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CRO's view on risk management

- Risk management should be **predictive**
- Risk management should be **proactive rather than reactive**
- Risk appetite needs to be **clearly communicated and understood** throughout the organisation
- Risk management focus should be on the core issues
- Risk management is no different to any other business activity

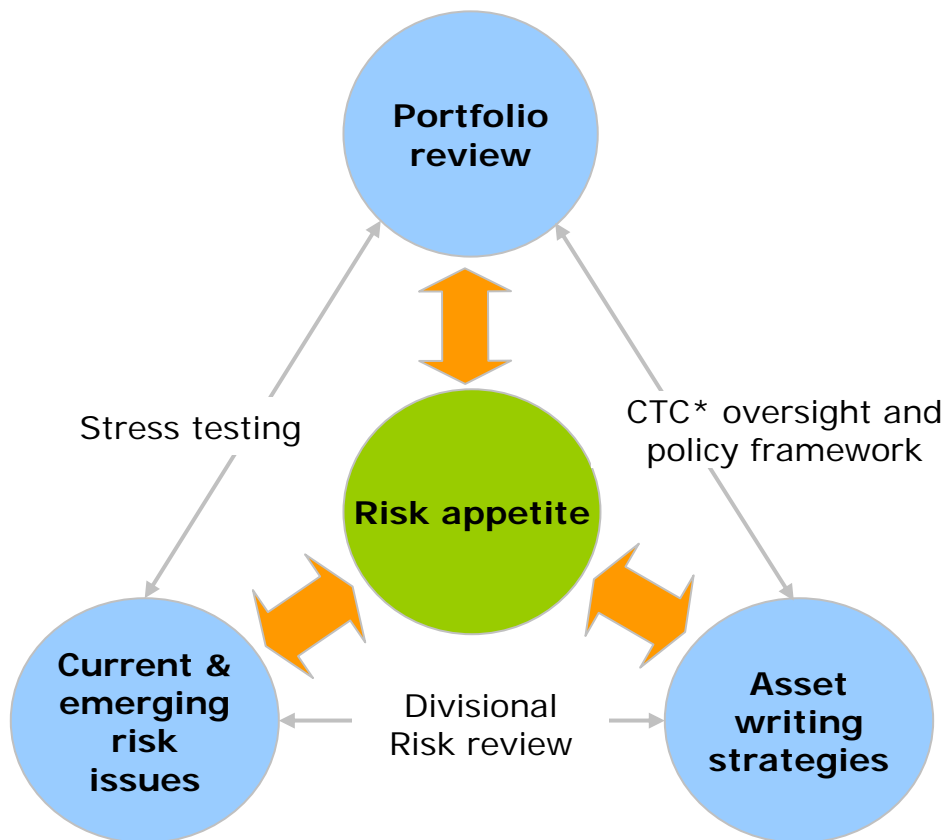
Snapshot of current risk environment – still looking good

Division/Business	Current Environment	Outlook (short term)	Commentary
Institutional			<ul style="list-style-type: none"> • Strong portfolio credit quality, no systemic/industry concerns • Non accruals in recent periods isolated one-offs
Personal			<ul style="list-style-type: none"> • Secured and unsecured portfolios performing well • Slight deterioration in unsecured (represents just ~5% of Personal FUM) anticipated and flagged to market given slight strategic shift in risk/return profile • High oil price continues to impact Esanda
New Zealand			<ul style="list-style-type: none"> • Credit quality sound across all segments, and traditionally performs better than Australia • Non accruals in recent periods have occurred in unrelated industries
Corporate/Business			<ul style="list-style-type: none"> • Corporate & Business segment operating conditions remain favourable • Generally highly secured portfolio

Pristine quality
 High quality
 Good quality
 Poor quality
 Extreme Stress

Risk appetite driven by a number of variables...

Risk appetite impacted by a number of variables



- **Portfolio Review** gives an overview of movement in asset quality and how risk profile is tracking compared to asset writing strategy
- **Asset Writing Strategy** sets out planned portfolio growth, capital usage and risk and return profile
- **Current and Emerging Risk Issues**, considered and communicated. Stress Testing and scenario analysis provide overview of potential impacts

...and varies by risk type

<i>Risk Type</i>	<i>Risk Appetite</i>	<i>Approach</i>
Operational	Low	<ul style="list-style-type: none"> • Low tolerance, low limits with short escalation route to senior management • Zero tolerance for compliance breaches
Credit	Medium	<ul style="list-style-type: none"> • Managing risk/return trade-off traditionally seen as core function of a commercial bank • Diversify larger exposures using SCCL's*
Market	Low	<ul style="list-style-type: none"> • Minimal proprietary trading, books remain as fully hedged as practicable • Low tolerance for Markets losses
Strategic	Medium/ High	<ul style="list-style-type: none"> • Commit funds annually to strategic initiatives (i.e. Asian partnerships) • Manage via portfolio approach
Liquidity	Low	<ul style="list-style-type: none"> • Maintain adequate liquidity for short term crisis conditions

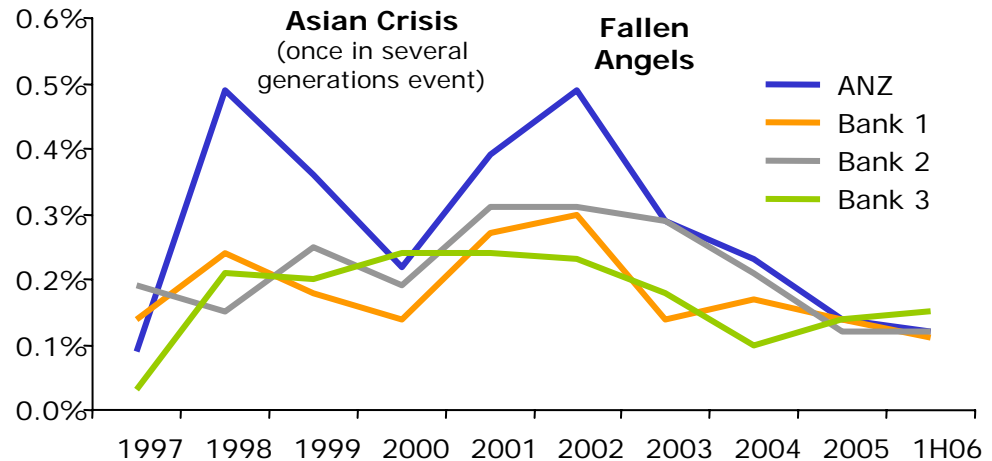


Risk appetite established with consideration for Group's financial performance targets

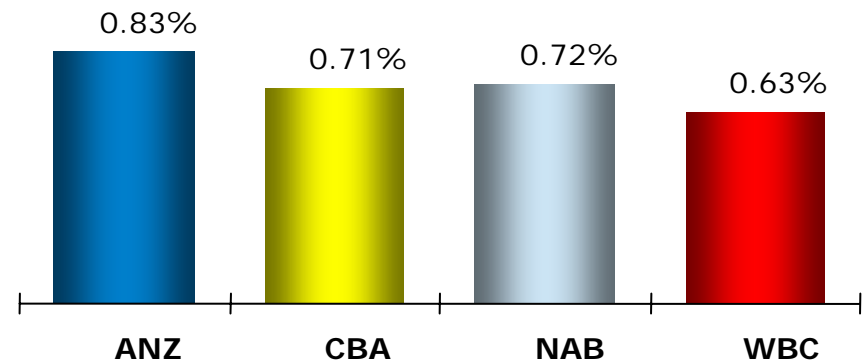
Actively managing our risk appetite over time has aligned ANZ's risk profile with major peers

- Reduced risk appetite actioned through de-risking program
- De-risking included
 - Re-weighting exposure to Consumer
 - NBNZ acquisition – higher % of consumer lending, and NZ has traditionally lower overall risk profile
- Reduction of non-core offshore exposures, including sale of UK Project Structured Finance business
- Reduction of exposure to non-core industries
- Whilst risk profile is in line with peers, ANZ maintains its conservative provisioning position relative to peers

Credit losses to total advances in line with peers



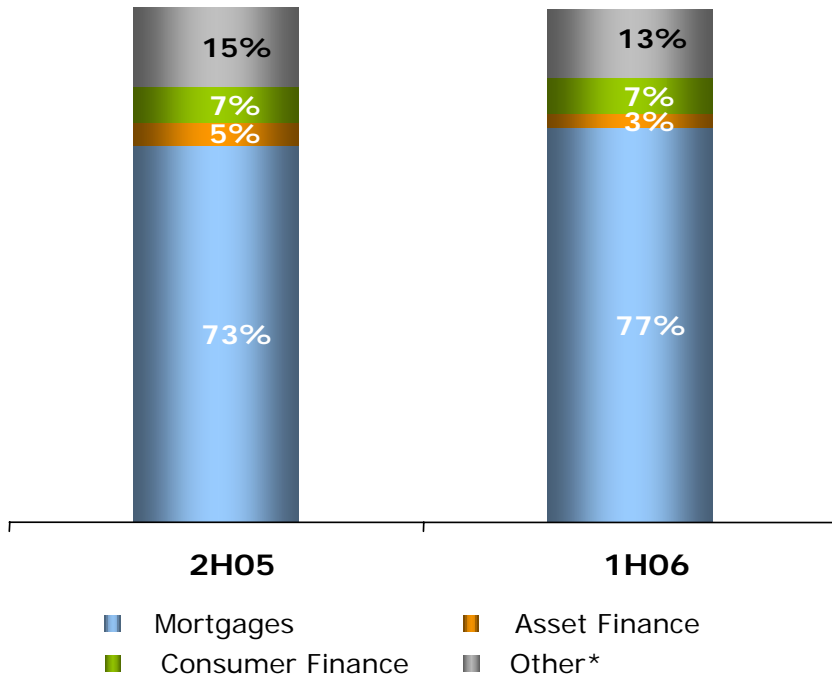
ANZ remains the most conservatively provisioned major*



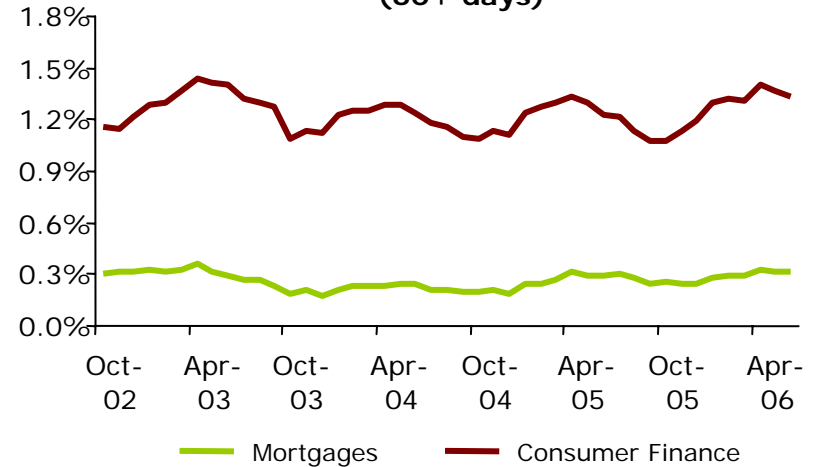
*Collection Provision & GRCL to Risk Weighted Assets

Personal division growth dominated by mortgages, credit quality remains sound

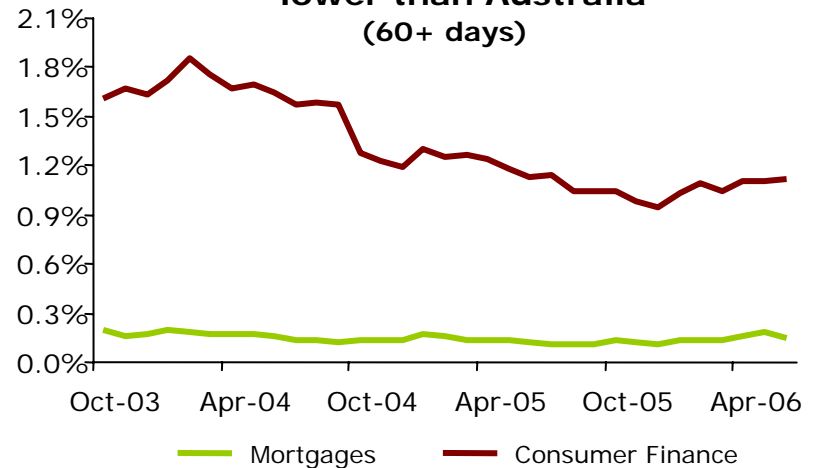
Mortgages driving FUM growth
(% of total Personal Net Lending Asset growth Aust & NZ)



Australian delinquencies remain low (60+ days)

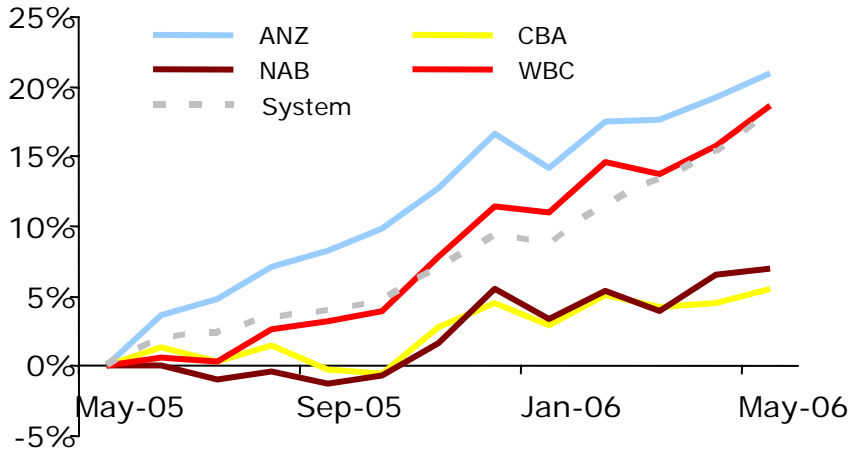


NZ delinquencies stable, and lower than Australia (60+ days)

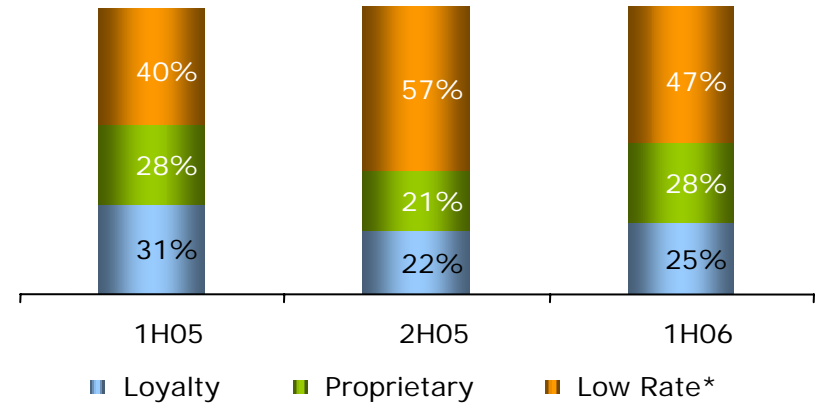


Consumer Finance credit quality in line with expectations

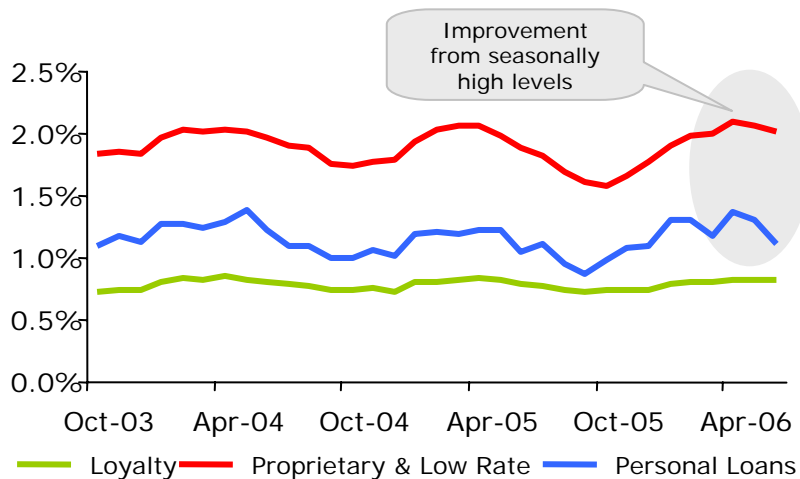
Strong Credit Card FUM growth*
(12 months to May 2006)



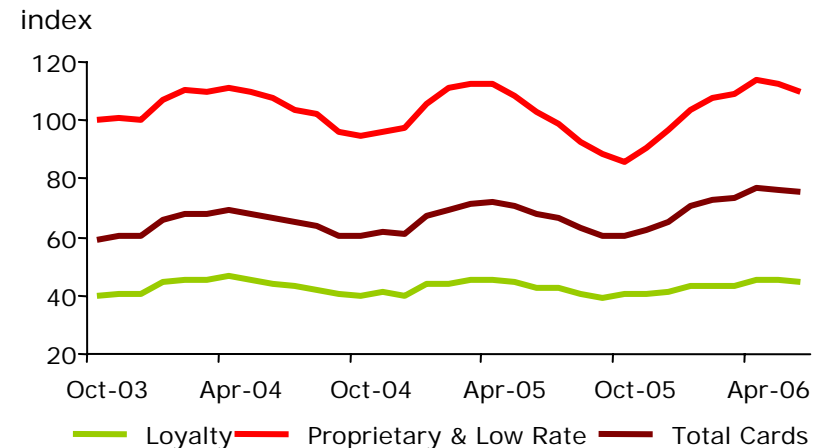
Growth in Low Rate cards moderating after strong launch
(% mix of new account growth)



No material shift in delinquencies
(60+ day delinquencies)



Cards loss rates in line with expectations
(index – Oct 03 Proprietary & Low Rate = 100)



Bankruptcies & debt agreements - UK v Aust

The key factors for increasing UK losses were:

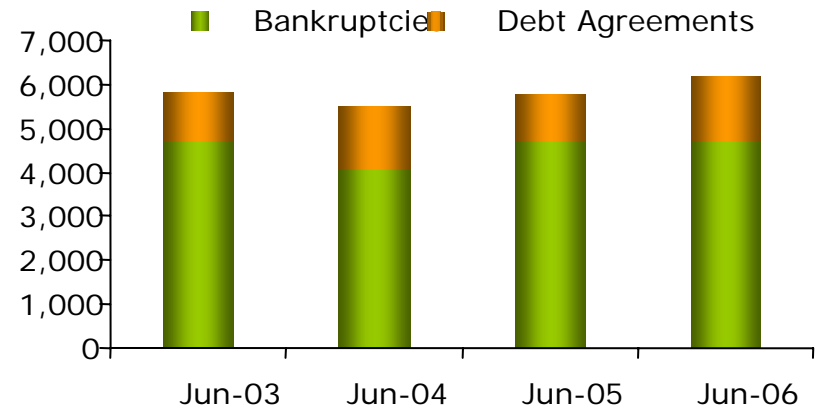
- aggressive competition leading to strong growth in the unsecured lending segment
- weakening credit standards,
- relaxation of bankruptcy laws in 2004

Whilst ANZ has experienced above systems growth in unsecured lending:

- growth has been achieved with minimal change to credit standards
- there have been no changes in Australian bankruptcy laws
- enhanced risk management strategies have been implemented including, credit scoring, portfolio analytics/ modelling, test and learn disciplines and the use of internal and external performance benchmarking

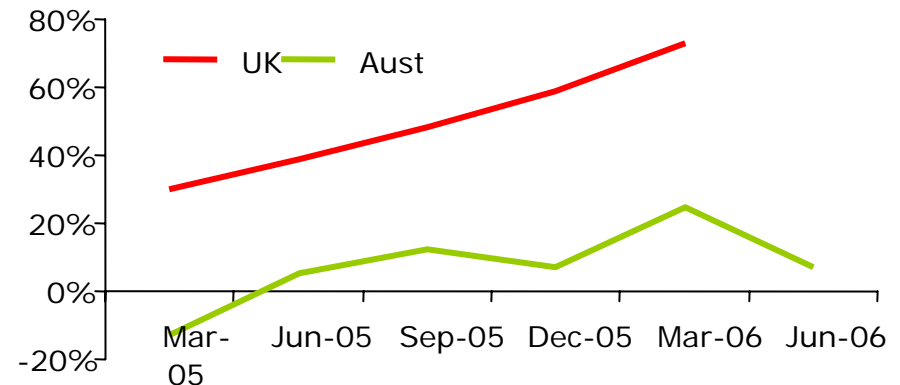
Slight increase in Australian bankruptcies/debt agreements...*

(Aust. Non Business Bankruptcies and Debt Agreements)



...rate of growth significantly below UK*

(Personal bankruptcies and debt agreements, quarterly data yoy growth)




Stress testing integral to strengthening the predictive approach to risk management

- Group wide macro economic stress testing is being incorporated into risk management practices
- Creates greater understanding of impacts on financial performance through modelling relationships and sensitivities between geographic, industry and business unit exposures under a range of macro economic scenarios
- Provides a test of asset writing strategies and insights into risk implications of business strategies
- Board and management endorsement with half yearly scenarios to be reported and modelled
- Stress testing outcomes to be incorporated into decision making through risk appetite and tolerance framework

ANZ recently completed an IMF initiated stress test under the IMF Financial Stability Assessment Program

'Extreme stress' scenario provided

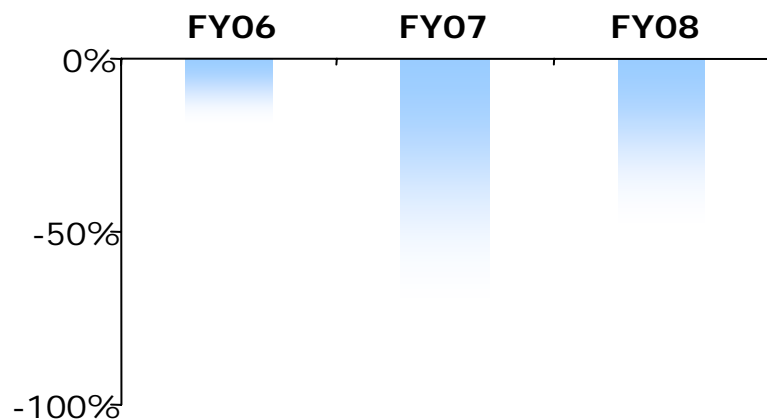
Metric	Stressed Scenario	Impact
Unemployment	↑ to 9%	<ul style="list-style-type: none"> Domestically induced recession, impacting lending growth and provisioning
Interest Rates (3 year)*	↑ to 7.8%	<ul style="list-style-type: none"> Cash rate unchanged under provided scenario
Exchange Rate (A\$/US\$)	↓ to 0.45	<ul style="list-style-type: none"> Lower x-rate eventually results in export led recovery for business sector
Residential Property Prices	↓ 30%	<ul style="list-style-type: none"> Housing credit growth bottoms at -0.2%
Business Credit	↓ to 0.8%	<ul style="list-style-type: none"> Current capitalisation levels cushion impact Reducing consumer spending impacts turnover, capital expenditure plans deferred Commercial property values fall 10%
Funding	↑ 100bps*	<ul style="list-style-type: none"> Widening credit spread increases cost of debt No 'run' on deposits Slowing deposit <u>and</u> credit growth partially offset wholesale funding requirements

- 
- FY05 represents 'base case'
 - Scenarios modelled over FY06 – FY08
 - Stressed environment assumed to finish by end of FY08

Even under extreme stress scenario*, financial performance likely to compare favourably to prior experience and broader market

Under extreme stressed scenario NPAT impact significant, but still profitable

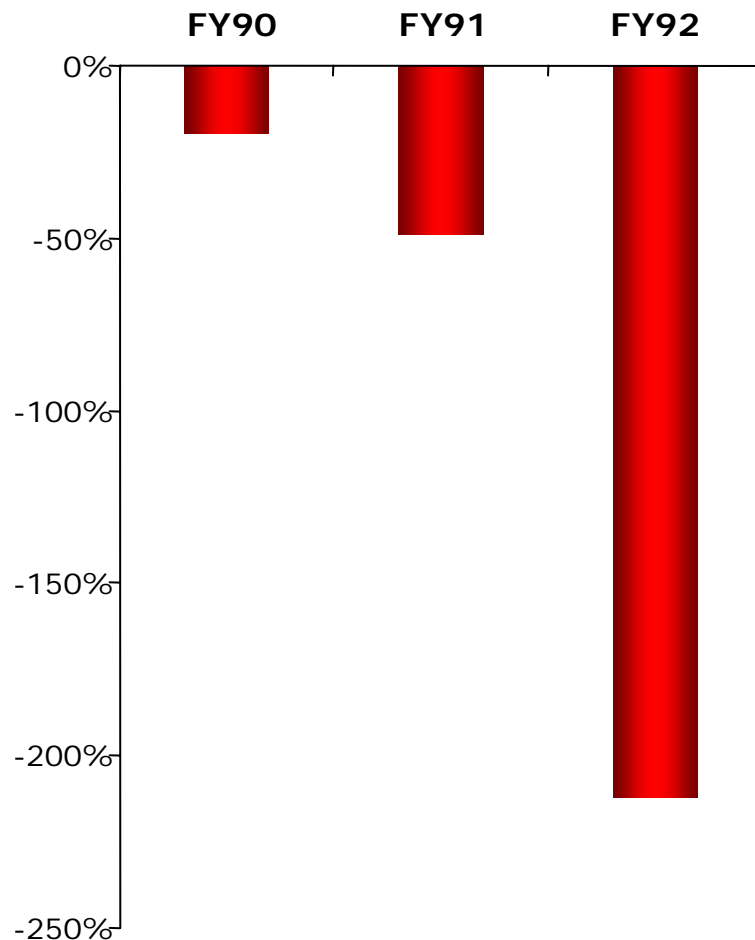
(potential impact of 'stressed case' on 'base case' NPAT*)



- NPAT impacted by both volume and credit impacts
- IFRS collective provision approach in stress test results in BDD impact being brought forward
- Capital ratios maintained due principally to a decline in Risk Weighted Assets
- Under extreme scenario, key driver of lower NPAT is stressed corporate sector, lowering Institutional earnings. In this context, banks may perform relatively well compared to broader market

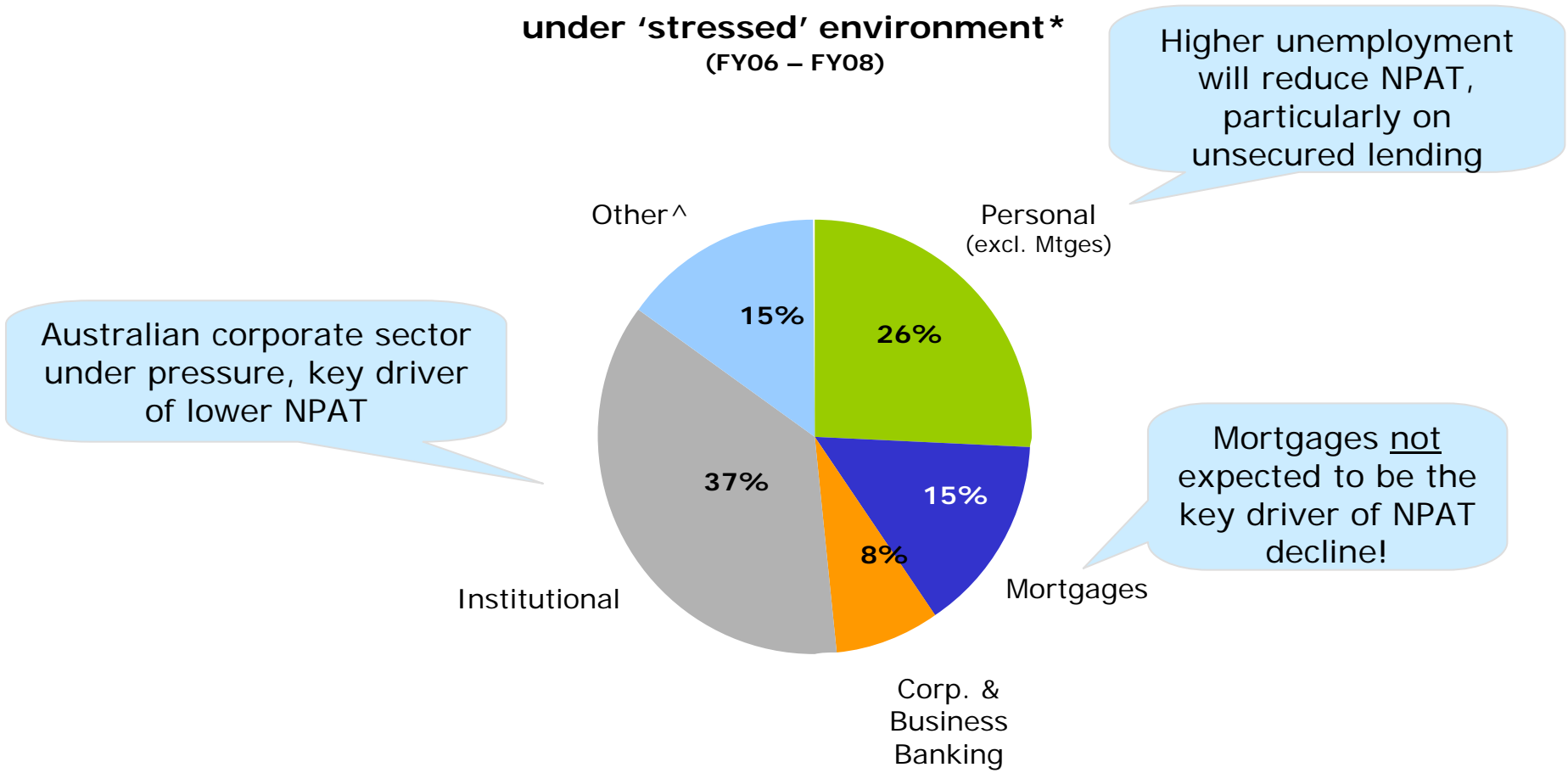
Extreme stressed scenario NPAT performance significantly better than early 90's recession

(Change in Group NPAT from 1989)



Where we would expect the stress to be felt

Contribution to NPAT decline
under 'stressed' environment*
(FY06 – FY08)



*represents % of NPAT decline between FY06-FY08 attributable to business from base case scenario

^includes Group Treasury, Asset Finance and Group Centre

Establishing and expanding Partnerships requires careful identification and management of the challenges and risks

Key investment risks

Transaction

Financial

Business

Governance

Country Specific/Political

Key business risks

Management

Credit Risk

Operations

Brand

Country Specific/Market

Managing these risks

- Transaction experience
- Due Diligence experience
- Involvement in capital/financial decisions
- Agreement on targets, and ensuring ANZ adds value
- Partner selection/agreement on strategy
- Secondments/management involvement
- Board seats and independent regulator relationships
- Public listing/strong liquidity
- In-country experience
- Relationships with local government
- Existing in-house expertise plus ANZ best practice
- Partner's agreement on Board seats, Board Committee
- ANZ key credit risk appointments and methodology
- Training and development tailored to local conditions
- HQ actively support through resource allocation
- Identify and develop management talent
- Centralised risk control/management mechanism
- Long term business strategic plan
- In-country experience

The Partnership Risk Framework varies with the extent of control

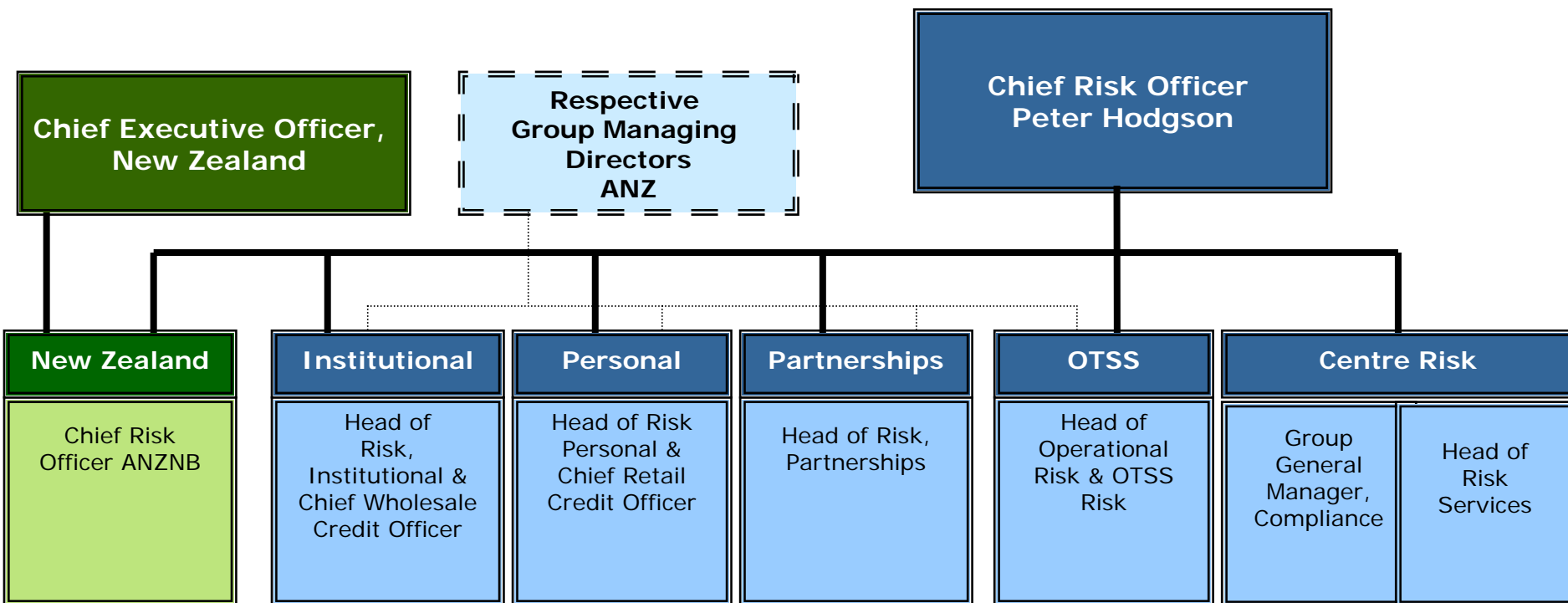
International Partnership			
Example	 <p>天津市商業銀行 TIANJIN CITY COMMERCIAL BANK</p>	 <p>Metrobank Card Corporation</p>	 <p>Credit Cards</p>
Equity	<p>Minority Equity Equity Accounted (20%)</p>	<p>Significant Management Influence Equity Accounted (40%)</p>	<p>Subsidiary Consolidated (85%)</p>
Objective	<p>Build risk management capability to protect and enhance sustainability investment</p>	<p>Adapt ANZ's best practices in risk management</p>	<p>Compliance with ANZ Group risk management standards/policies</p>
Approach	<ul style="list-style-type: none"> • Agree approach/focus (pre-investment) • Influence agenda • Adapt ANZ capability 	<ul style="list-style-type: none"> • Target ANZ best practice • Adapt for local environ. • Local governance structure 	<ul style="list-style-type: none"> • ANZ governance, risk systems, processes and controls, customised for local requirements

Summary

- Risk management at ANZ is forward focussed on areas of core capability
- Do not anticipate significant deterioration across the portfolio
- Consumer losses expected to slightly increase in line with strategic risk/return shift in Credit Cards, offset by higher revenues
- No material shift in Australian bankruptcies, structural differences should prevent similar increases to UK
- Stress testing a key component to managing risk appetite, asset writing strategies and business strategies
- Identification and management of risks associated with International Partnerships critical to success

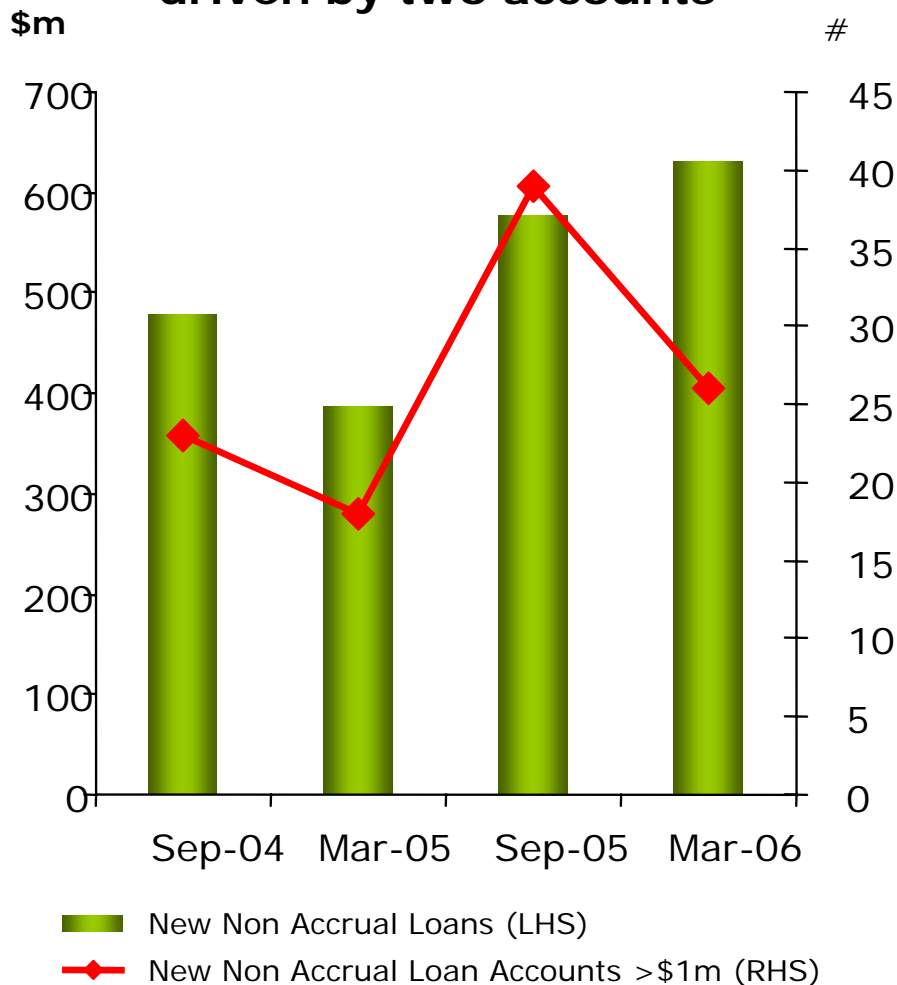
Additional Information

ANZ risk management structure



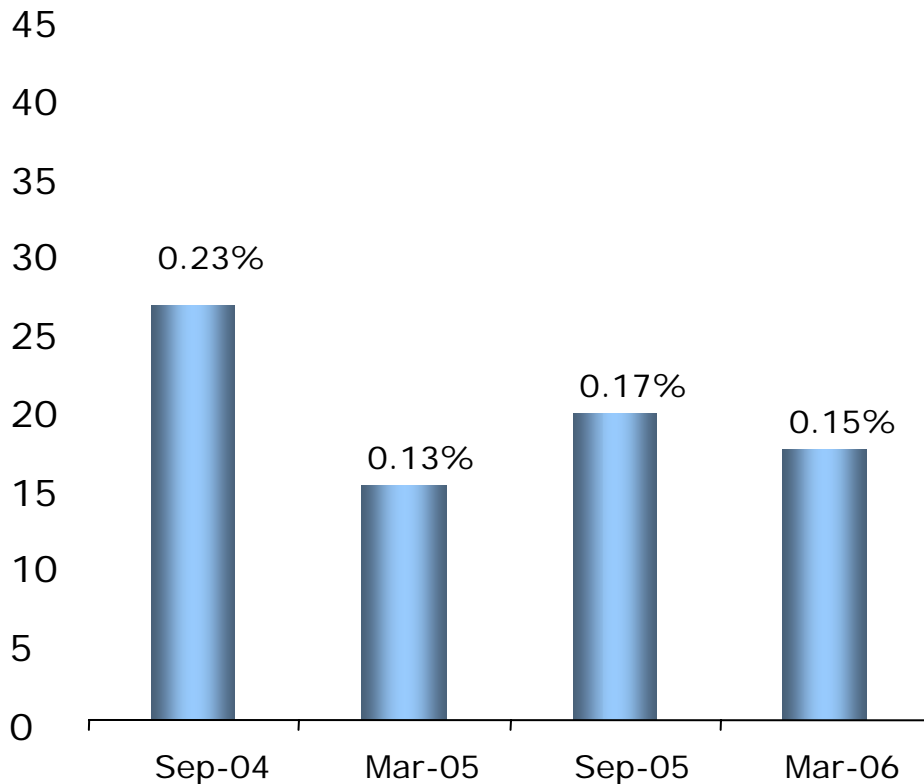
Portfolio credit quality remains strong

Increase in Non Accrual loans driven by two accounts



Individual Provisions maintained at low levels

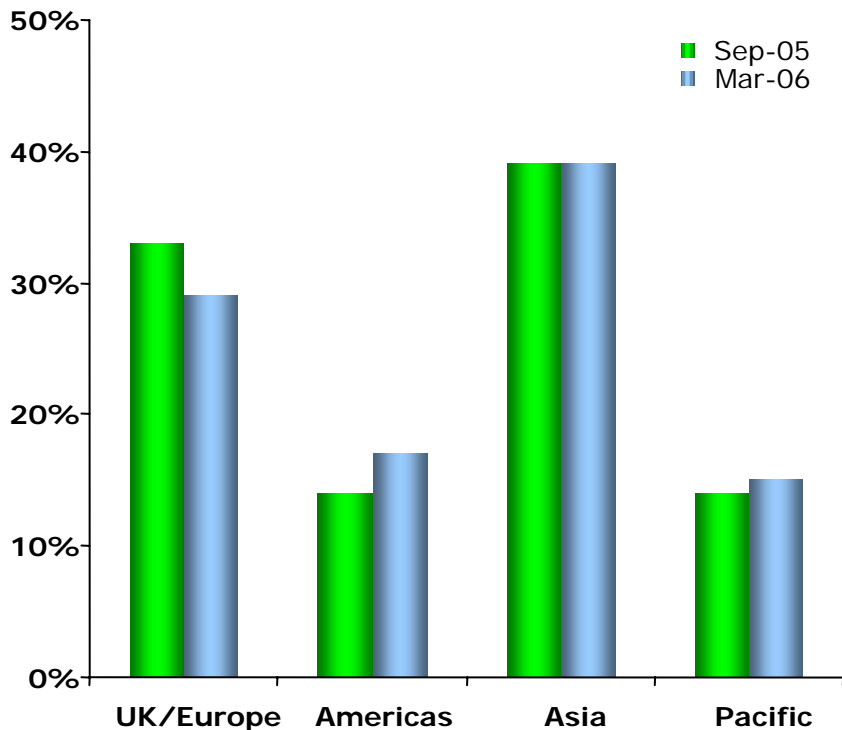
(Net Individual Provisions / Net Lending Assets)



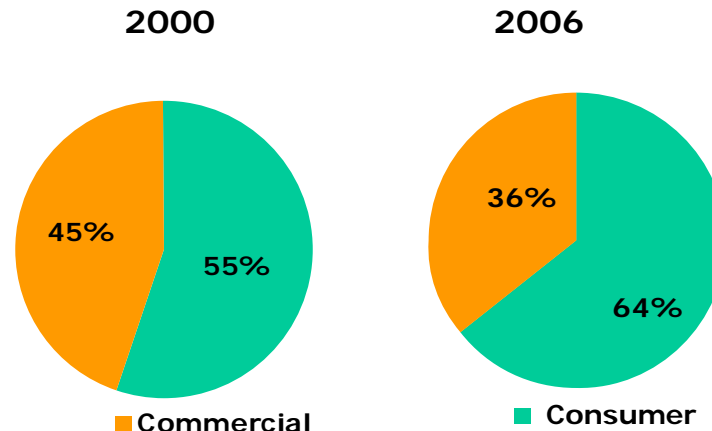
Lending Assets concentrated in the lower risk domestic markets

There has been a shift in ANZ's International Lending from UK/Europe to the Americas and the Pacific Region in March-06.

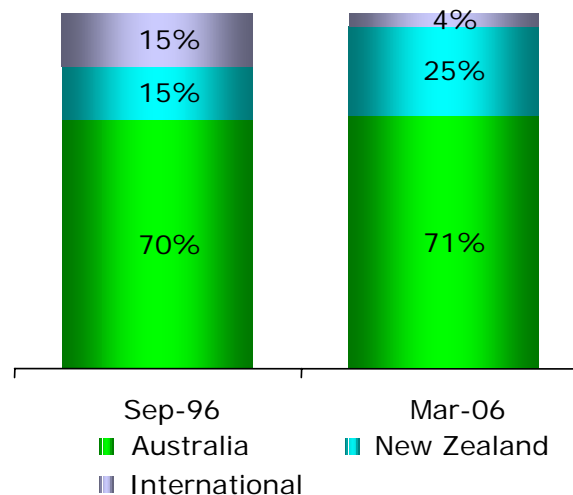
International Lending Assets Distribution



More sustainable business mix
(lending assets)

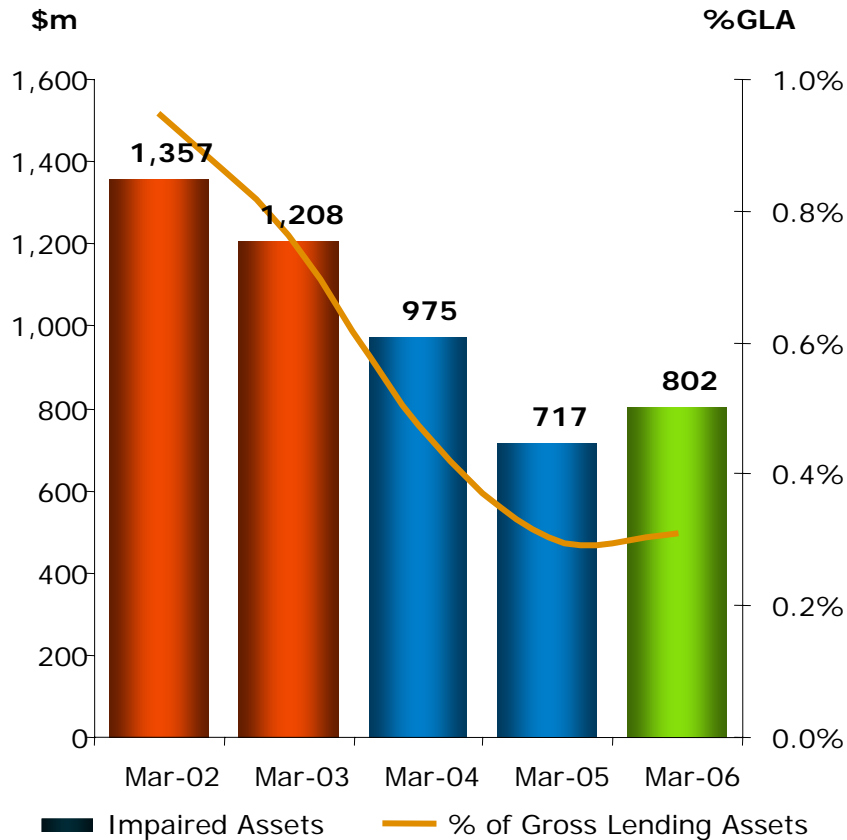


Composition of the Loan Book by Key Lending Region

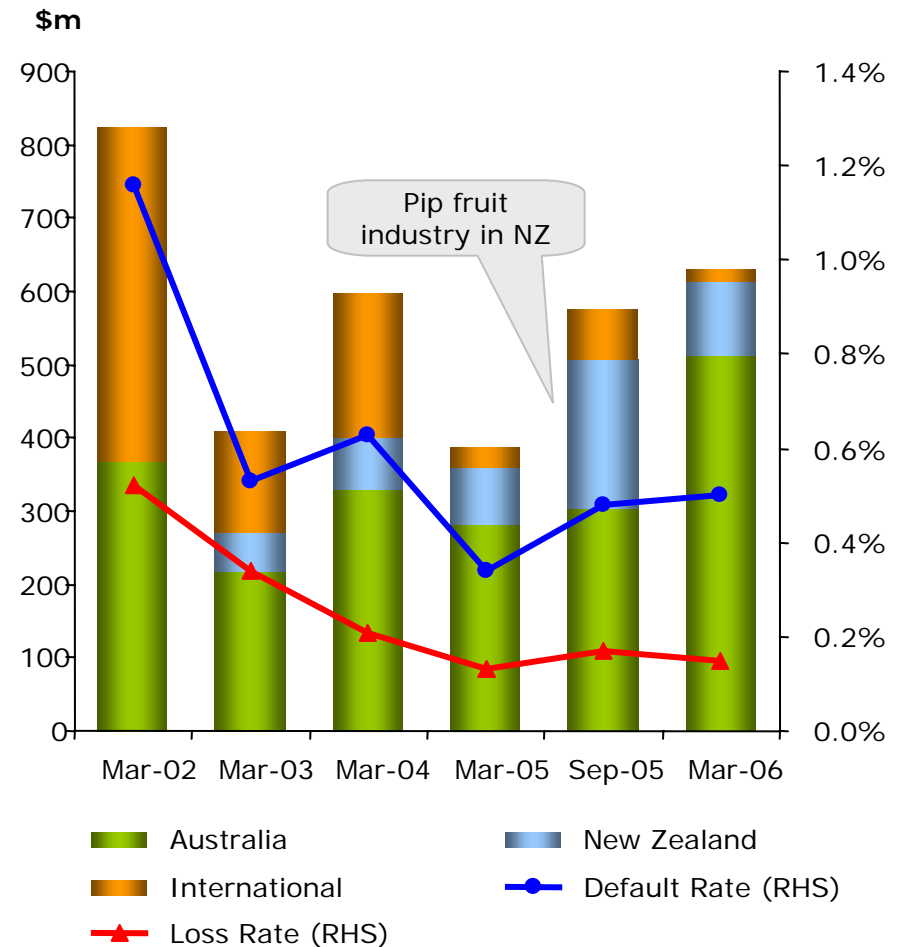


Impaired Assets remain at historically low levels

Impaired Assets

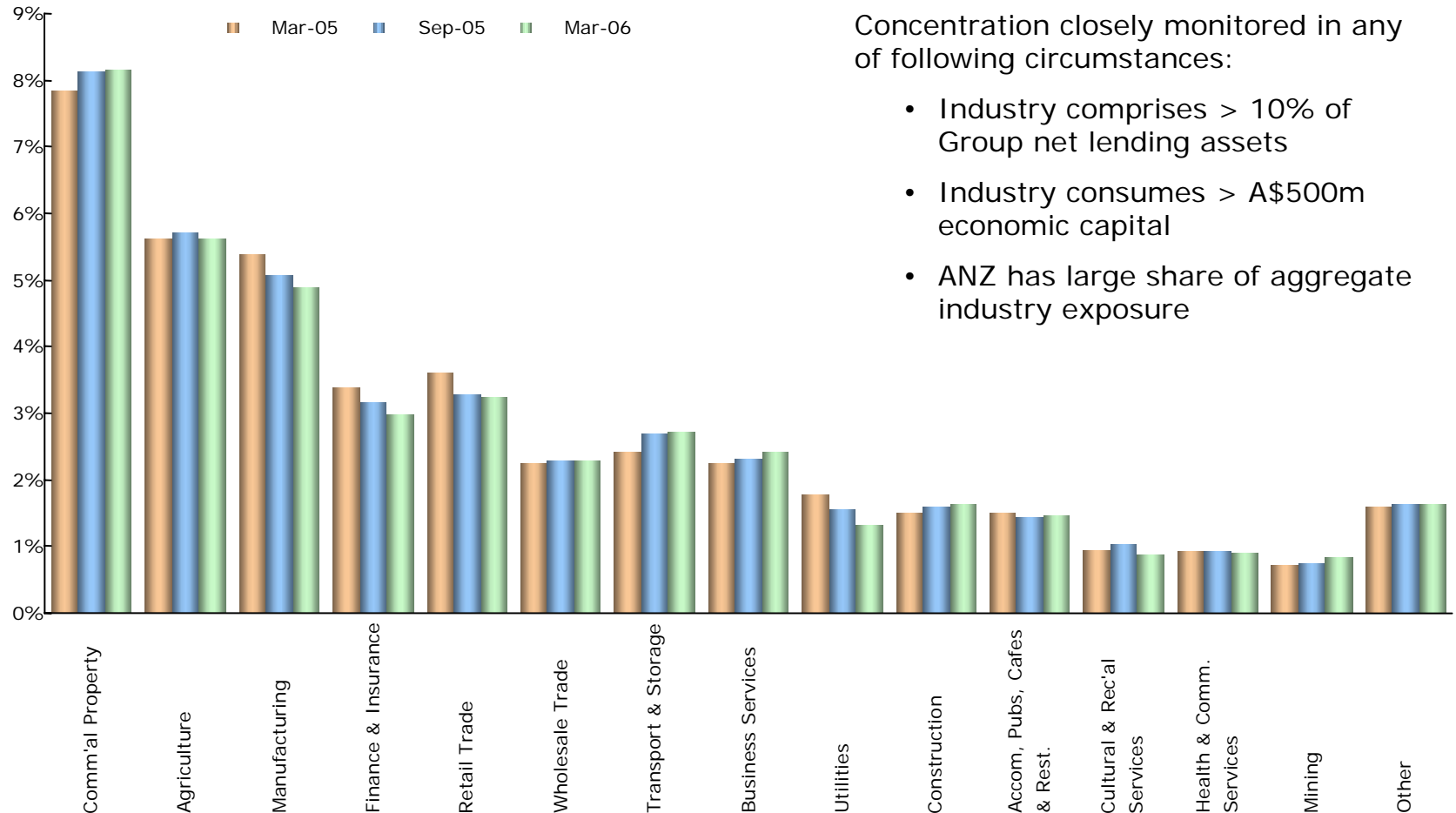


New Non Accruals by Geography



Total portfolio remains well diversified

% Group Net Lending Assets by industry

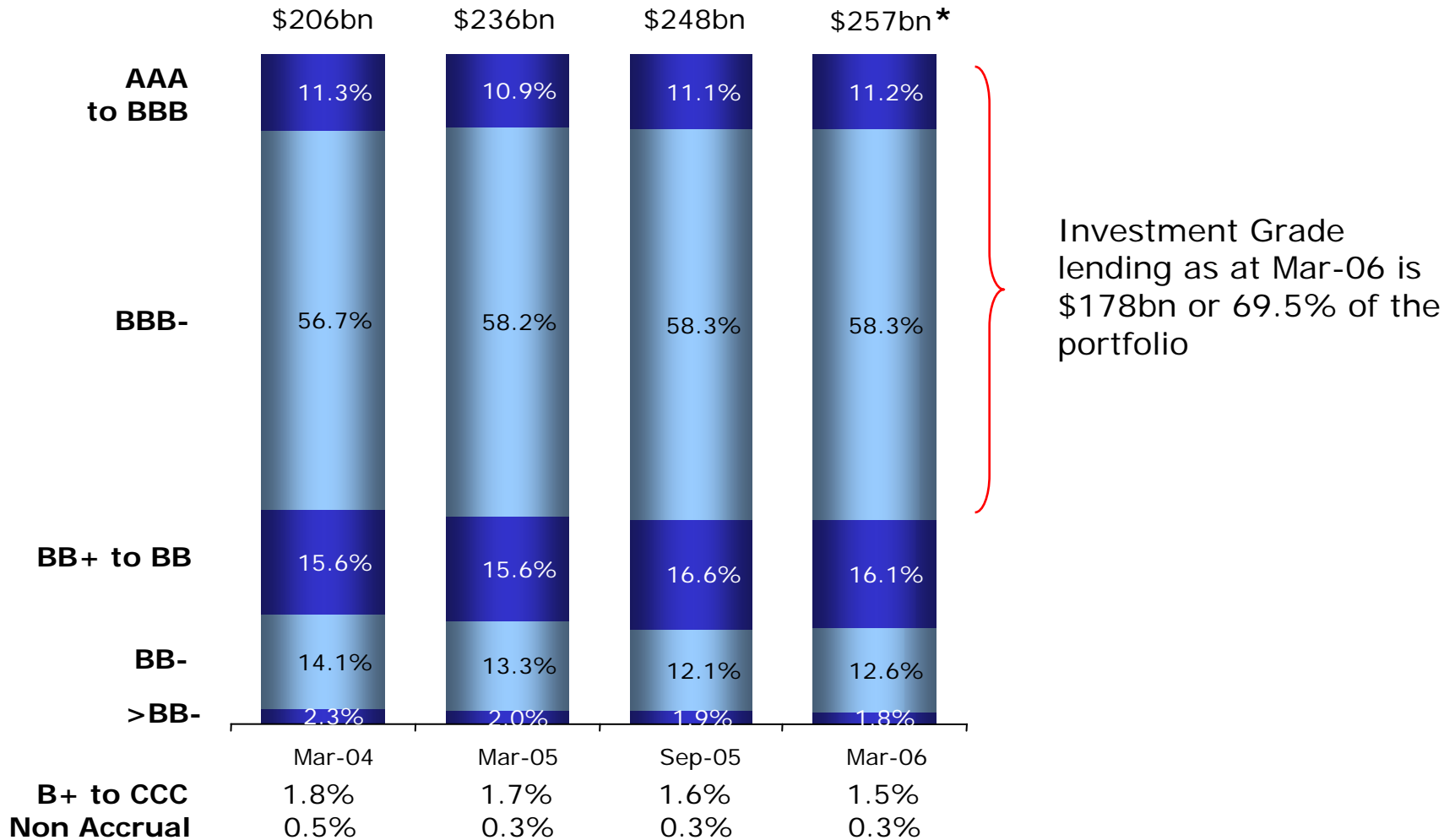


Concentration closely monitored in any of following circumstances:

- Industry comprises > 10% of Group net lending assets
- Industry consumes > A\$500m economic capital
- ANZ has large share of aggregate industry exposure

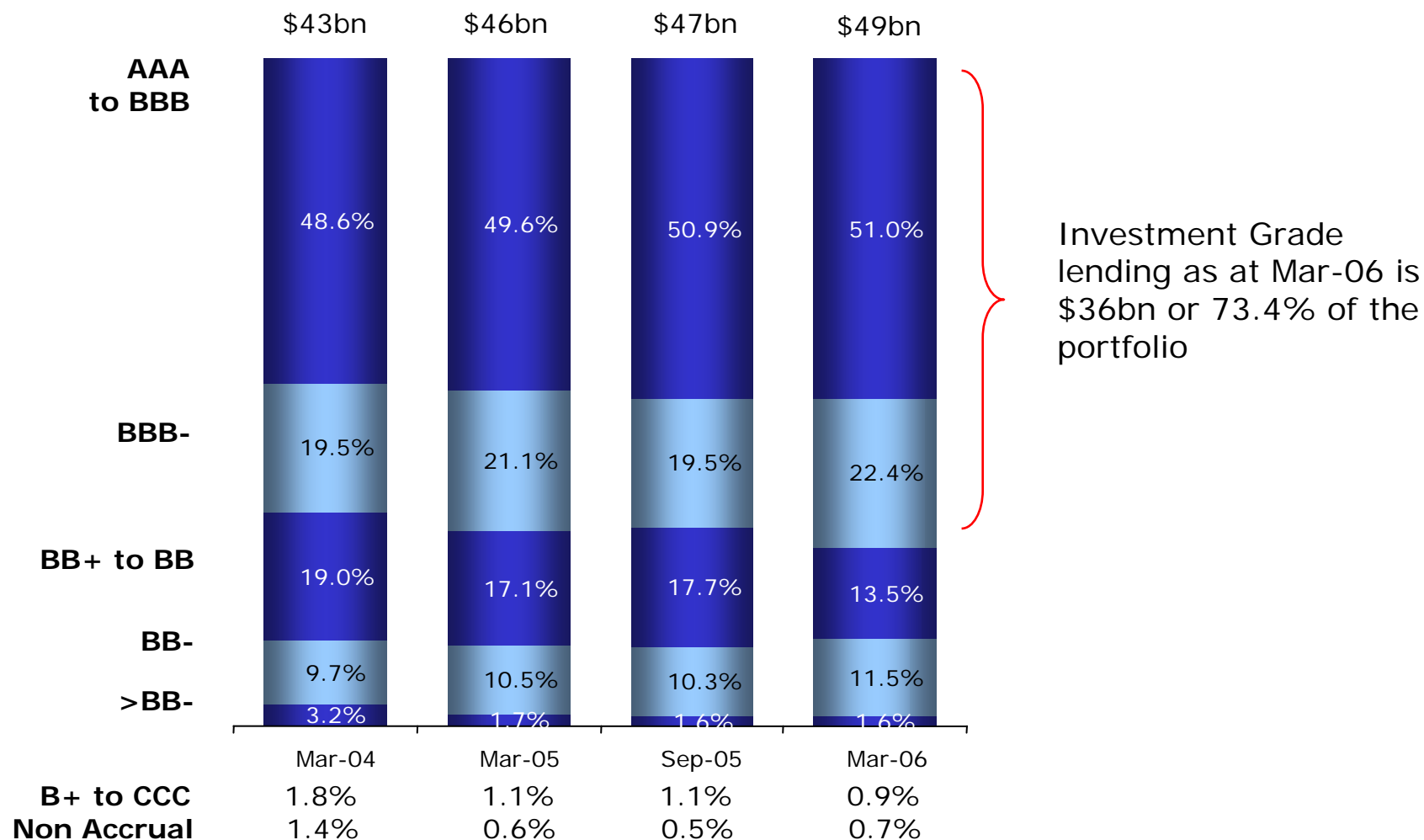
Group risk grade profile largely unchanged

Group – Outstandings



Institutional risk grade profile continues to improve

Institutional – Outstandings



What is VaR?

The "Value at Risk" (VAR) of a portfolio:

- is a statistical estimate of the potential daily loss to a specified confidence level (eg, 97.5%)
- is based on an historical simulation using changes in market prices over the past 500 days...
- ... which takes into account correlated movements across the different products/currencies/positions.

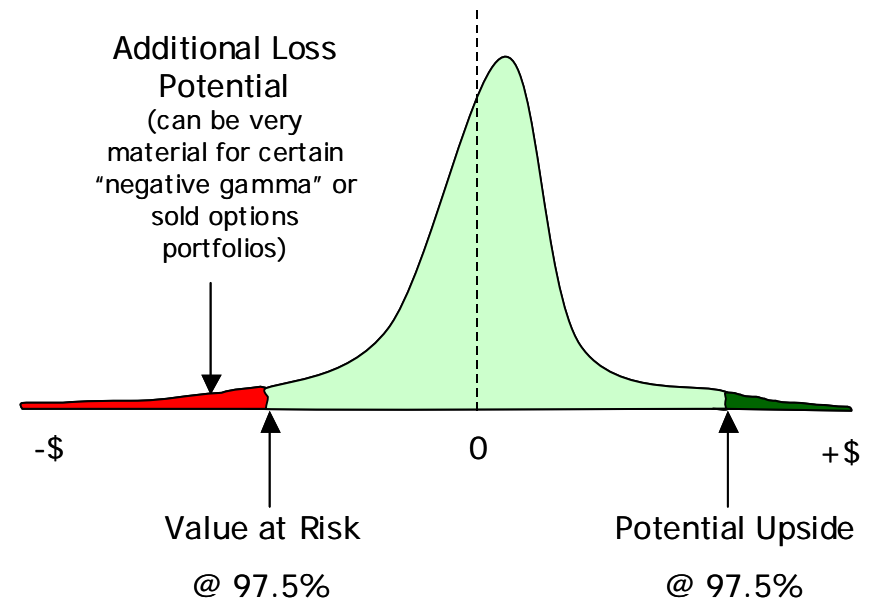
The graph below shows a typical distribution of the 500 simulated profit-and-loss results, and the corresponding level of the Value-at-Risk.

Note: to ascribe meaning to the VAR number which results from this calculation, is to assume that the movement in the various rates and prices over the next 24 hours will be broadly similar to and reflected in the historical rate movements experienced over the past 500 days.

3 limitations of VAR are very important to understand:

- If tomorrow is not like the past, then calculated VAR will be misleading – i.e., **Event Risk is not covered.**
- VAR is typically a 2 or 3 standard deviation measure. **VAR is not "Worst Case" – actual losses can be many multiples of the VAR estimate for certain portfolios.**
- VAR presumes market liquidity, irrespective of position size.

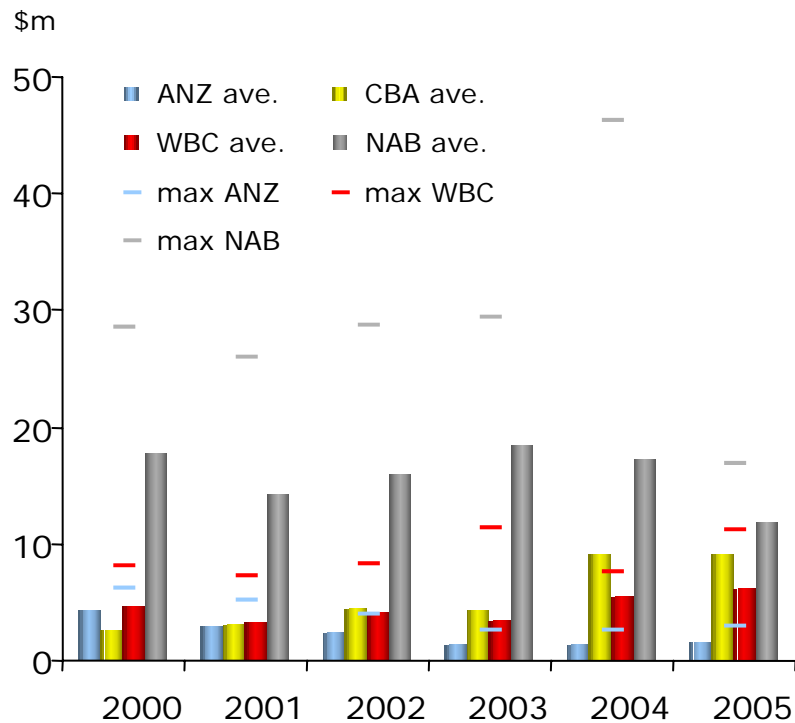
Conclusion: VAR numbers must be interpreted with great caution – they are not used in the direct management of risks on the dealer's desk. A comprehensive framework of Detailed Control Limits is used for this purpose



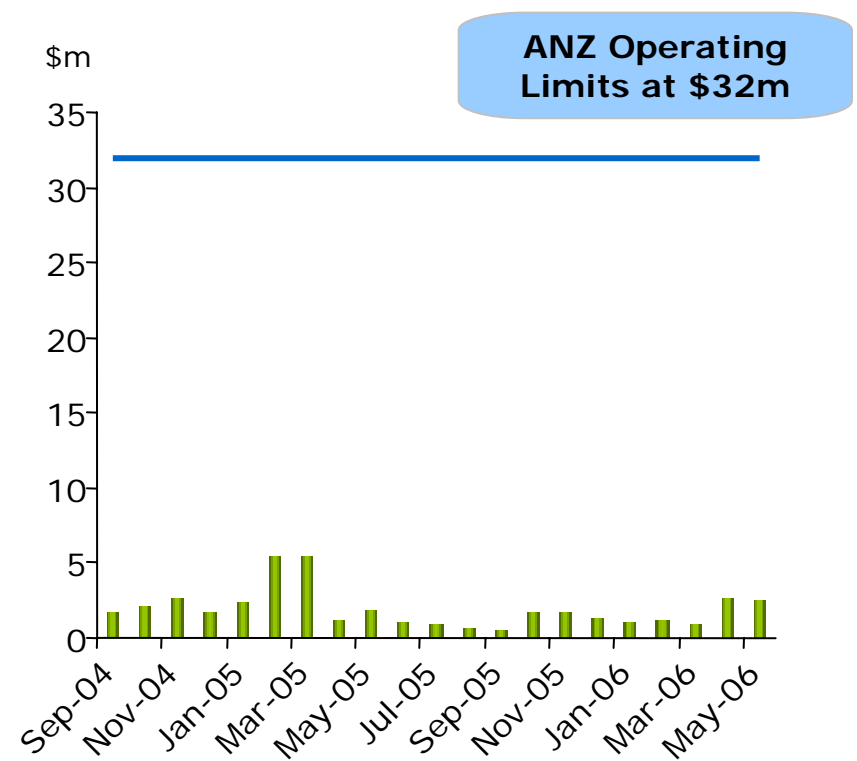
The PAST is not a proxy for the FUTURE

ANZ market risk lowest of major peers

ANZ VaR* well below major peers

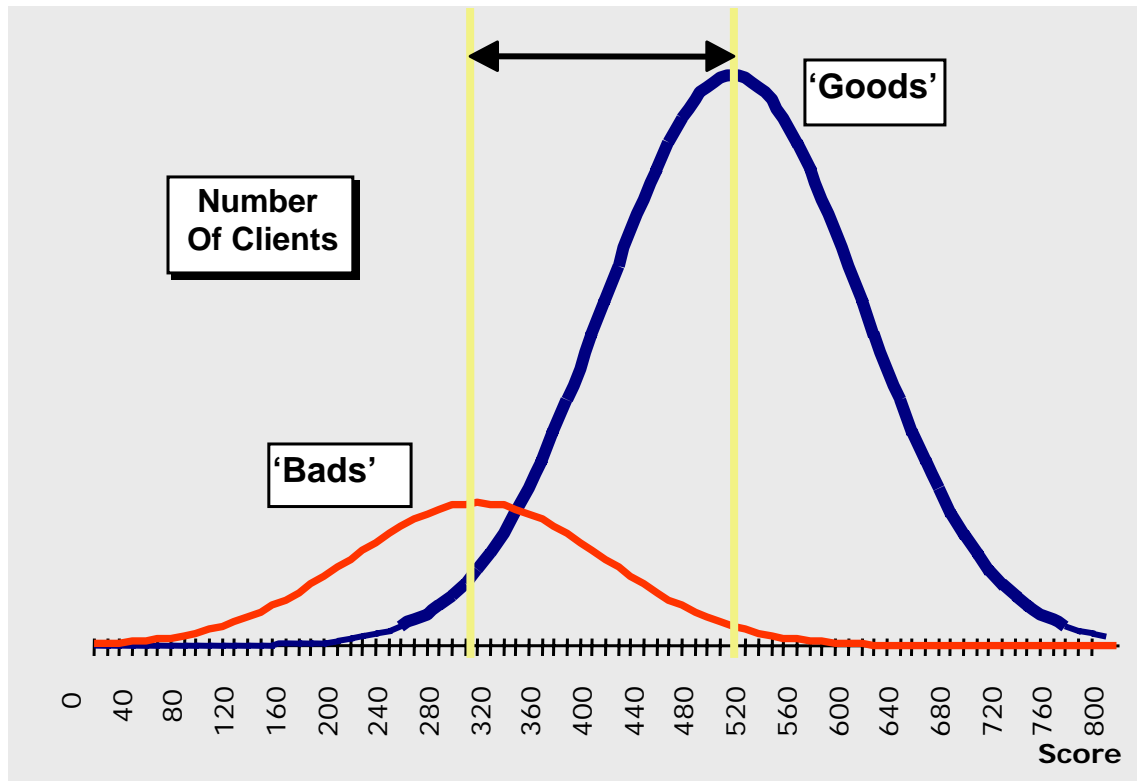


Global non-traded VaR mismatch significantly below limits



Key challenge: achieving the appropriate risk-vs-return trade-off

Scorecard cut-offs aim to achieve an appropriate risk/return trade-off



- Ratio of 'good to bad' customers increases with cut-off score
- Scorecard cut-offs are set at a customer/product level with reference to risk/return trade-off of particular segments
- Scorecards are reviewed regularly to assess appropriateness of cut-offs based on customer behaviour

Basel II – implementation on track

- Since ANZ's application for Advanced IRB accreditation to APRA in September 2005, APRA has conducted two ANZ reviews across Operational and Credit Risk. These reviews provided APRA the opportunity to examine ANZ's Basel II progress, test parts of the operation for compliance with the Basel II requirements and seek further clarification on specific areas within the application.
- A KPMG data management audit for the Corporate asset class has been completed with an appropriate assurance as to the accuracy and completeness of the Basel II calculation and related governance processes. A similar audit is scheduled for the the Basel retail asset class following completion of APRA's Basel II capital return.
- ANZ's application for Advanced IRB accreditation to Reserve Bank of New Zealand (RBNZ) has been approved by the ANZNB board and will be lodged with RBNZ by 3 July.
- ANZ is progressing well in producing APRA's Basel II capital return in the APRA workbook standards. Next return is scheduled for lodgement with APRA in August.
- ANZ continues to run a robust monthly tracking process for measuring our progress to our self assessment gaps identified in ANZ accreditation application. Systems rollout occurs in staged implementations to minimise business impact.

The material in this presentation is general background information about the Bank's activities current at the date of the presentation. It is information given in summary form and does not purport to be complete. It is not intended to be relied upon as advice to investors or potential investors and does not take into account the investment objectives, financial situation or needs of any particular investor. These should be considered, with or without professional advice when deciding if an investment is appropriate.

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