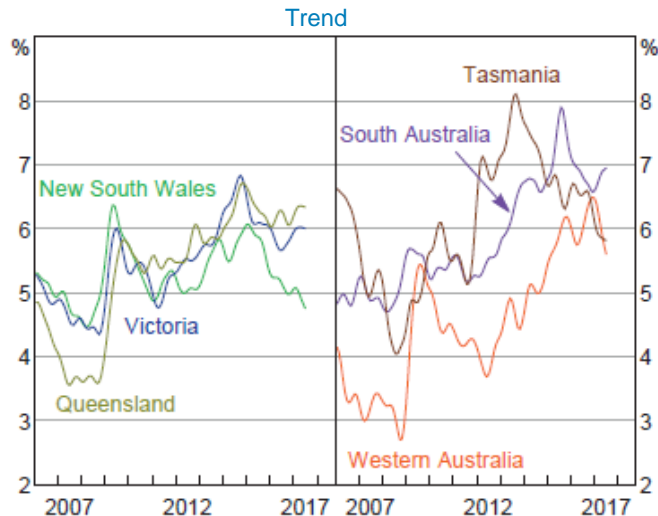


# AUSTRALIAN ECONOMY – STATE BY STATE

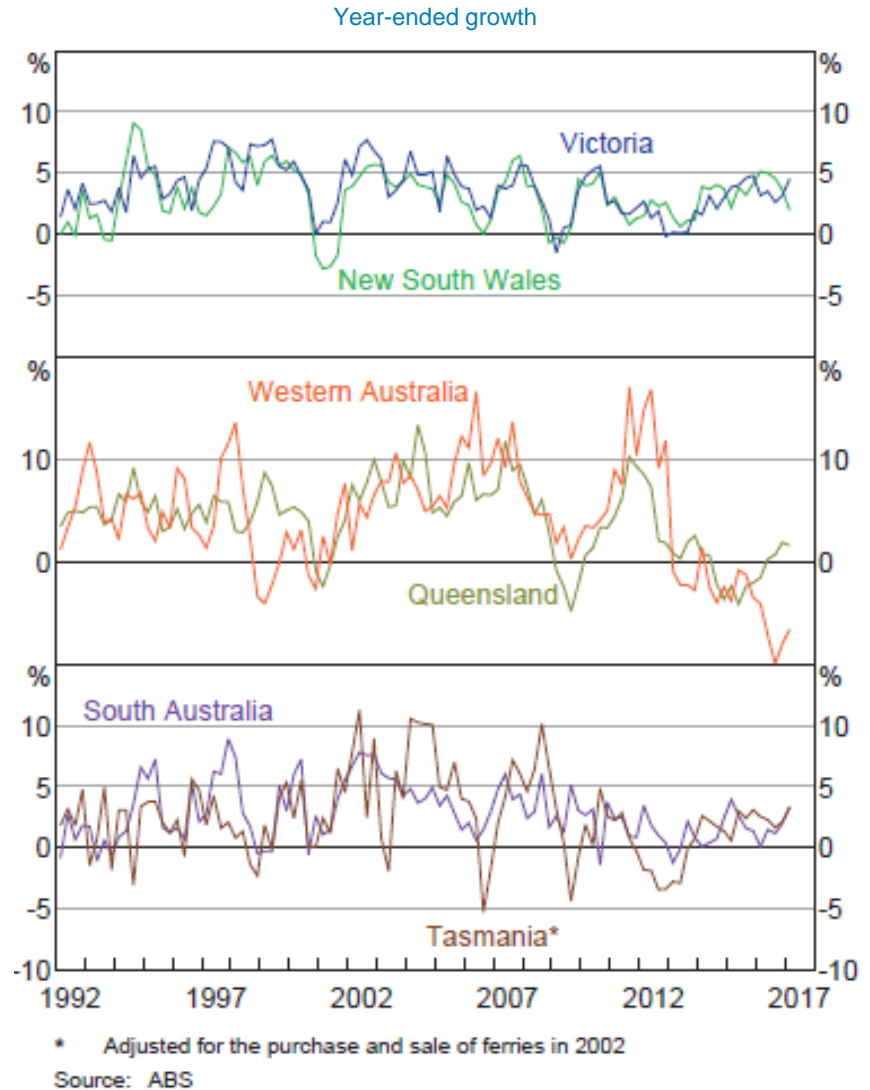
## BUSINESS INVESTMENT BY STATE<sup>1</sup>



## STATE UNEMPLOYMENT RATES<sup>2</sup>

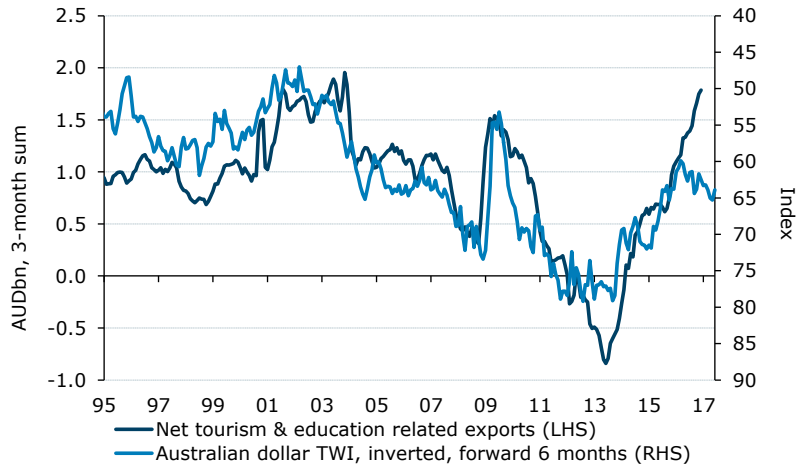


## STATE FINAL DEMAND<sup>2</sup>

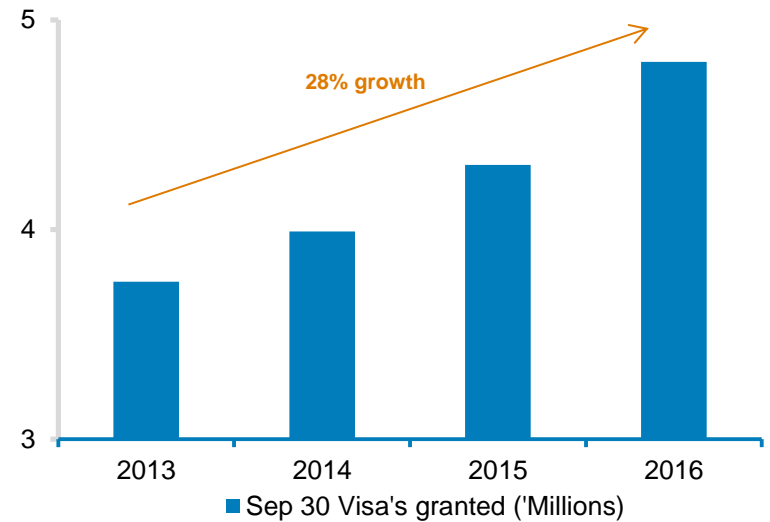


# AUSTRALIAN ECONOMY – SERVICE EXPORTS

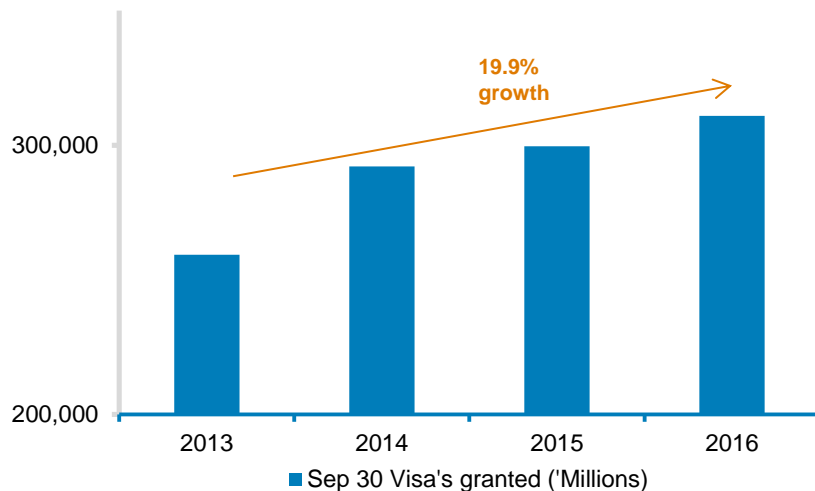
## SERVICE EXPORTS AND AUD<sup>1</sup>



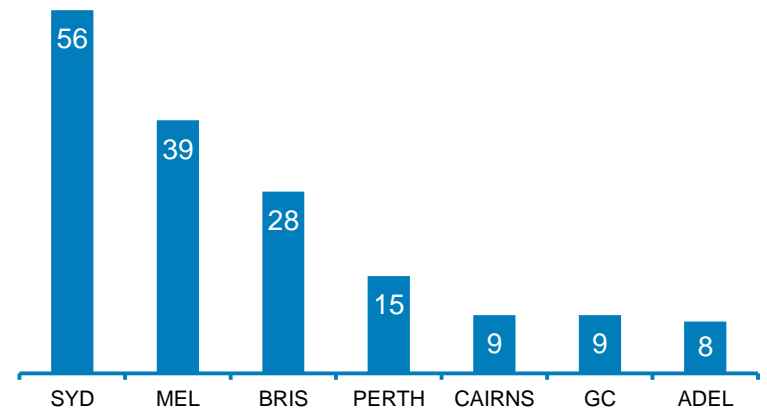
## INTERNATIONAL TOURIST VISA'S GRANTED<sup>2</sup>



## INTERNATIONAL STUDENT VISAS<sup>2</sup>

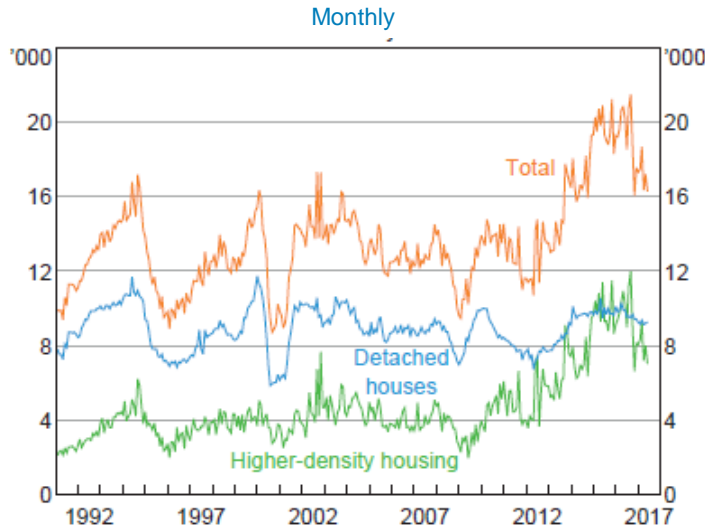


## NUMBER OF INTERNATIONAL CITIES WITH CONNECTING FLIGHTS<sup>3</sup>

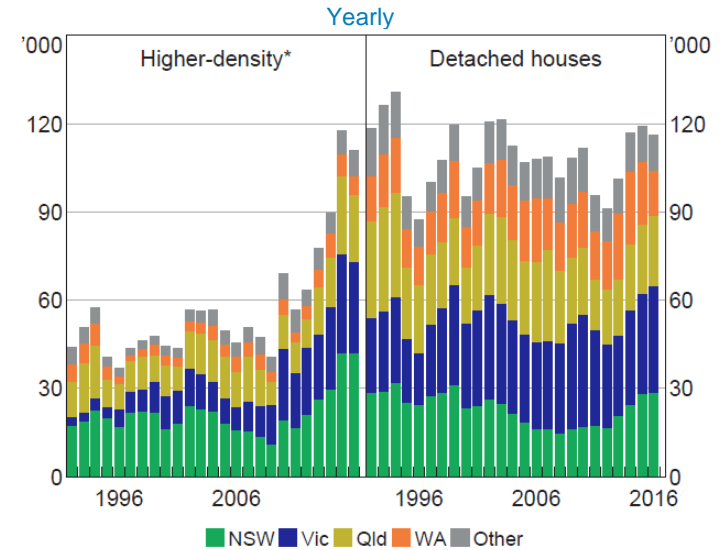


# AUSTRALIAN HOUSING DYNAMICS

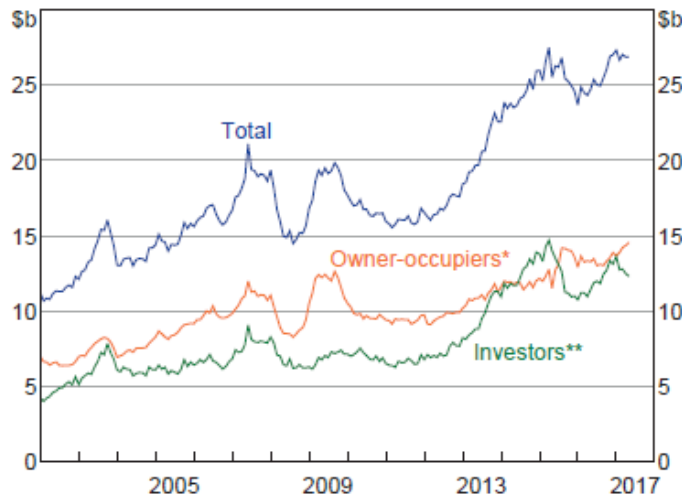
## PRIVATE RESIDENTIAL BUILDING APPROVALS<sup>1</sup>



## DWELLING APPROVALS BY STATE<sup>1</sup>



## HOUSING LOAN APPROVALS<sup>1</sup>

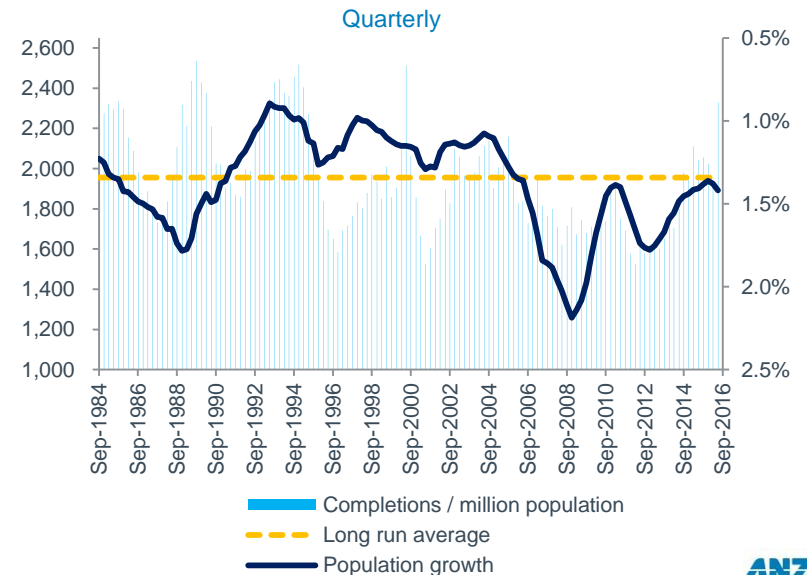


\* Excludes refinancing

\*\* Includes refinancing

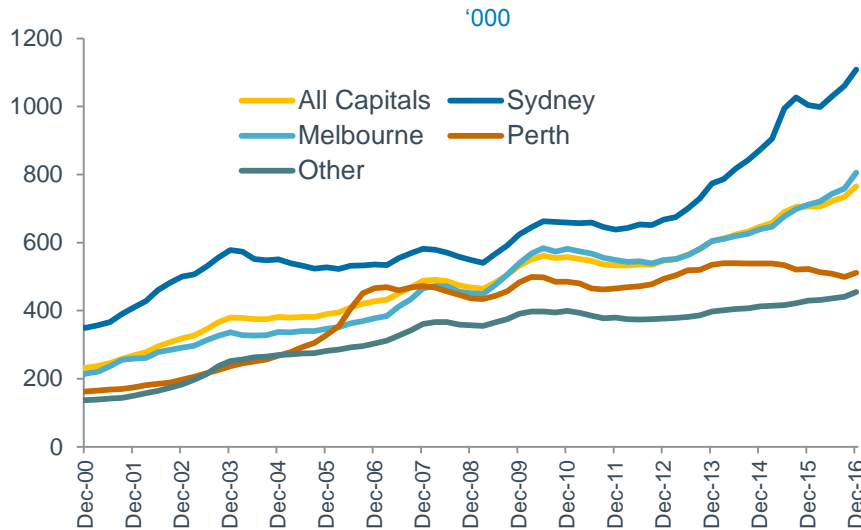
Sources: ABS; RBA

## Dwelling completions per million population<sup>2</sup>



# AUSTRALIAN HOUSING DYNAMICS

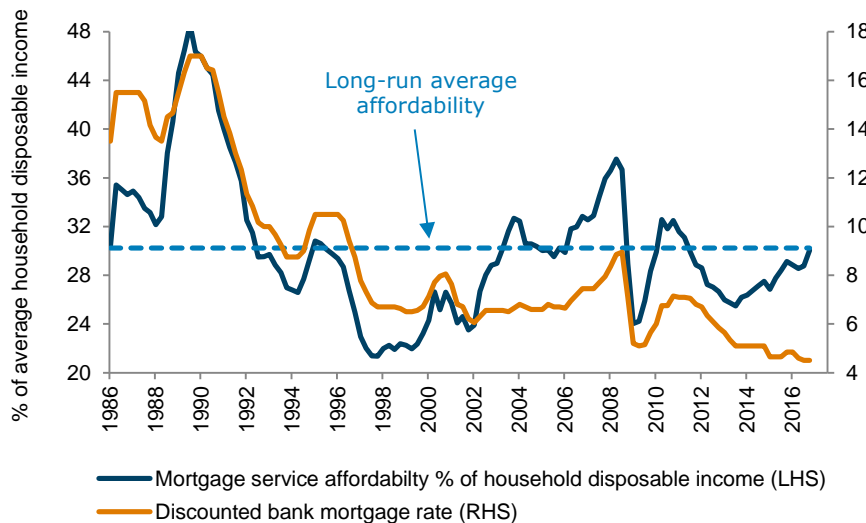
## MEDIAN HOUSE PRICES<sup>1</sup>



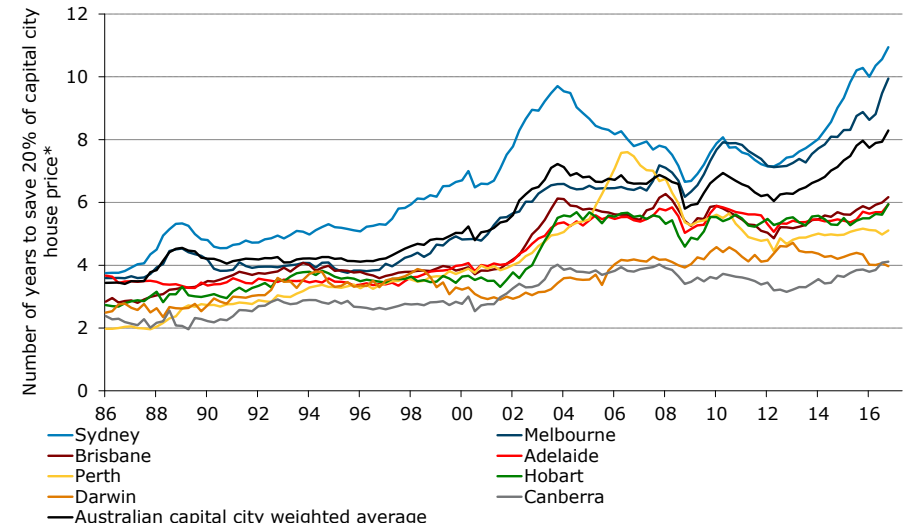
## HOUSE PRICE GROWTH<sup>2</sup>

April 2017 City	All dwellings		Houses		Units	
	yoy %	mom %	yoy %	mom %	yoy %	mom %
Sydney	16.04	-0.04	17.40	0.19	9.82	-1.19
Melbourne	15.27	0.50	16.52	0.64	4.12	-0.91
Brisbane	3.36	0.61	3.61	0.88	1.09	-1.92
Adelaide	2.15	0.78	2.35	0.87	-0.19	-0.27
Perth	-6.03	-0.96	-6.04	-0.90	-5.89	-1.75
<b>5 capital city aggregate</b>	<b>11.20</b>	<b>0.17</b>	<b>11.91</b>	<b>0.37</b>	<b>6.41</b>	<b>-1.18</b>
Brisbane	2.06	0.62	2.59	0.99	-3.14	-3.13
Darwin	-2.29	0.50	-2.78	1.27	0.26	-2.43
Canberra	8.39	-2.76	8.73	-3.05	3.76	1.72
Hobart	13.59	0.95	13.26	0.43	17.23	6.25

## MORTGAGE AFFORDABILITY<sup>3</sup>



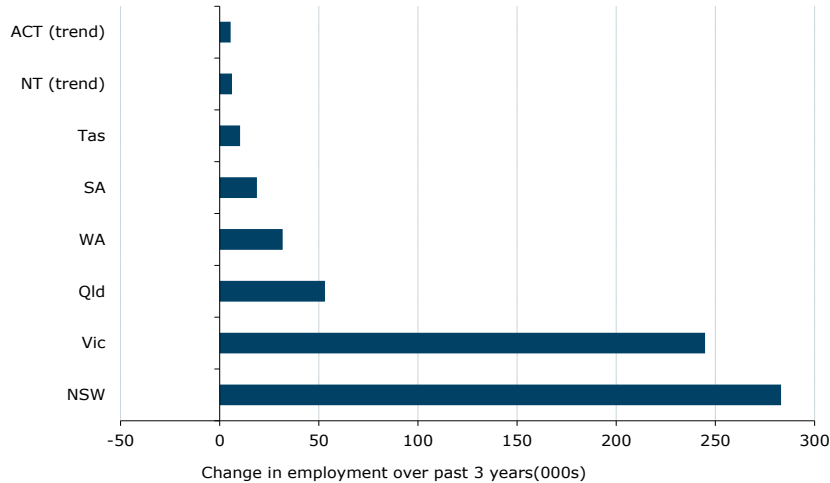
## DEPOSIT AFFORDABILITY<sup>3</sup>



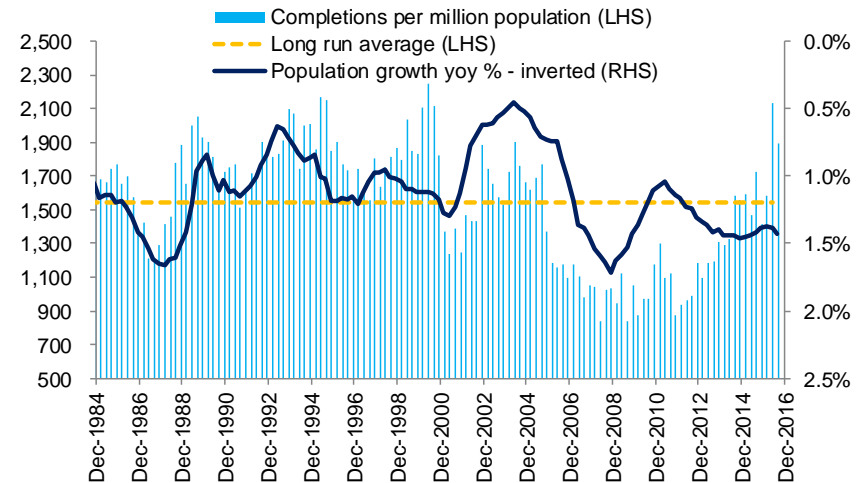
\* At 15% savings rate on average state/territory household disposable income

# DYNAMICS SUPPORTING NSW & VIC HOUSING

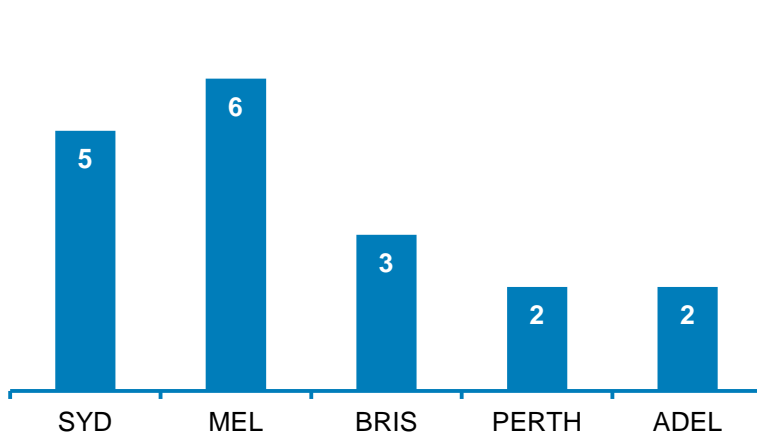
**CHANGE IN EMPLOYMENT BY STATE<sup>2</sup>**  
Past 3 years



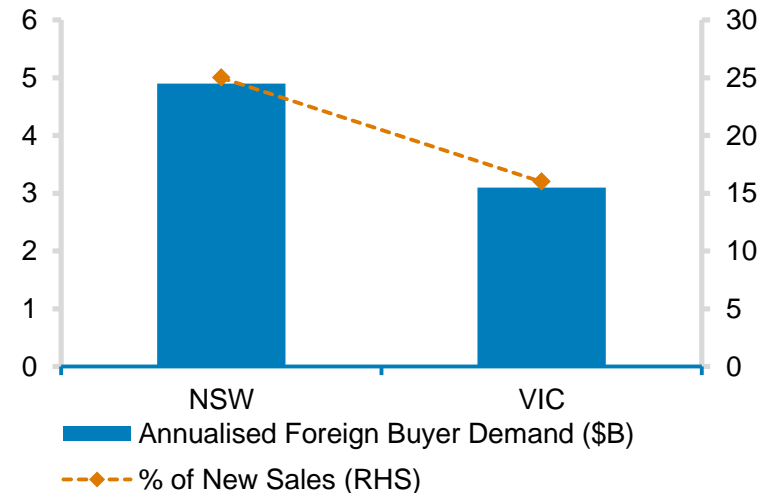
**NSW – Dwelling completions per million population<sup>2</sup>**  
quarterly



**NUMBER OF UNIVERSITIES RATED IN THE 2016 SHANGHAI 500 RANKING**

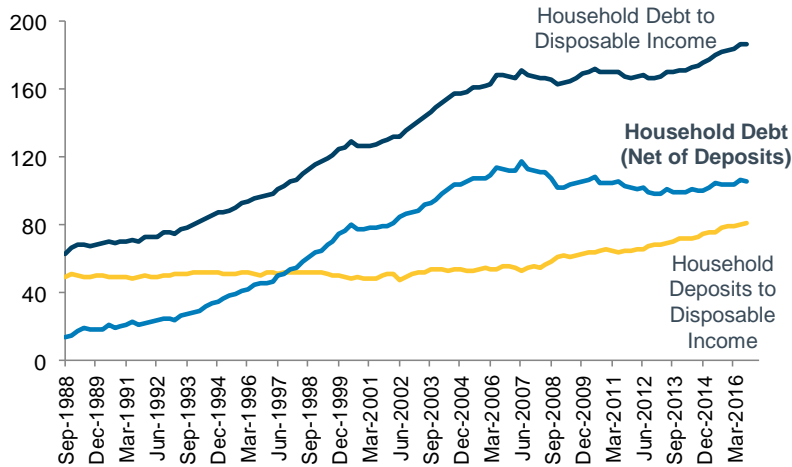


**FOREIGN DEMAND AND PURCHASING<sup>3</sup>**

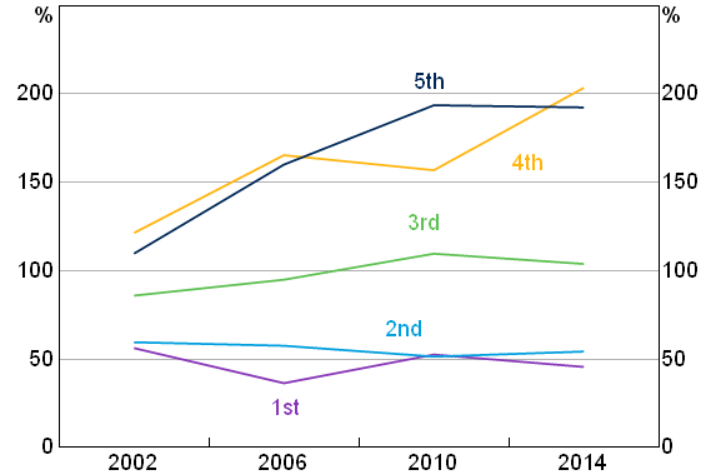


# AUSTRALIAN HOUSING HOUSEHOLD DEBT AND INCOME

**Household Debt and Deposits<sup>1</sup>**  
% of annual household disposable income

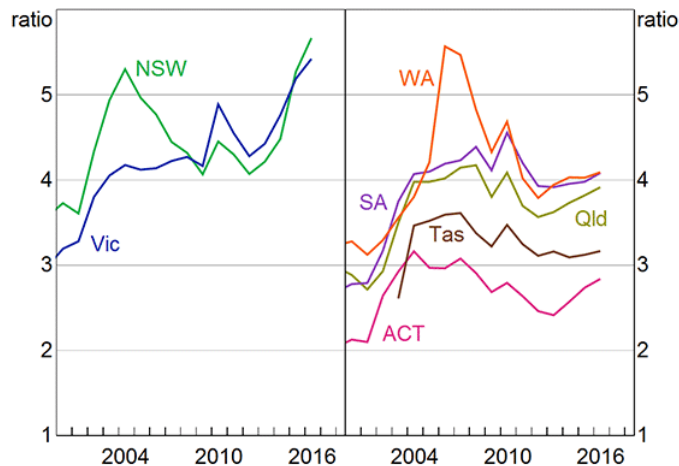


**Household Debt-to-income<sup>2</sup>**  
Income quintile, median\*



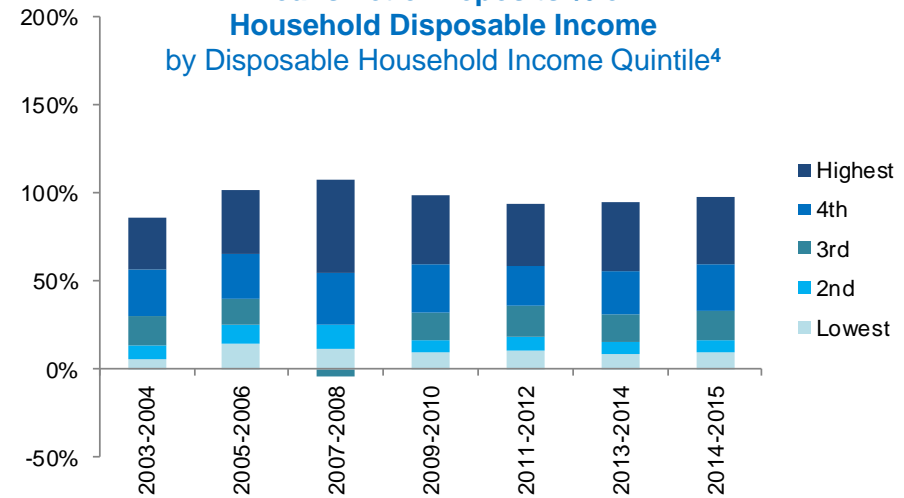
\* For households that owe debt  
Sources: HILDA Release 15.0; RBA

**Housing Price-to-income Ratio<sup>3</sup>**



\* Annual household disposable income, after tax, before the deduction of interest payments and including income of unincorporated enterprises; financial years

**Loans net of Deposits % of Household Disposable Income by Disposable Household Income Quintile<sup>4</sup>**



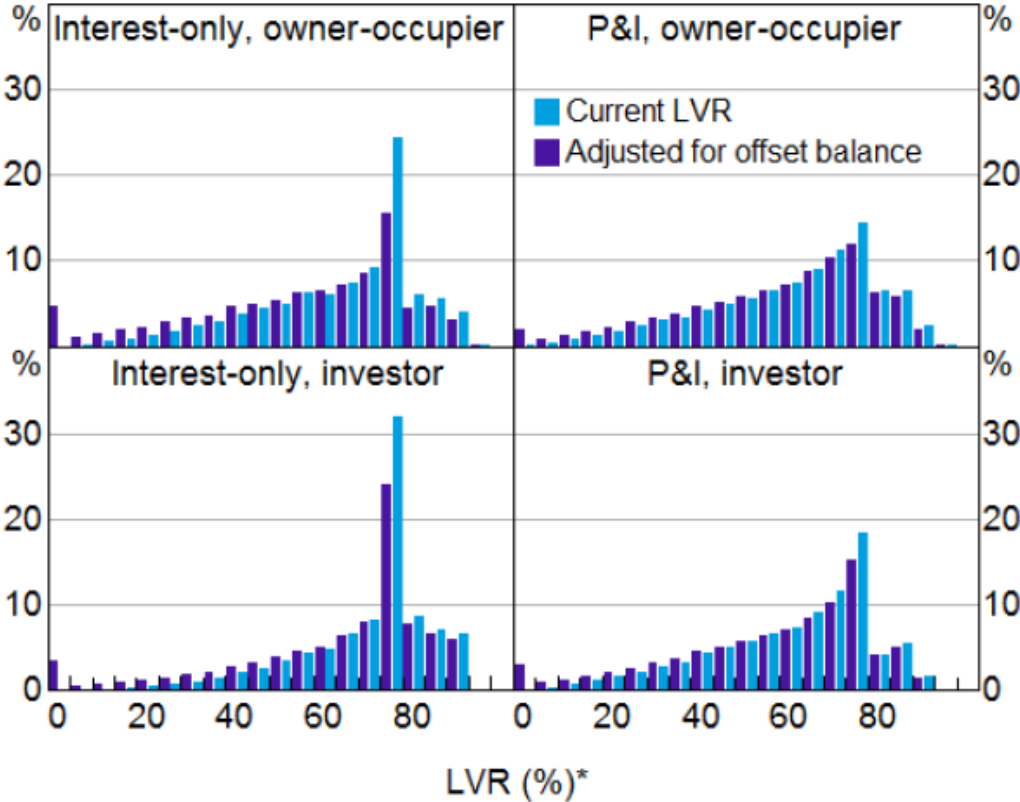
Sources: 1. ABS, RBA. Housing Debt refers to ratio of housing debt to annualised household disposable income. Deposits include transferrable and other deposits. 2. RBA, HILDA Release 15.0. 3. RBA, ABS, APM. 4. ABS. Disposable Household Income is on an 'Equivalised disposable income' basis, to enable comparison of relative economic wellbeing of different sizes and composition.





# OFFSET BALANCES AND ADJUSTED LVR

**LOAN-TO-VALUATION RATIOS**  
Balanced-Weighted Share of Securitised Loans



\* Each bar represents a 5 ppt range with the largest bars corresponding to an LVR of 75–80%

Sources: RBA; Securitisation System

# FURTHER INFORMATION

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