

猪
年

WELLINGTON
AUCKLAND
SYDNEY
MELBOURNE
SHANGHAI

07 →

What do I worry about?

July 2007

Peter Hodgson

Group Managing Director Institutional (previously CRO)












David Stephen





Chief Risk Officer

Key takeaways

- Environment still supportive
- “De-risking” worked, ANZ risk profile now in line with peers
- Some concerns, but not likely to have material impact on ANZ
 - Isolated pockets of NSW housing
- Longer term, we can’t ignore the risks posed by climate change
 - Indirect, including higher electricity prices

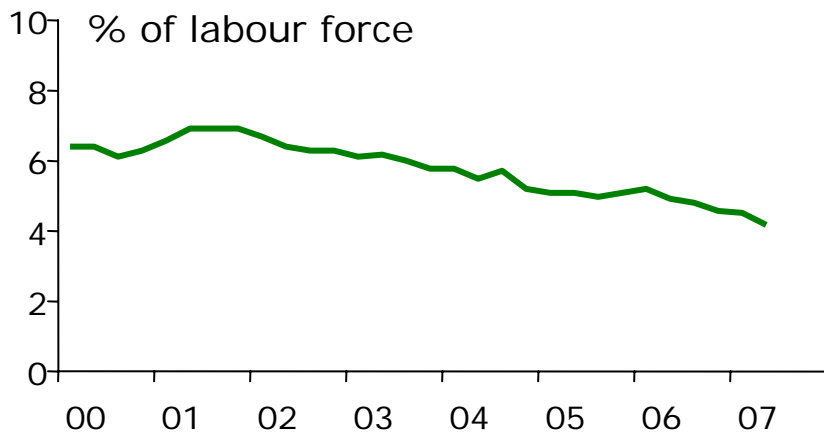
The current risk environment – still in good shape

Division / Business	2006 Environment	2007 Environment	Outlook (short term)	Commentary
Institutional				<ul style="list-style-type: none"> • Portfolio credit quality remains strong • Continuing low business gearing levels at system level • No emerging concerns
Personal				<ul style="list-style-type: none"> • Higher levels of household debt • Unsecured portfolio performing in line with expectations • Secured portfolio impacted by isolated pockets, overall position performing well
New Zealand				<ul style="list-style-type: none"> • Provisions tracking in line with more normalised levels • Credit quality good, no systemic issues
Asia / Pacific				<ul style="list-style-type: none"> • Banking partnerships and credit card joint venture credit quality in line with expectations

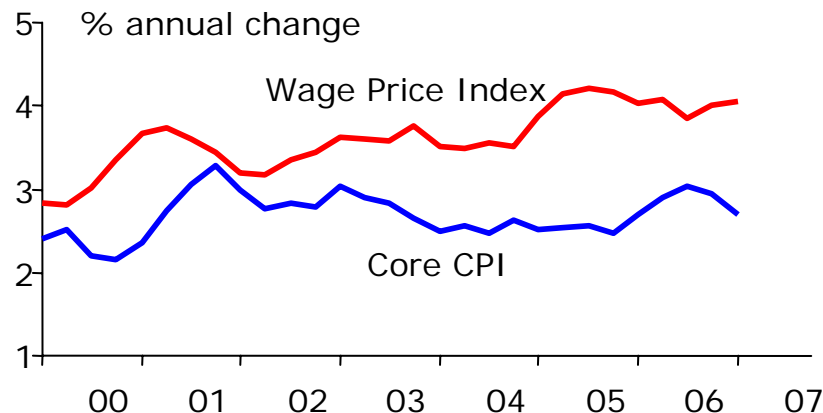
 Pristine quality
  High quality
  Good quality
  Poor quality
  Extreme Stress

Economic environment still strong, no early warning signs of deterioration materially impacting credit quality

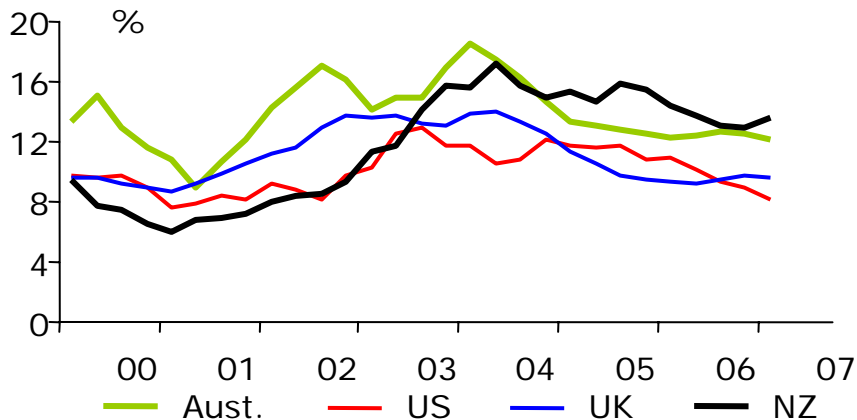
Unemployment remains at very low levels...*



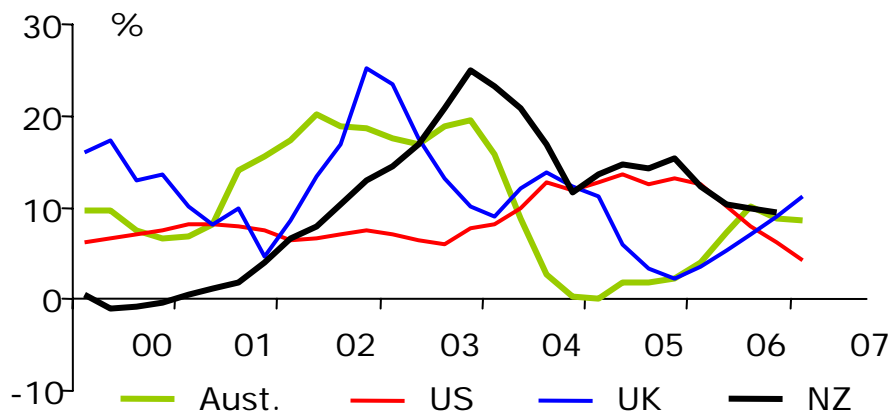
...with price and wage pressures remarkably contained^



Rate of growth in Household Debt reducing...**
(yearly % change)

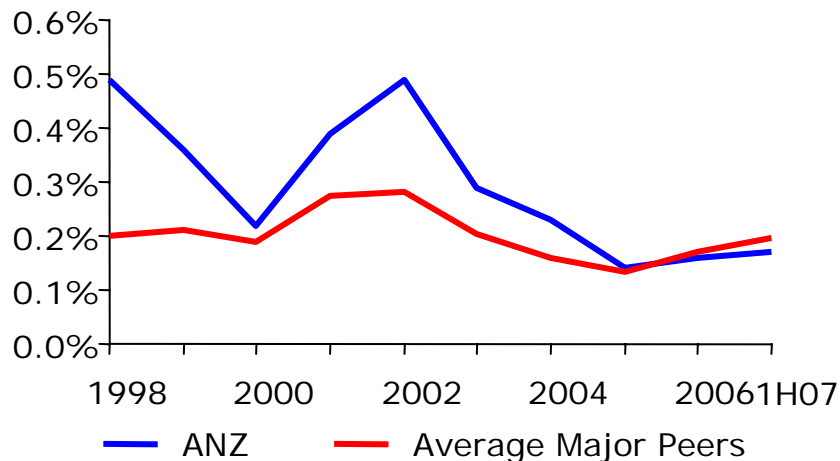


... while Aust. rate of growth in house prices stabilising, NZ coming off historic highs^^ (yearly % change)



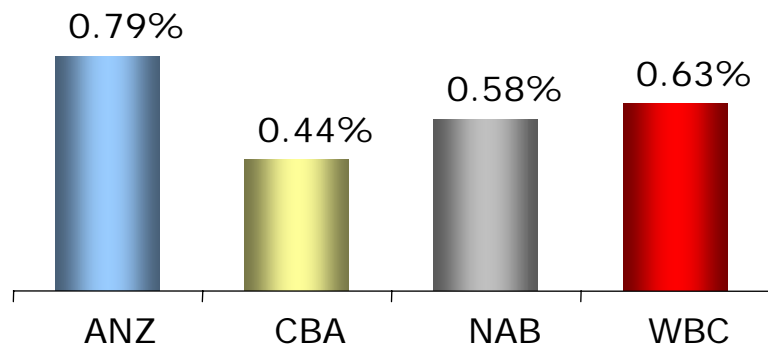
ANZ risk profile now broadly in line with peers, with healthy balance sheet cover

ANZ risk profile realigned to peers... Total provision charge / Net Lending Assets



... while maintaining more conservative provisioning levels

1H07 Collective Provision/RWAs



Implemented

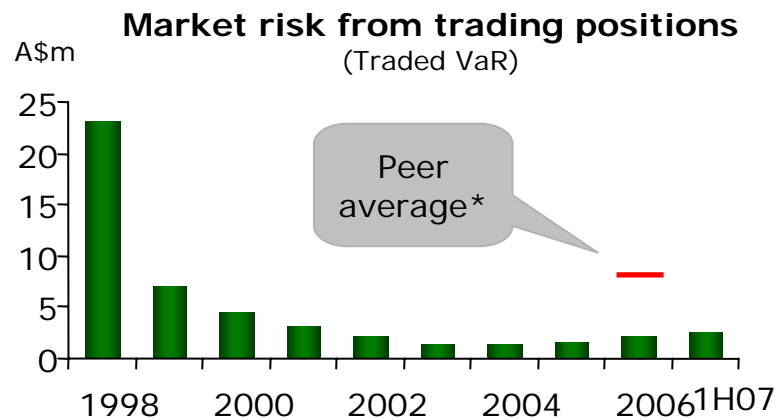
- Comprehensive single customer concentration limits

Increased

- Domestic retail exposure
- NZ retail exposure with NBNZ acquisition
- Asian exposure through portfolio of diversified partnerships and JVs

Reduced

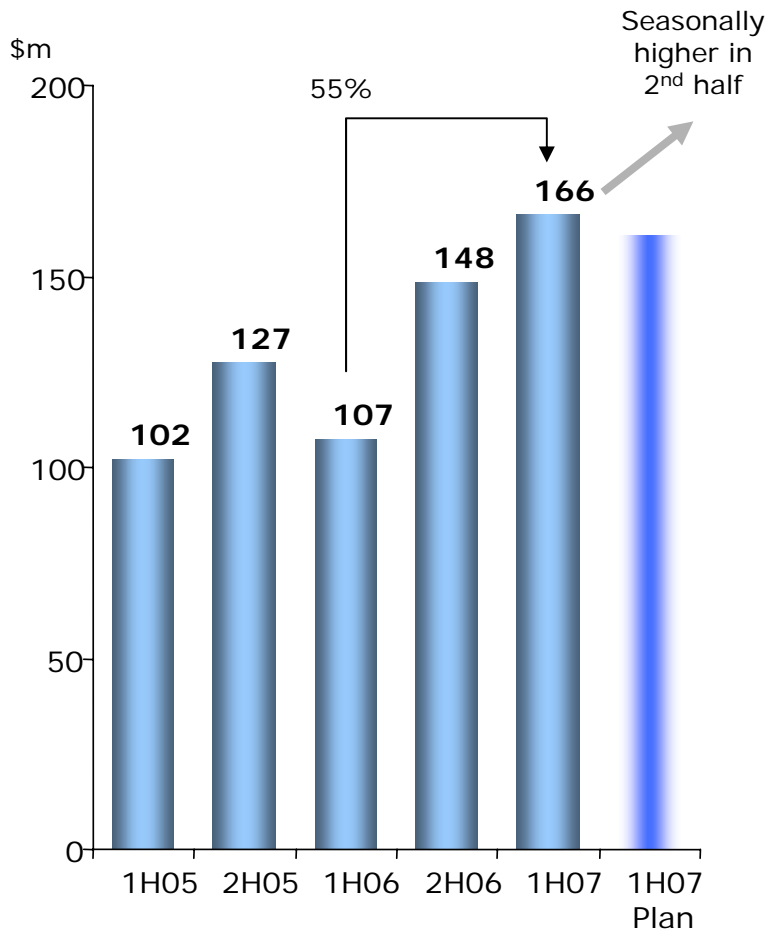
- Exposure to non core markets & businesses
- Market risk exposure



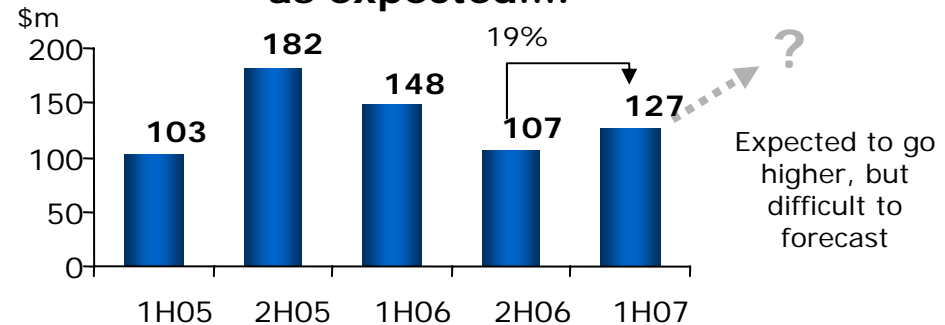
* Insufficient peer Traded VaR data for 1H07 comparison

Although further increase in provisioning from unsustainable lows still expected

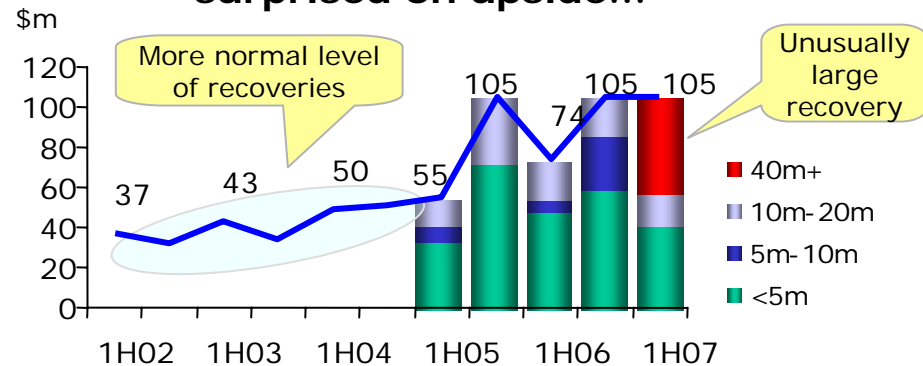
Consumer IPs well up, but in line with expectations



New & increased commercial IPs higher as expected....



...but commercial writebacks and recoveries surprised on upside...



... with continued level of recoveries unlikely

- Average write-off to recovery period exceeds 5yrs
- Recovery on average is relatively small percentage of write-off

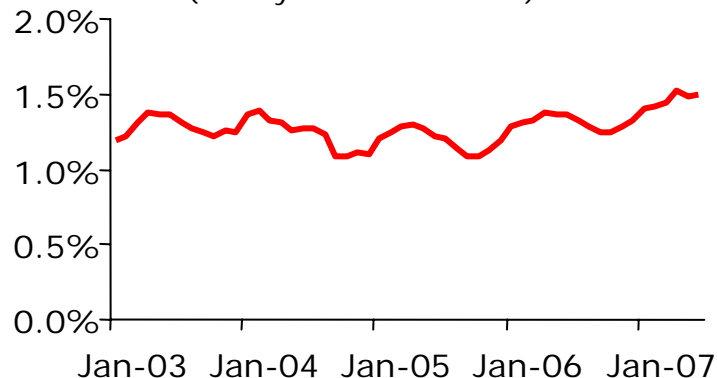
Pre-emptive approach to maintain high quality unsecured portfolio

Factors impacting credit quality;

- Asset growth
- Seasoning impact
- Portfolio mix
- Unemployment and wage inflation
- Interest rates
- Debt Service Ratio
- Bankruptcy and debt agreements

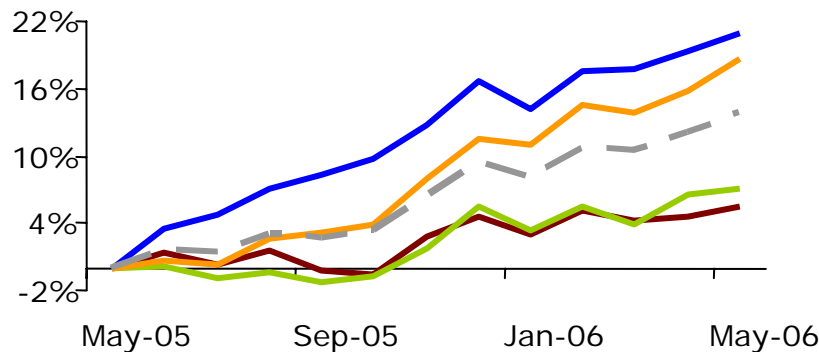
Arrears levels actively managed

(60 day arrears on Cards)

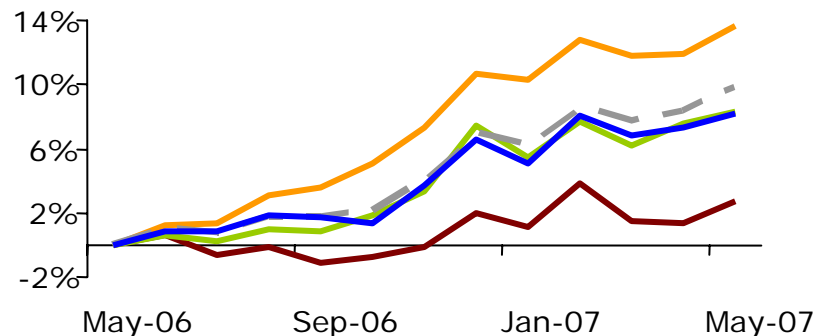


Credit Cards growth moving in line with system, influenced by current outlook and selective Credit Policy tightening

Pre-06 - Credit card lending growth previously well above system, with positive credit environment*



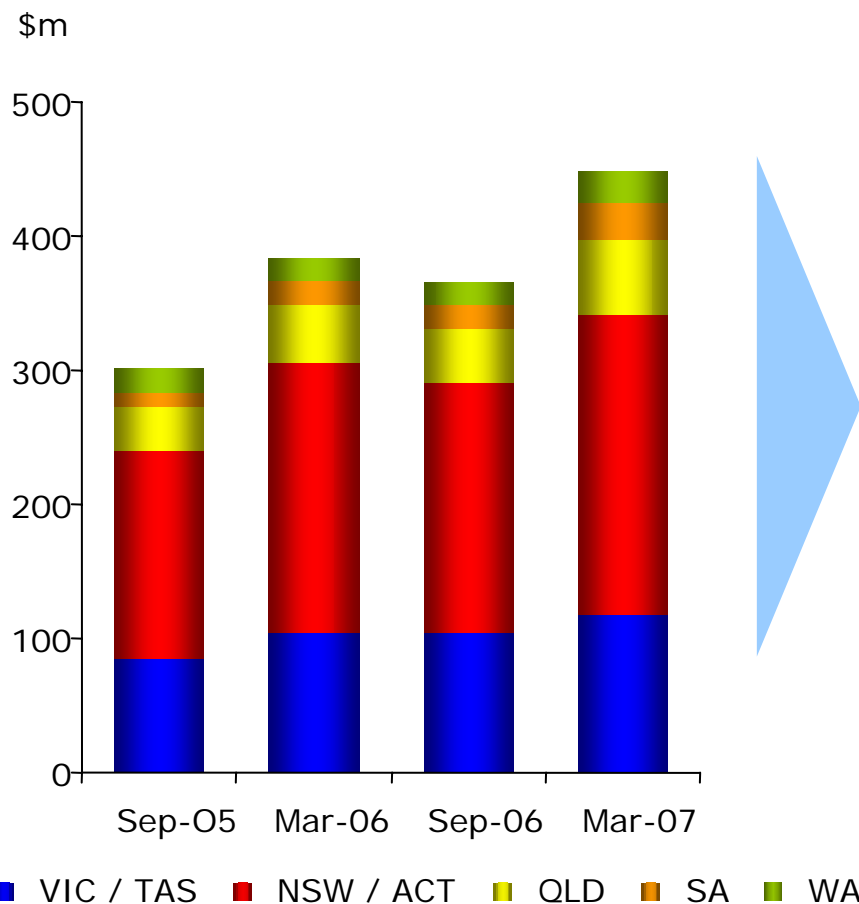
Last 12 months - pre-emptive steps slowing credit growth to around system*



— ANZ — Peer 1 — Peer 2 — Peer 3 - - System

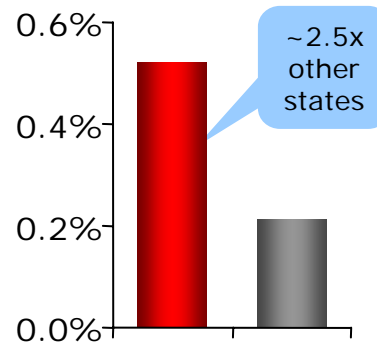
Arrears have risen, particularly in NSW and primarily housing market related

Personal Lending > 60 Days Delinquencies*

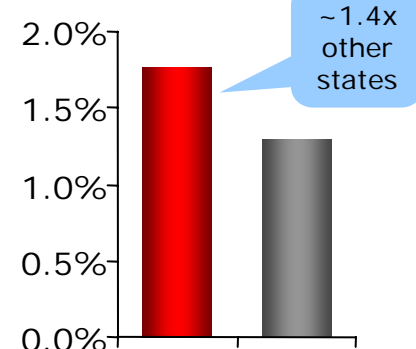


* Personal Lending is the combination of Mortgages (Retail & Wholesale) and Consumer Finance lending.

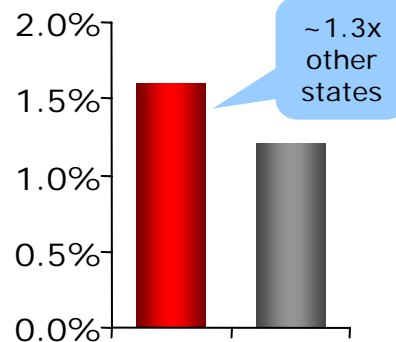
Mortgages delinquencies (>60 days / NLA)



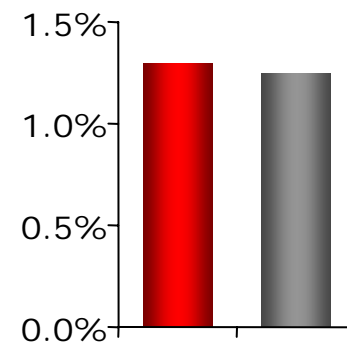
Credit card delinquencies (>60 days / NLA)



Personal Loan delinquencies (>60 days / NLA)



Small Business delinquencies (>60 days / NLA)

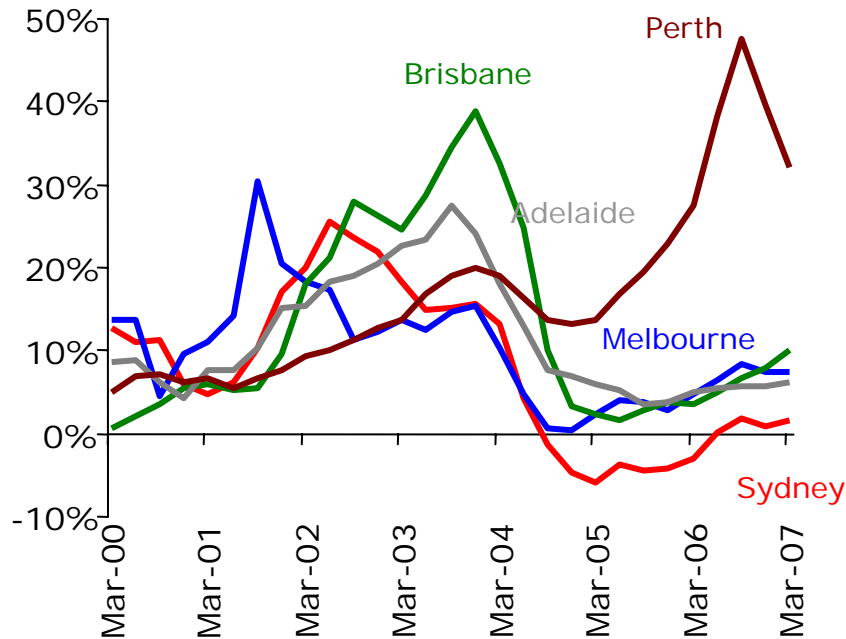


■ NSW ■ Australian average excluding NSW

Higher NSW arrears impacted by property market, particularly in outer Sydney

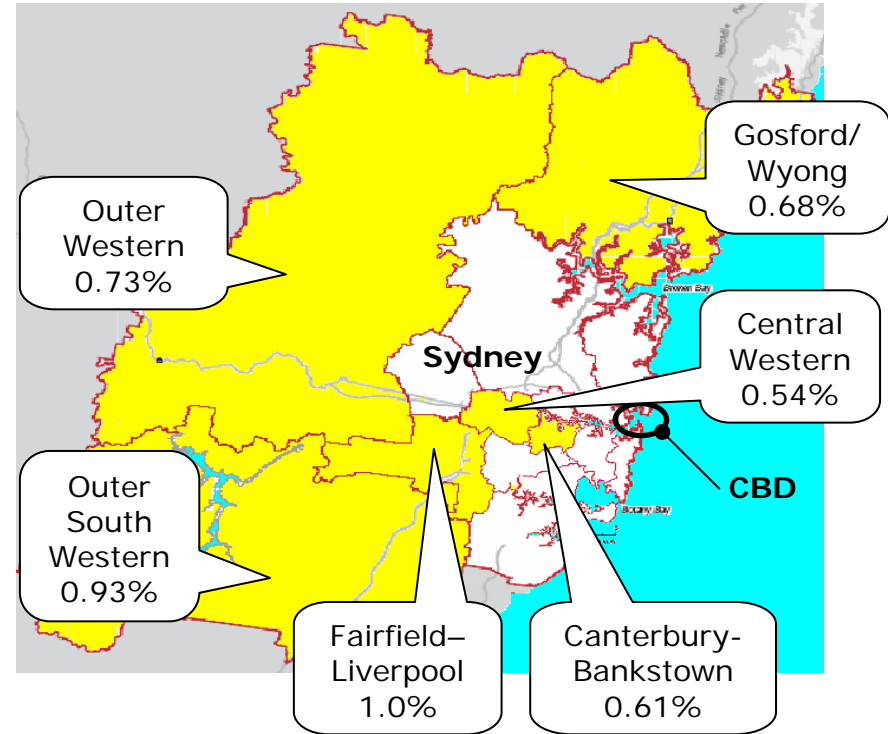
Lower NSW property prices reducing available equity

Rolling 12 month change in House Prices



- Higher delinquency rates in NSW;
53% of total mortgage delinquencies vs 32% Mortgage Net Lending Assets
- Average NSW delinquency rate: 0.52% vs Other States 0.21%

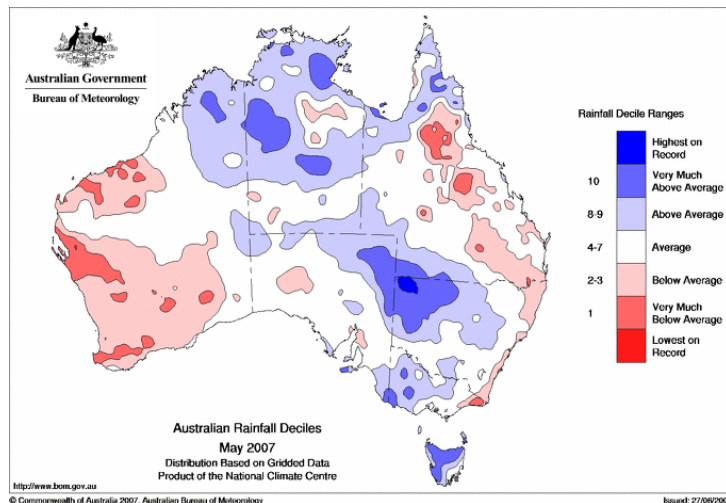
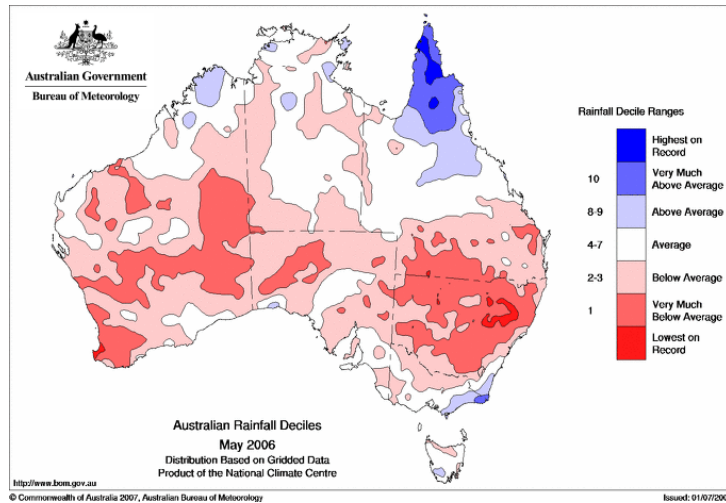
Greatest stress in outer Metropolitan Sydney >60 Day Delinquencies (Mar-07)



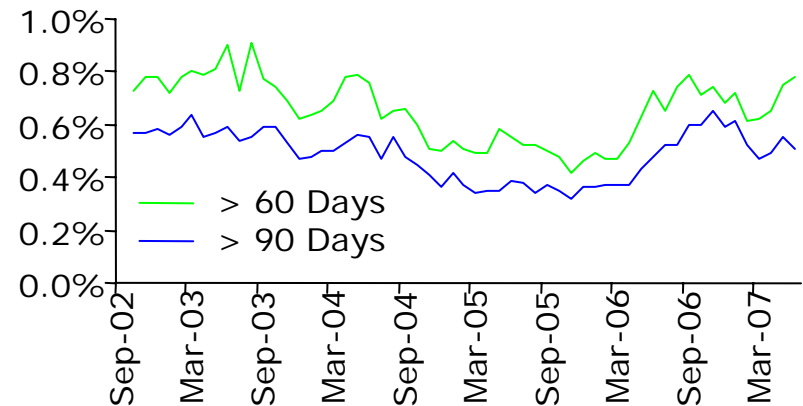
- 77% of NSW delinquencies are in Outer Metro Sydney
- 10% in Inner Metro Sydney
- 13% in Other NSW

Drought - recent rains have helped in short term, but mindful of potential longer term impacts

Dramatic change in rainfall from May 06 to May 07



Regional and Rural portfolio has held up well, with arrears below 2003 drought levels

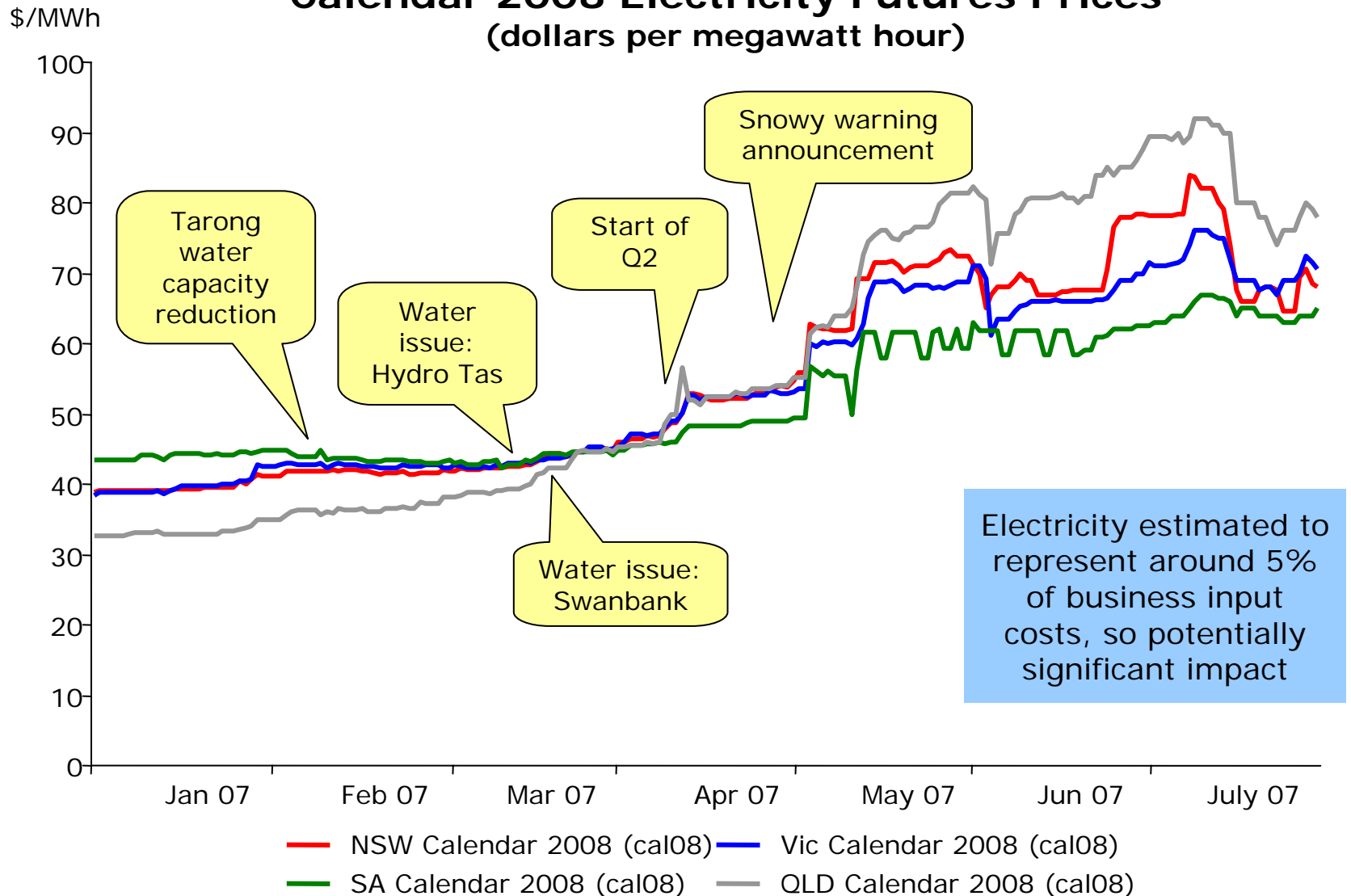


Portfolio risk is mitigated by;

- Close contact with our customers
- Well secured asset based (92% of portfolio is greater than 80% secured)
- ANZ assistance programs to support customers cash flow needs
- Strong Government assistance programs

Impacts from drought can be beyond the obvious - electricity prices up significantly, with water a key input

Calendar 2008 Electricity Futures Prices (dollars per megawatt hour)



Stress Testing a key component of risk appetite framework – we all want to understand the downside

Group wide Macro Economic Stress Testing

2007 Macro Economic Stress Test Events

Liquidity		Drought		Mild Recession	
"Armageddon" scenario for Australian balance sheet (Severe non-systemic liquidity event)		Scenario 1: Drought breaks		Unemployment	↑ Aus 2.4% NZ 2.2%
loss of short term credit rating	From A1+ To A	Scenario 2: Failed Crop (Crop planted but drought continues)		3 Year Interest Rates	↑ Aus 1.5% NZ 1.0%
Loss of long term rating	From AA To A	Scenario 3: Drought continues (No crops planted)		Residential Property prices	↓ 10%
				Declining System Growth	

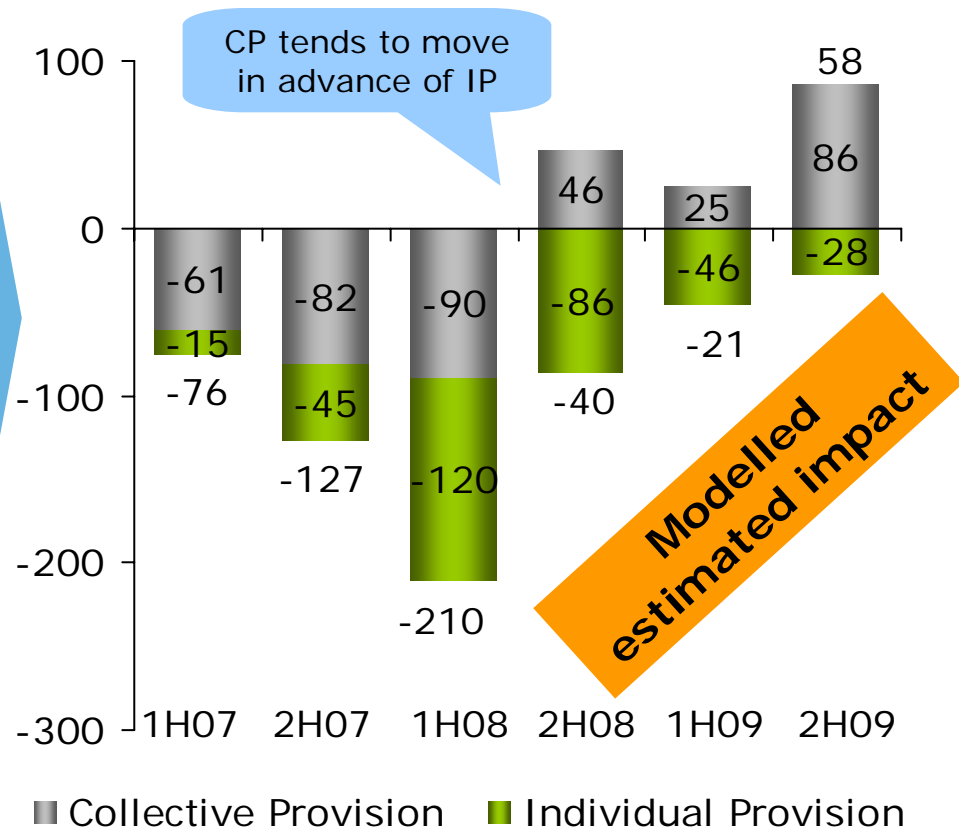
Provisioning impact from mild recession on following page

What might a mild recession do to provisioning charge?

Mild Recession Stress Test

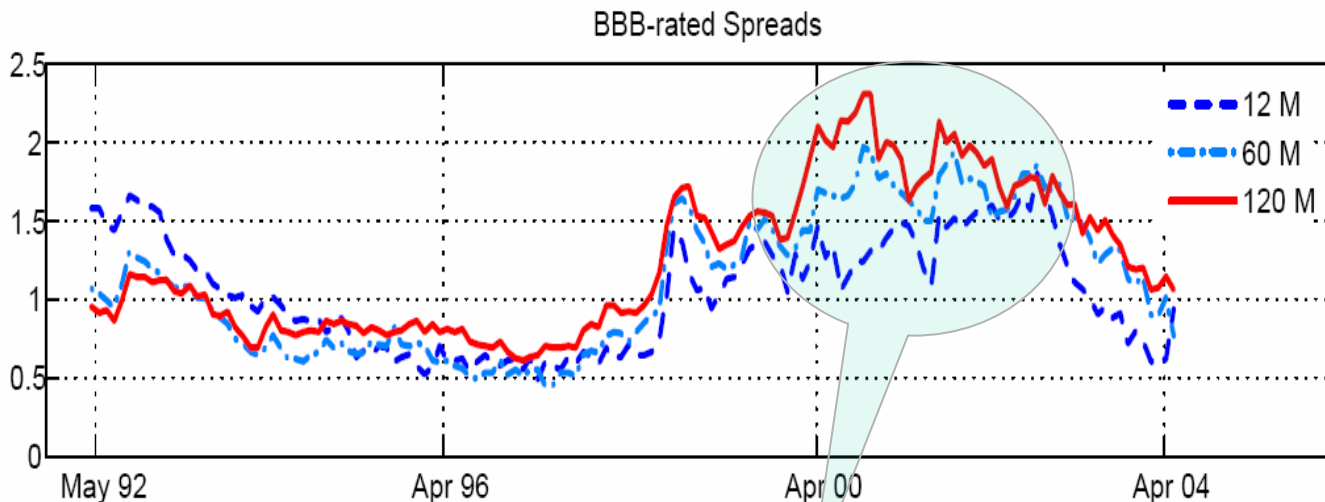
Mild Recession	
Unemployment	↑ Aus 2.4% NZ 2.2%
3 Year Interest Rates	↑ Aus 1.5% NZ 1.0%
Residential Property prices	↓ 10%
Declining System Growth	

Credit provisioning increased by \$0.4b pre-tax over 2 years

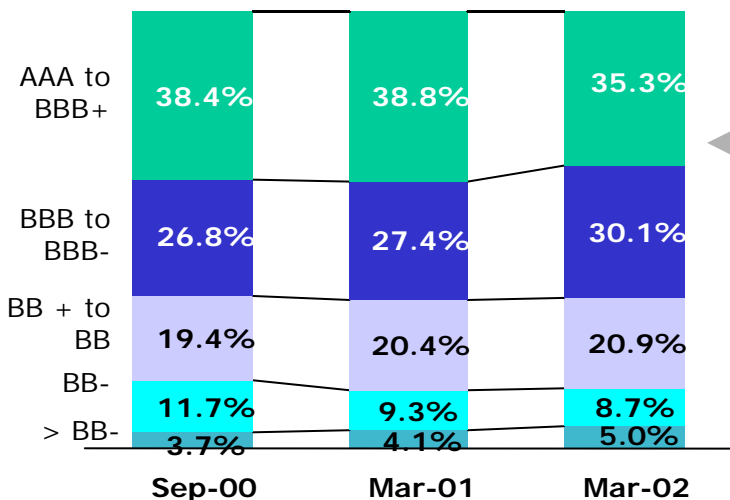


In event of downturn, history has shown there is likely to be some offset between credit costs and spreads

Fallout from economic downturn, fallen angels, and S11 caused spike in spreads...



Corporate/ANZIB Risk Grade Profile*

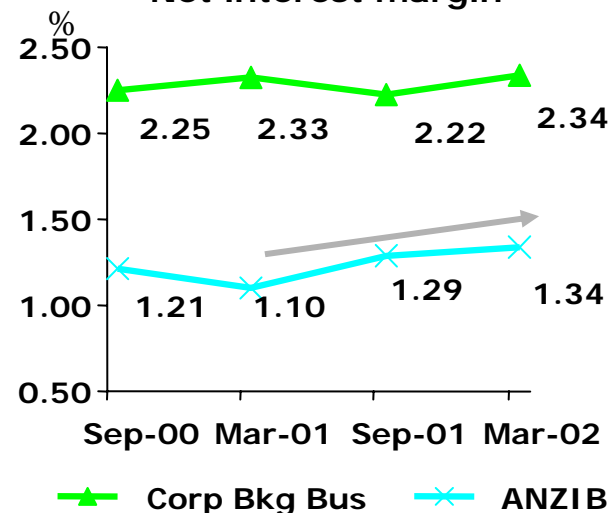


Deterioration in Risk Grade Profile

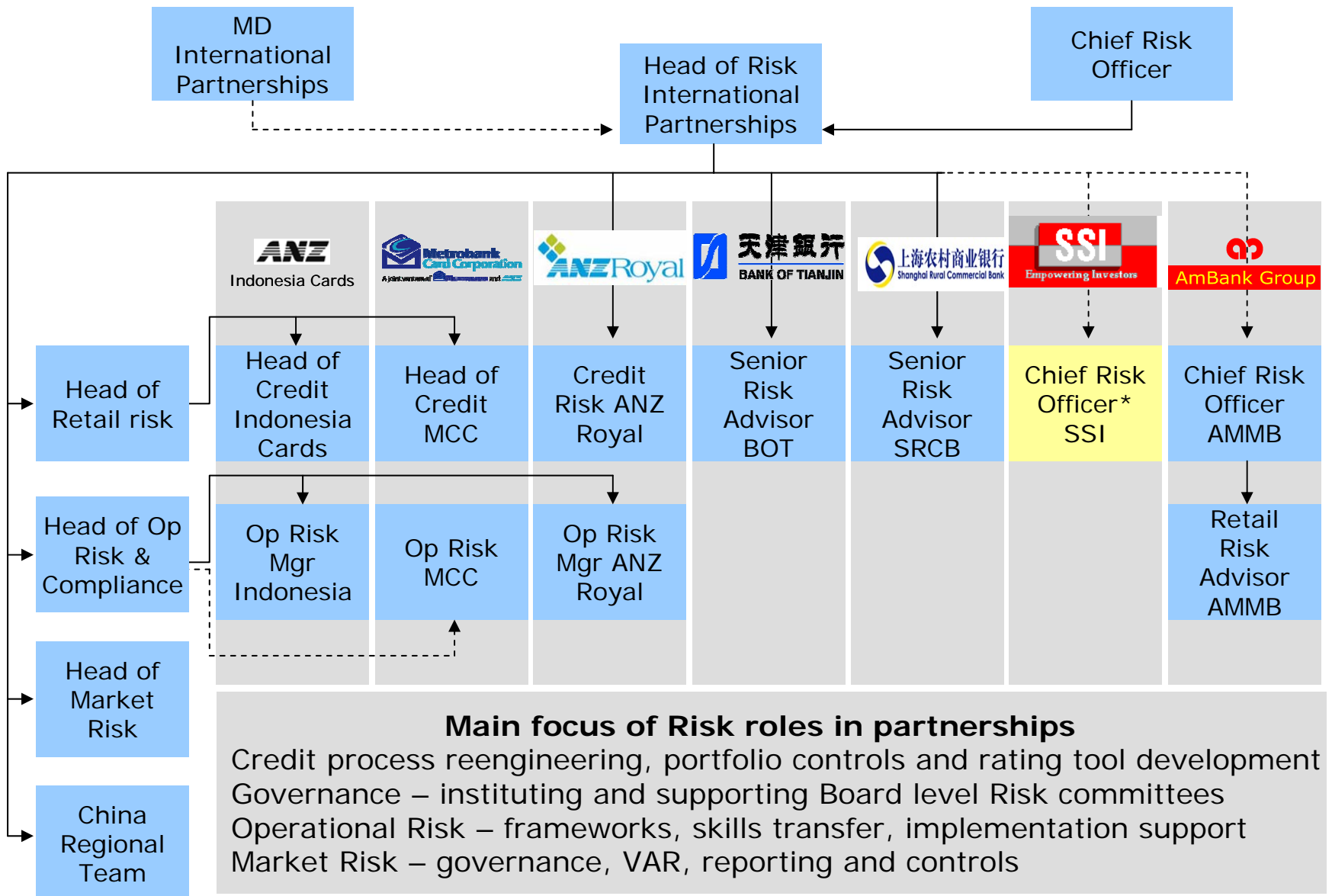
But

higher spreads eventually fed through to **higher margins** on our business lending*

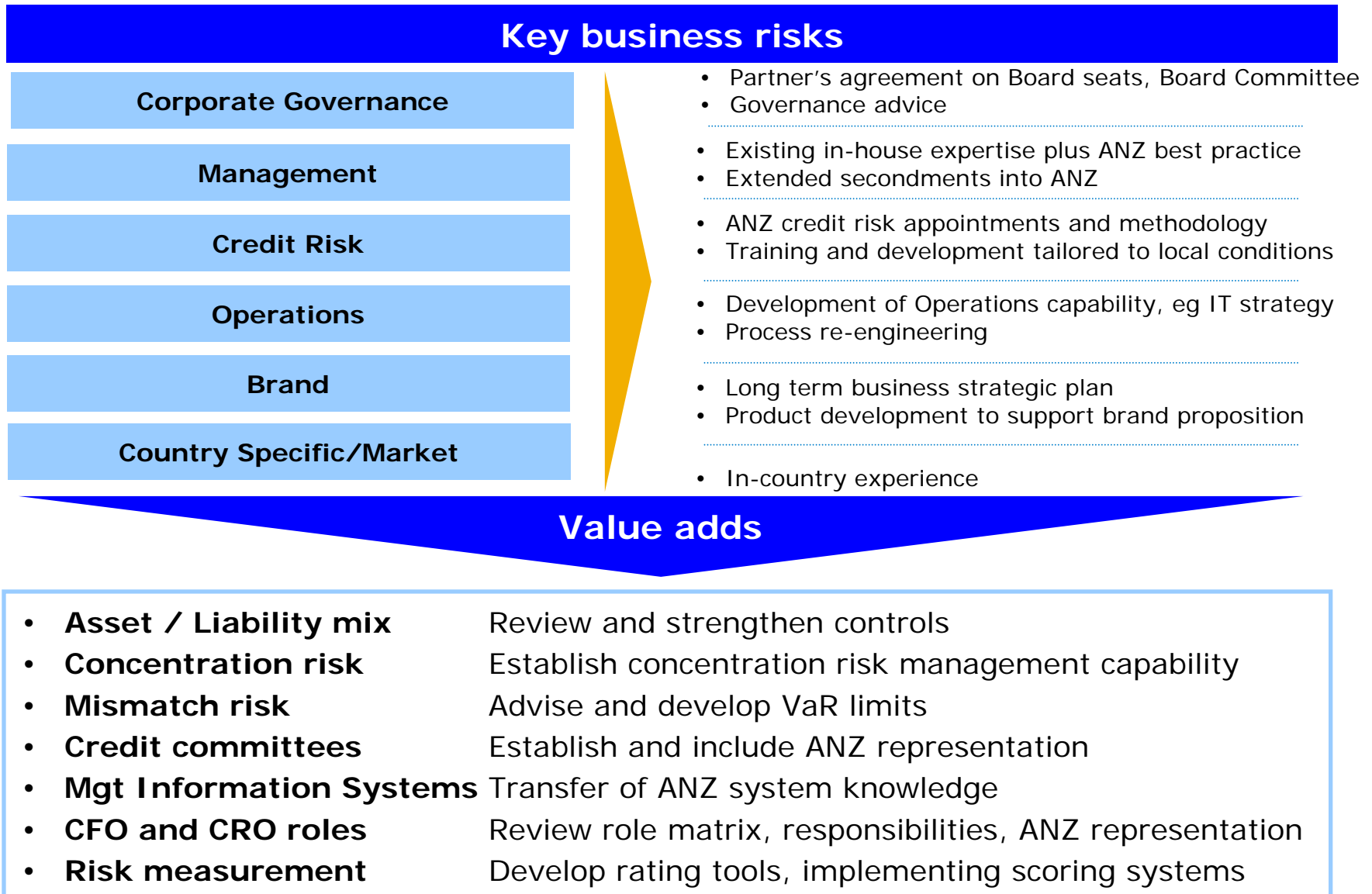
Net interest margin*




Risk playing a large role in International Partnerships...



... and adding value to individual Partnerships through identifying and managing Risk



The Partnership Risk Framework operates three distinctive models

International Partnerships			
Partnership			
Equity	Equity Accounted	Equity Accounted	Consolidated
Objective	Build risk management capability to protect & enhance sustainability investment	Adapt ANZ's best practice on risk management	Adapt ANZ's best practice on risk management
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 environment • Local governance structure 	<ul style="list-style-type: none"> • ANZ governance, risk systems, processes & controls, customised for local requirements

ANZ's readiness for Basel II

At commencement of Basel II programme, ANZ credit, market and operating risk methodologies incorporated many Basel II requirements

- Rating methodology consistent with Basel II credit rating system requirements
- Methodology for determining "loss given default" (LGD) consistent with Basel II requirements (work was required on "downturn LGDs")
- Advanced economic capital model in use since 1995
- Independence in the assignment or review of ratings and development of rating methodologies aligned with Basel II
- Operational Risk Management and Measurement approach consistent with requirements under the more advanced approaches within the Basel II framework
- Already applied the more advanced models and calculation methodologies applicable to market risk (and obtains capital relief in line with the 1996 Basel Market Risk capital amendments)

ANZ's readiness for Basel II

Key areas requiring improvement to achieve accreditation at the more advanced levels within the new Accord

- Time series data on defaults
- Loss information and meeting the cycle adjustment requirements of Basel II
- Enhancements to risk management systems to accommodate an expanded suite of credit rating tools and more detailed collateral information
- Increased rigour in rating tool development, testing and validation to meet the more stringent requirements of Basel II
- Improvements to data warehouses, data interrogation and back testing capabilities

Work has progressed satisfactorily in all the required areas

Other Risk matters

Inner city delinquencies

- No issues
- Previous large supply increase has been absorbed, lack of new supply coming on to market

Low Doc loans

- Lo doc 80 less than 1% of Portfolio

Sub prime market

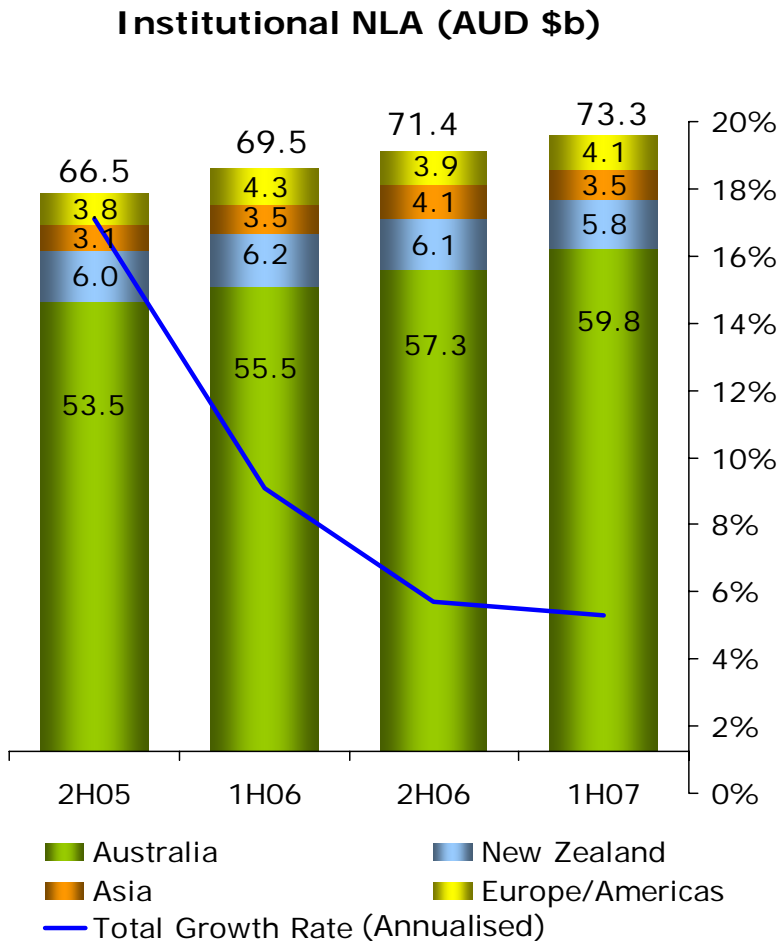
- No exposure to sub-prime related RMBS or CDO issues.
- Total exposure to CDOs is \$5.5m (\$3m AA, \$1m AA- and \$1.5m BBB+)
- Total exposure to MBSs is \$191m (\$185.5 AAA, A \$0.9m, AA \$1.4m, AA- \$1.6m, BBB \$1.3m)

Anti Money Laundering

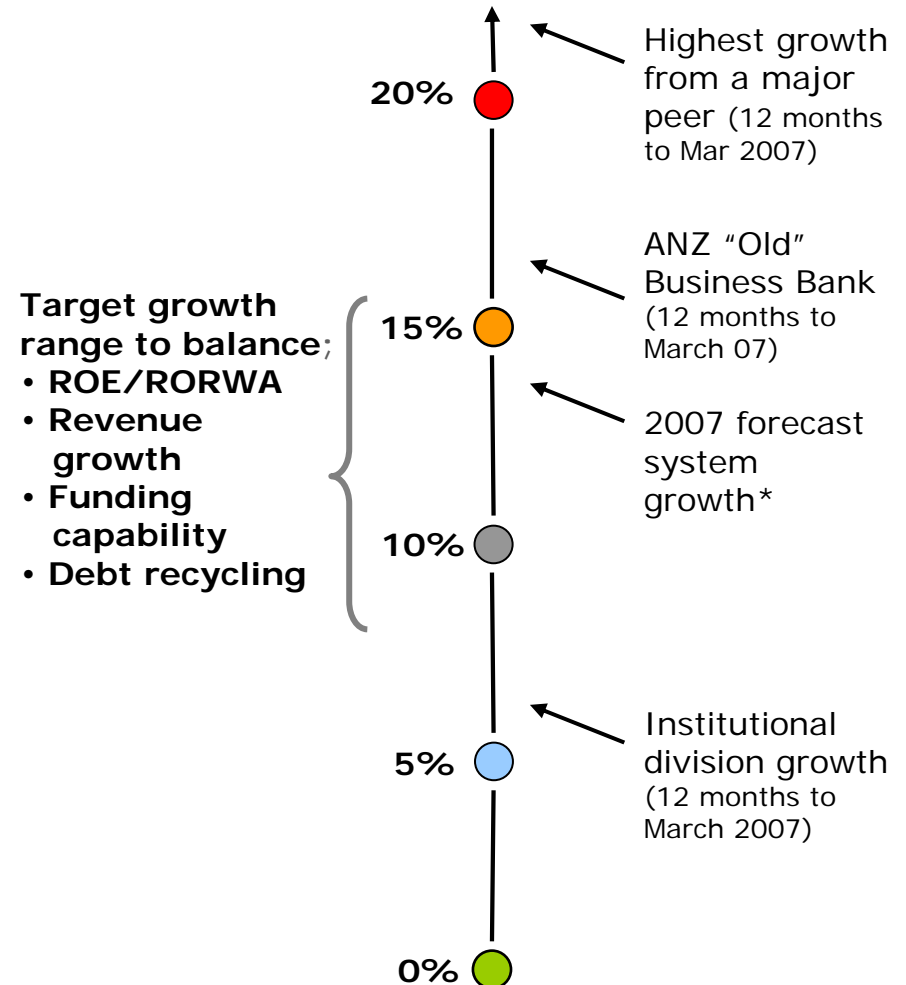
- Estimated total budgeted cost \$66M over 3 years

Institutional lending growth – targeting a sensible balance

Focus on improving RORWA impacting lending growth



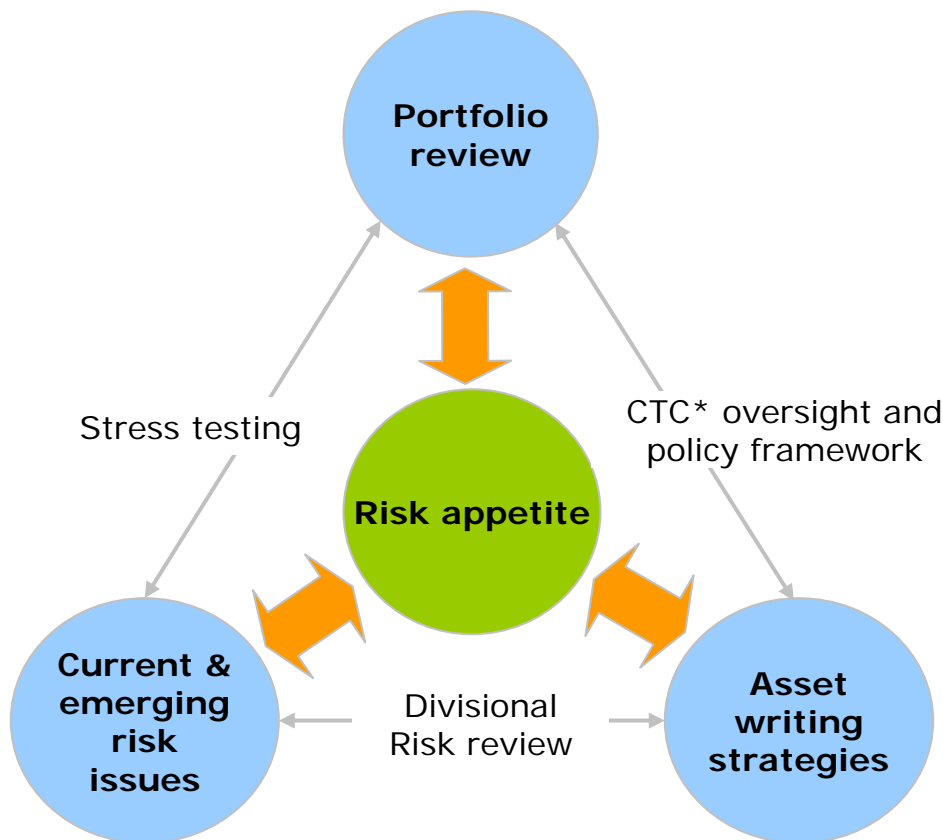
Focusing on optimal balance sheet usage



Additional information

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

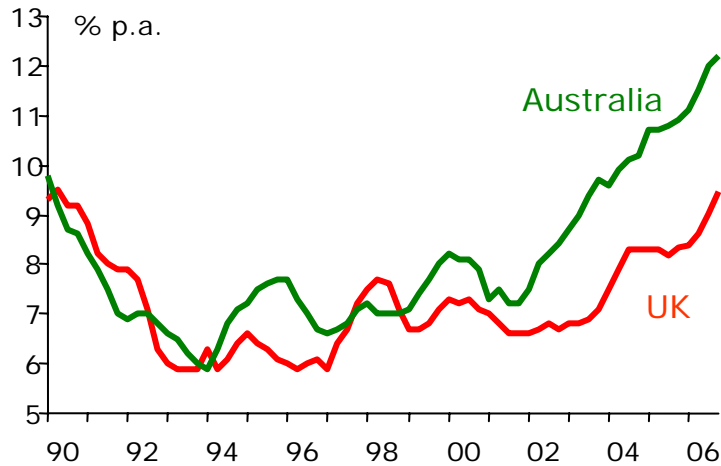
<i>Risk Type</i>	<i>Risk Appetite</i>	<i>Approach</i>
Operational	Low	<ul style="list-style-type: none"> • Low tolerance, low limits with short escalation route to senior management • Zero tolerance for compliance breaches
Credit	Medium	<ul style="list-style-type: none"> • Managing risk/return trade-off 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



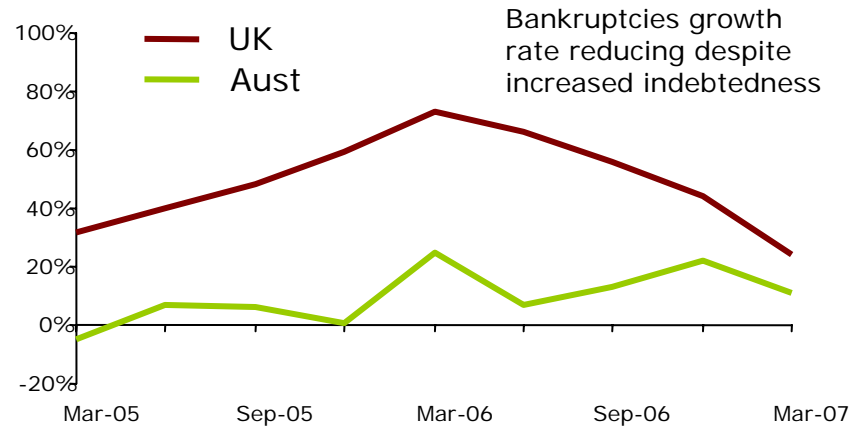
Risk appetite established with consideration for Group's financial performance targets

Bankruptcies and Debt Agreements

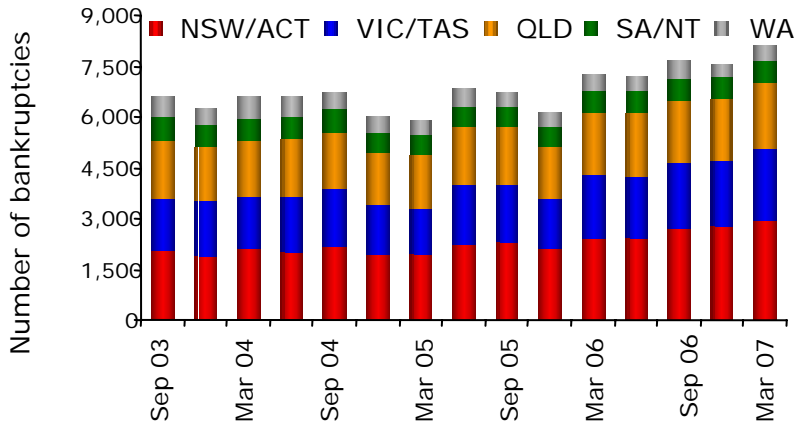
Household debt service ratio[#]



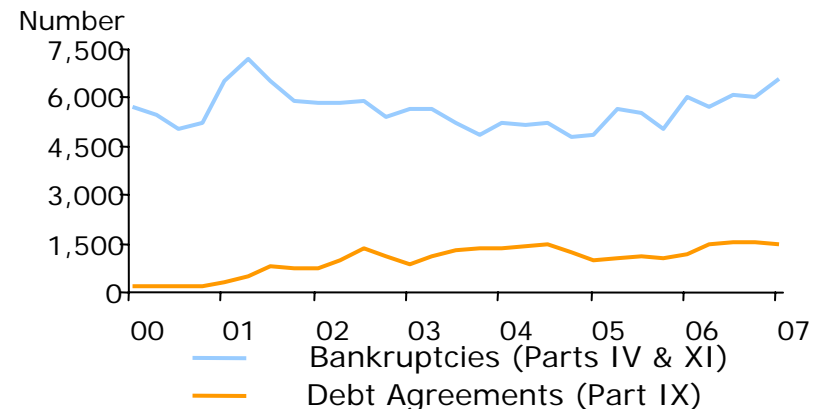
Rate of growth in bankruptcies^{^^}



Australian Bankruptcies upwards trend impacted by NSW*

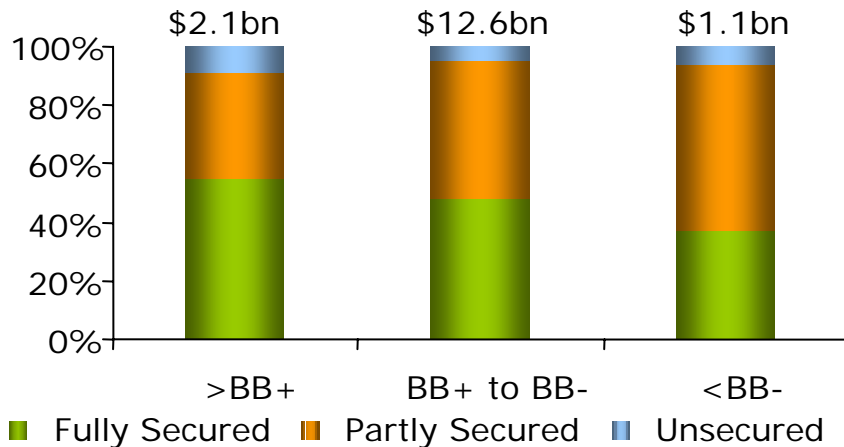


There remains no material shift in Aus. Personal Administrations

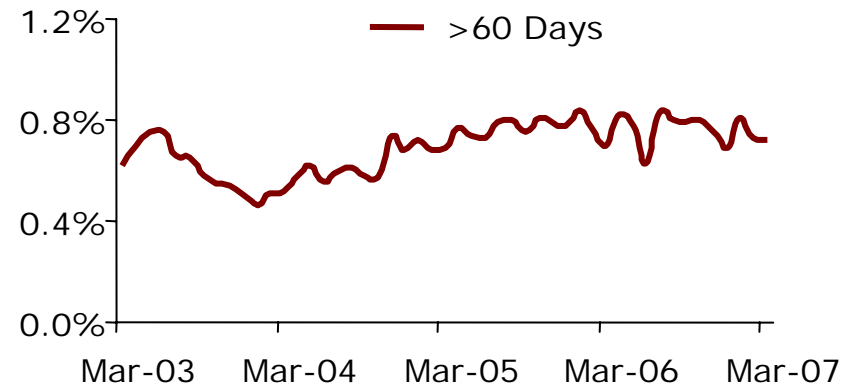


Business Bank - Credit quality remains sound, some losses in 1H07 but no systemic issues

Portfolio is well secured across different risk bands

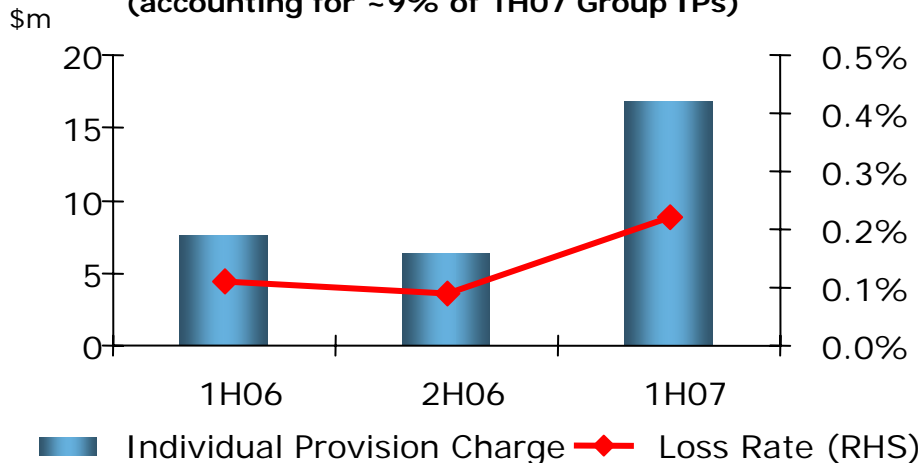


Delinquency trends steady*



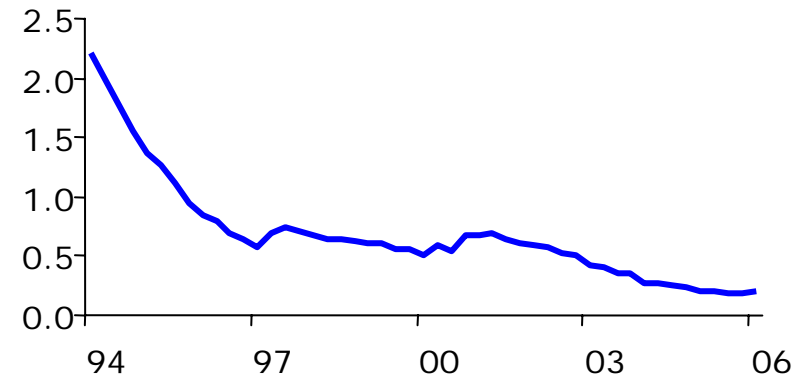
Increase in Individual Provisions impacted by 3 customers

(accounting for ~9% of 1H07 Group IPs)



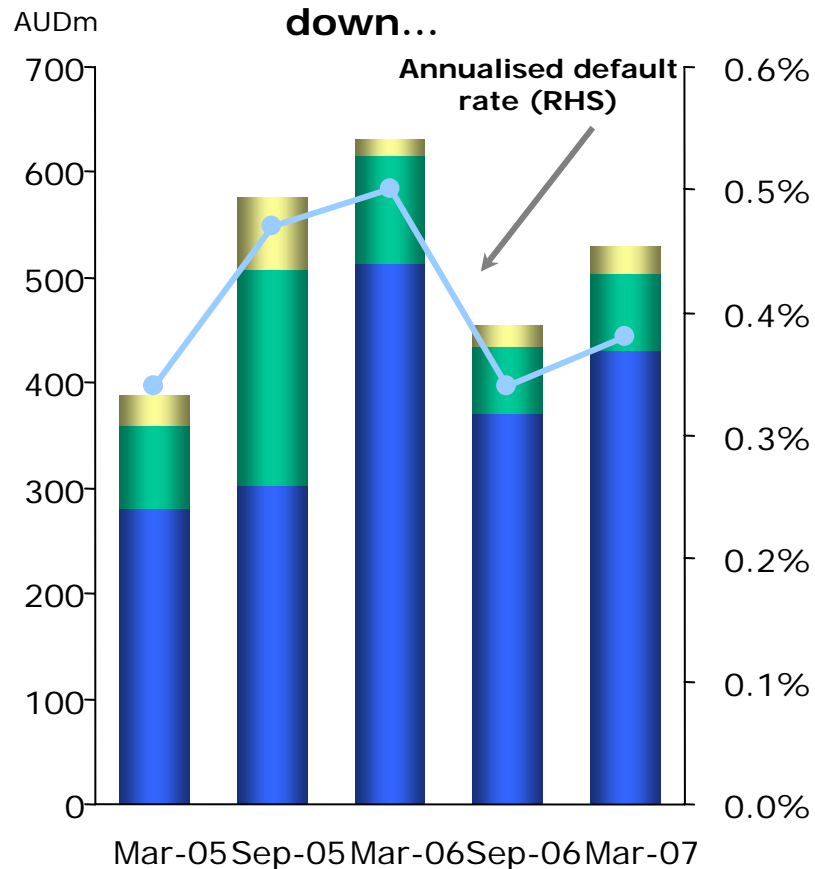
Very low levels of banking sector impaired assets^

(% of total assets)



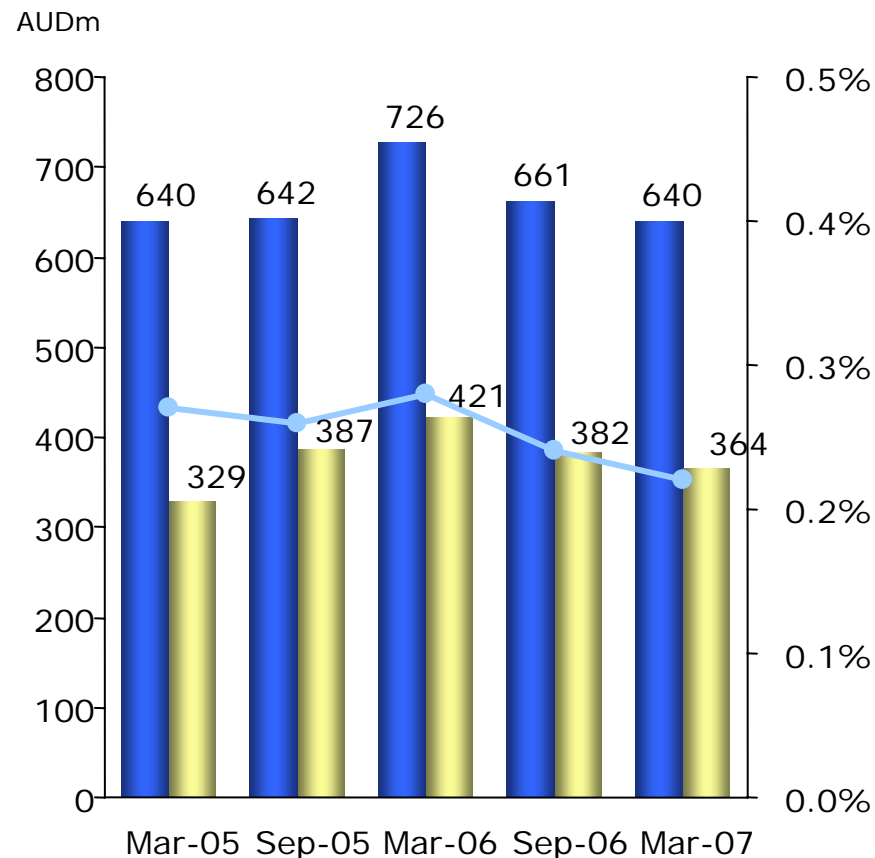
Non-performing loans remain stable

New Non-Performing Loans* relatively stable, default rate down...



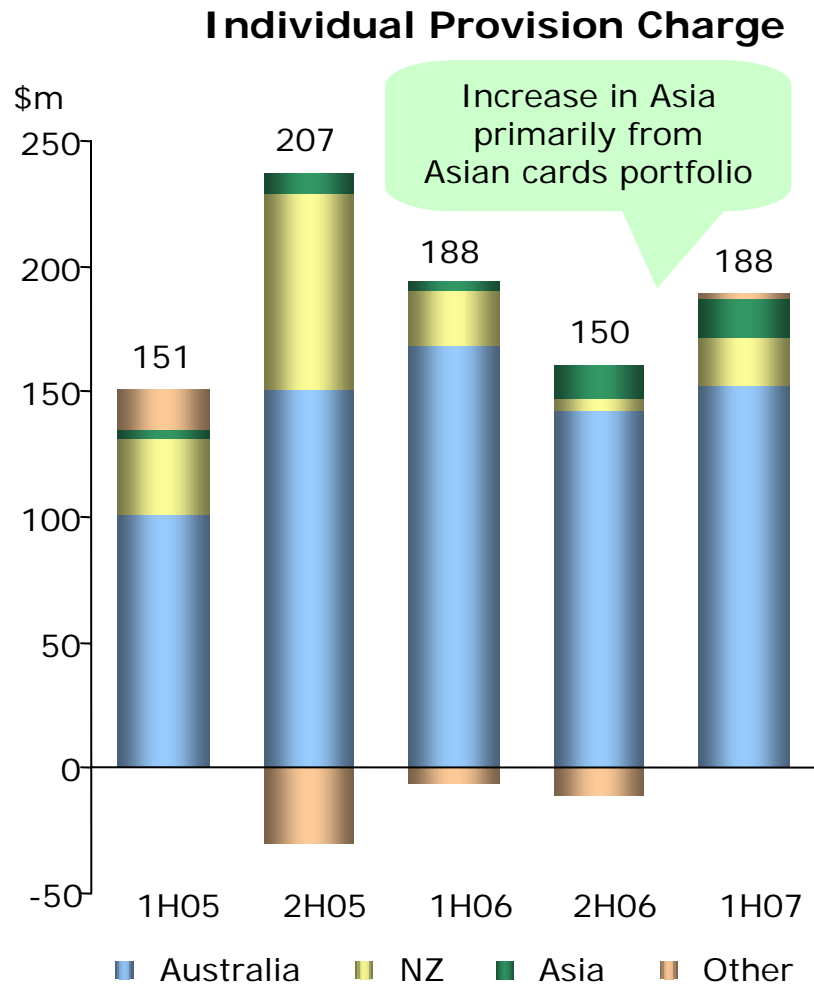
- International
- New Zealand
- Australia

...Non-Performing Loans* as a % of the portfolio down to just 0.45%

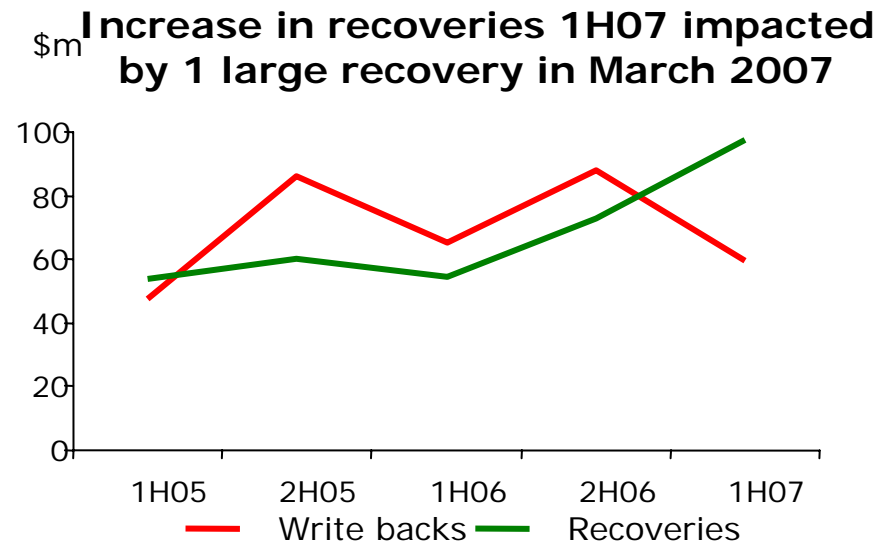
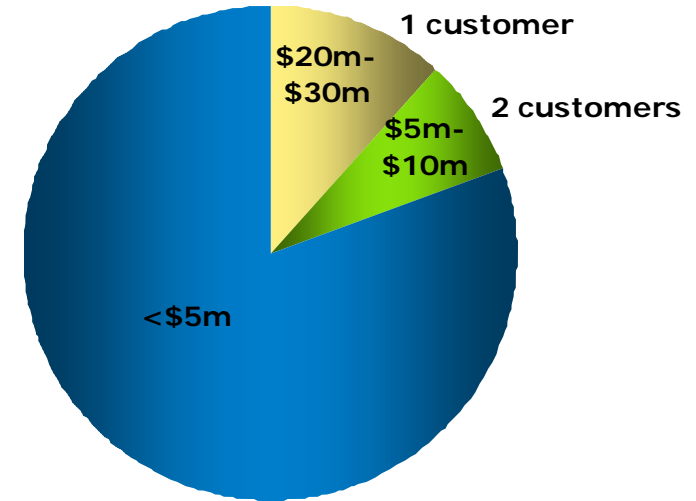


- Gross Non Performing Loans
- Net Non Performing Loans
- Gross NPLs / Gross Lending Assets (RHS)

Net Individual Provision charge remains at 2006 levels. High levels of recoveries unlikely to be repeated in 2H07



Individual Provision Charge



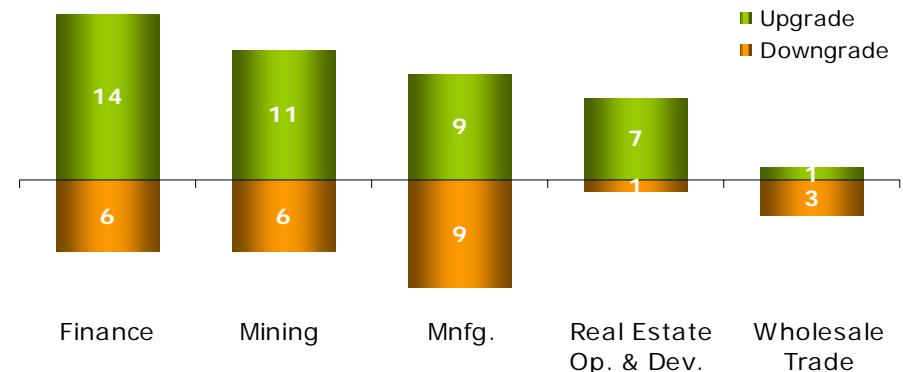
Risk grade migrations[#]

DPG Institutional

(Net Lending Assets \$18.6b*)

- Upgrades led downgrades 6.8% to 4.7%, with 81.4% of the total portfolio unchanged
- Positive re-ratings occurred within the portfolio, particularly the Finance and Mining sectors, following strong credit growth and buoyant resource commodity prices

DPG Institutional Risk Grade Migration Summary by Customer Group (1H07)

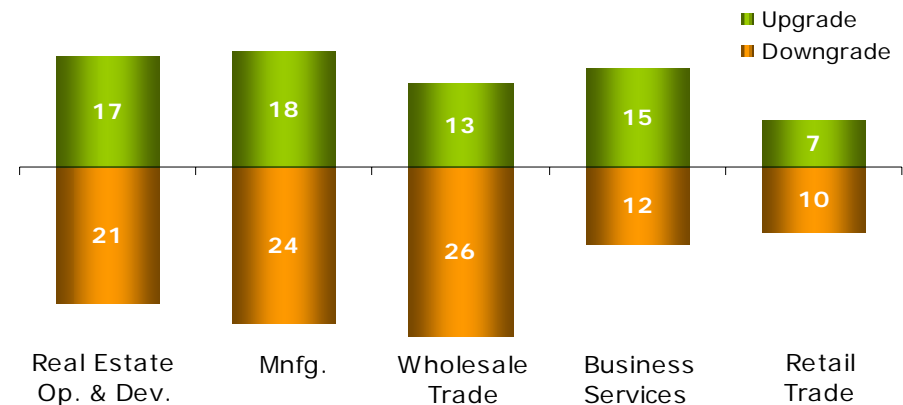


DPG Corporate

(Net Lending Assets \$14.4b*)

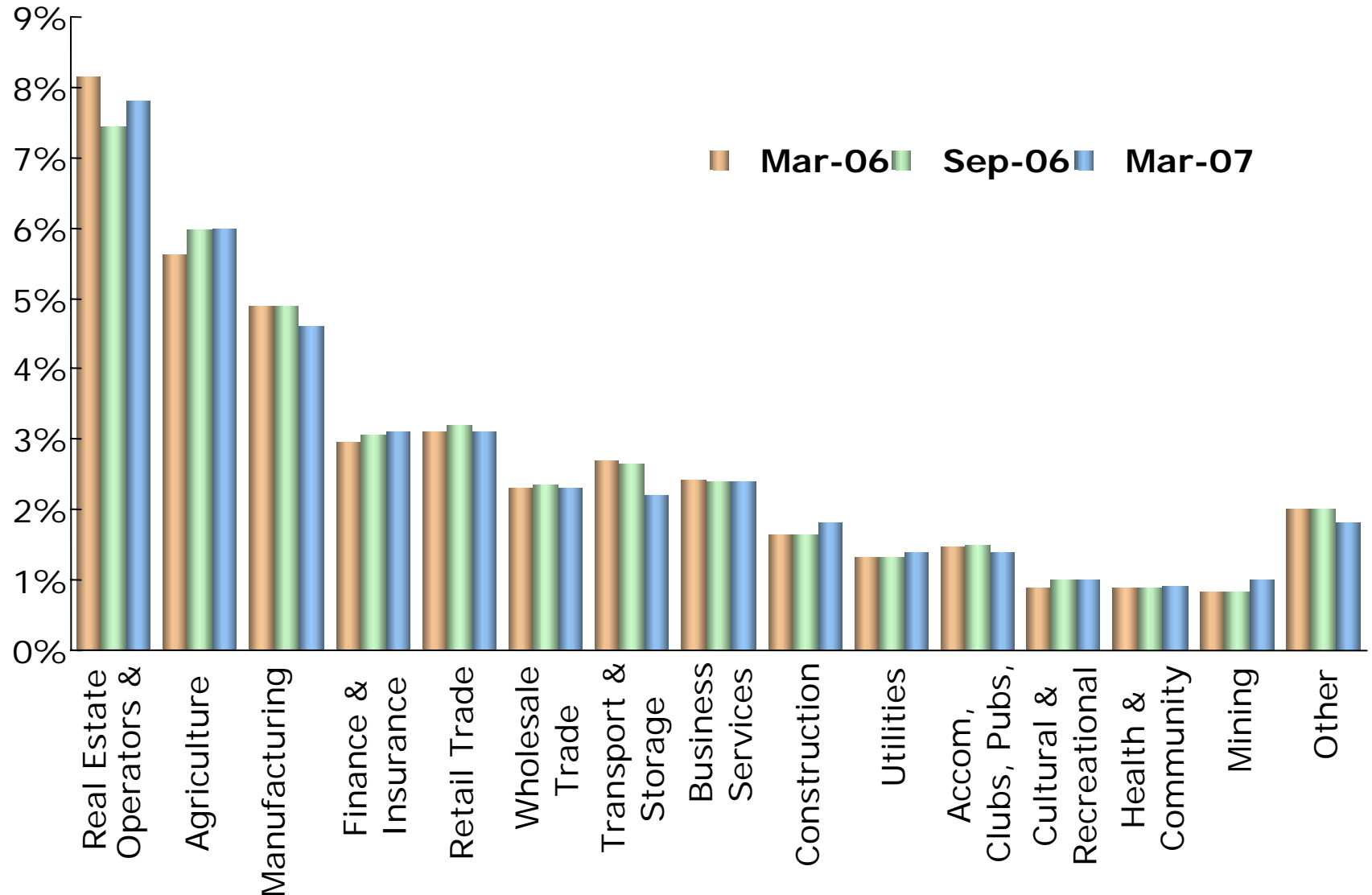
- Downgrades led upgrades 9.2% to 7.4%, with 77.8% of the total portfolio unchanged
- Re-rating within the portfolio, particularly within the Wholesale Trade, Manufacturing and Retail sectors, occurred due in part to the effects of slowing economic conditions associated with rising interest rates, higher raw material prices and changing consumer spending patterns

DPG Corporate Risk Grade Migration Summary by Customer Group (1H07)



ANZ continues to maintain a well diversified portfolio

% of ANZ Group Lending Assets



Proactive management of social and environmental risks a growing focus

ANZ Forests Policy providing greater transparency

- First of a series of ANZ Public policies / guidelines on social and environmental risks
- Framework for decision-making on transactions with potential to impact sustainability of native forests or forest biodiversity.
- Greater transparency and consistency
- Promoting high standards of environmental sustainability

Equator Principles identify and manage social and environmental risks

- Adopted by ~ 50 banks worldwide, over 85% of the global project finance market
- Applying to all project finance proposals, regardless of size,
- Rolling out best practice implementation toolkit and training to relevant staff
- Incorporated into existing decision-making processes.
- Analysis of existing project finance portfolio

Consumer Finance is at the forefront of Responsible Lending

Promoting responsible lending practices to ANZ customers with poor recent credit performance or on income support

What are we doing?

- ✓ ANZ Customer Charter includes new 'responsible lending promises' to prevent credit limit increase (CLI)
- ✓ Enhanced filtering process excludes CLI offers to recent "poor" credit performers
- ✓ A second behavioural scoring filter eliminates CLI offers to customers with "unreliable" credit history over a longer period
- ✓ Behavioural scoring tool has effectively reduced the pool of customers to whom ANZ would have otherwise issued a CLI offer by 11%
- ✓ ANZ's performance is independently audited and reported each year - the only Australian bank to commit to formal, public, auditable responsible lending promises
- ✓ Program will extend to all areas of ANZ Personal division

Economic factors impacting the credit environment

Australian Credit Cycle Trends– Key Facts

Credit quality remains sound

- No clear signs of *systemic* deterioration
- Private sector credit growth strong (near 15%) but converging towards income growth
- Consumer confidence trending upwards since 2006

Increased household debt more than offset by growth in net assets

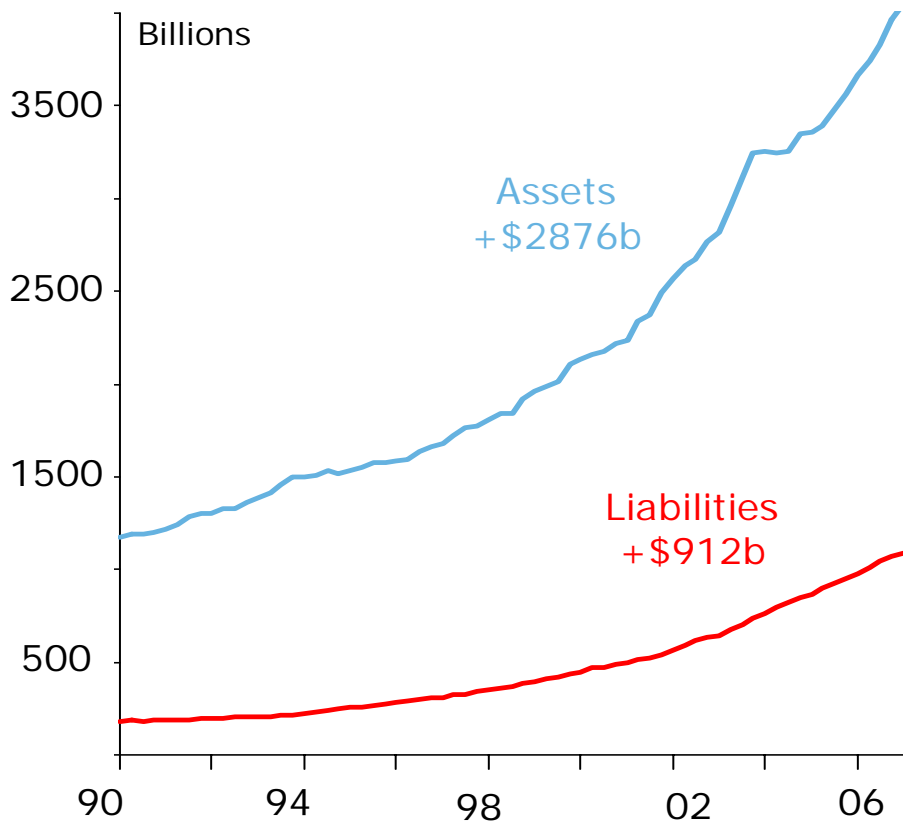
- 2/3 households have little or no debt
- HH debt to income and DSR at record levels but HH debt capacity high
 - HH assets dwarf liabilities
 - HH gearing increased < 10% over 17 years
- Housing affordability increasingly an issue

No indicators to support delinquency rise

- No proven relationship between DSR and NPL
- High correlation between unemployment and NPLs - unemployment at 30 year lows

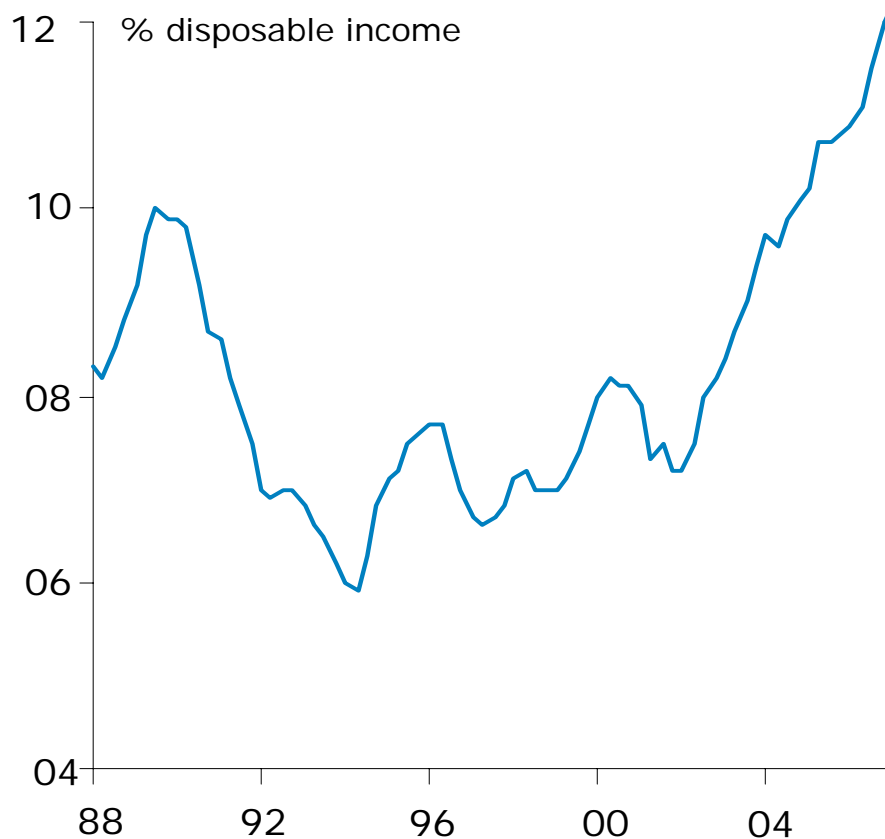
Household sector remains very well placed

Household assets dwarf household debt

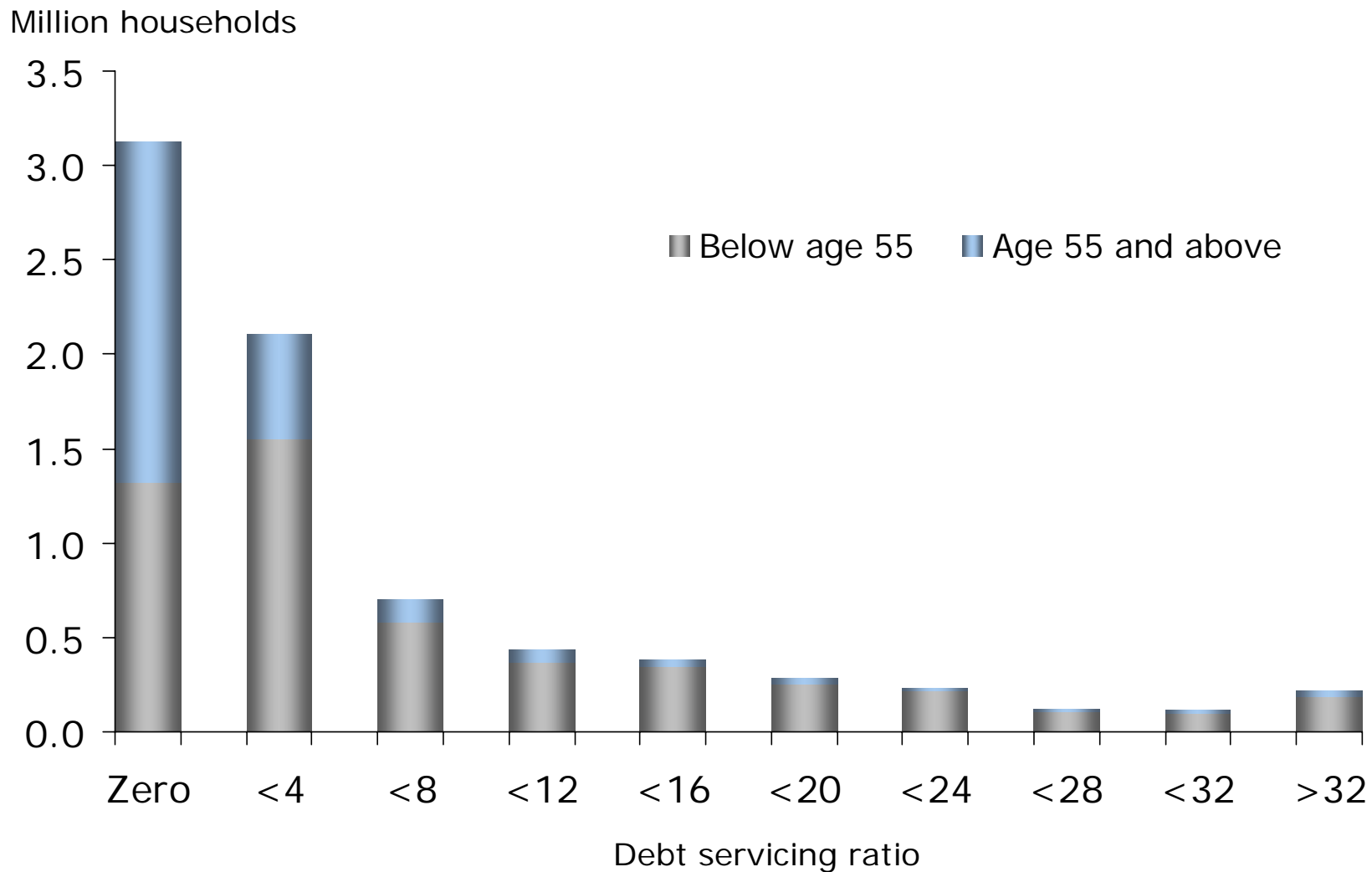


...and household debt has risen

Household % of income

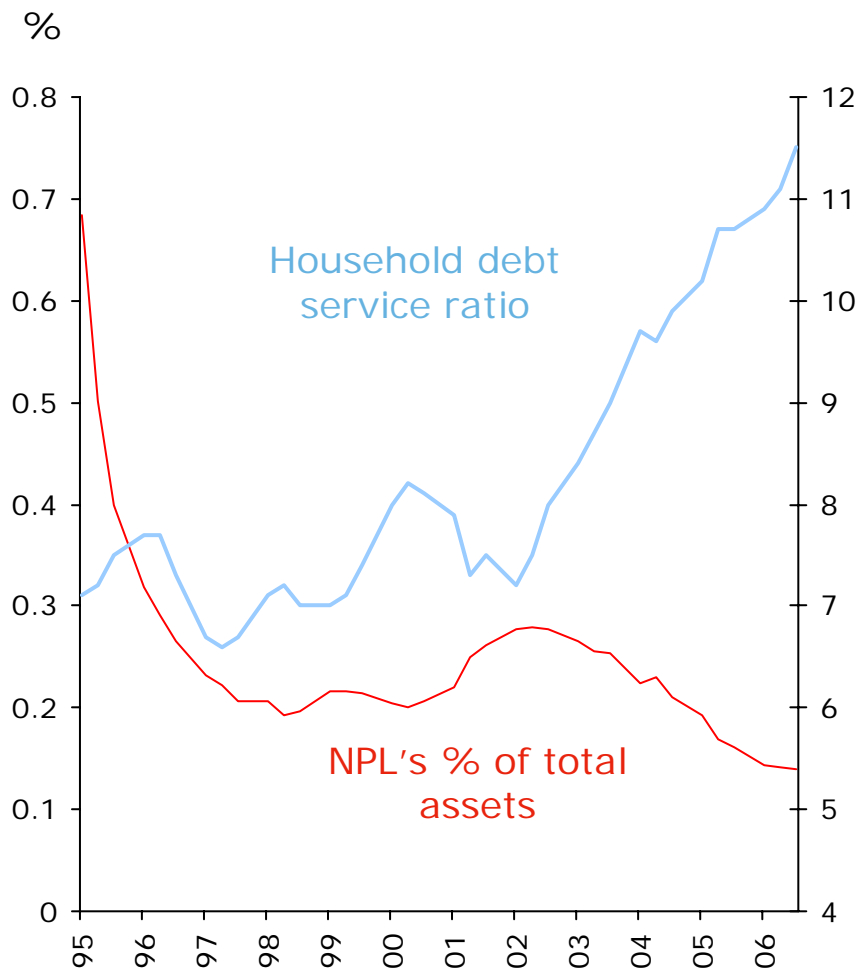


Two thirds of households have little or no debt...

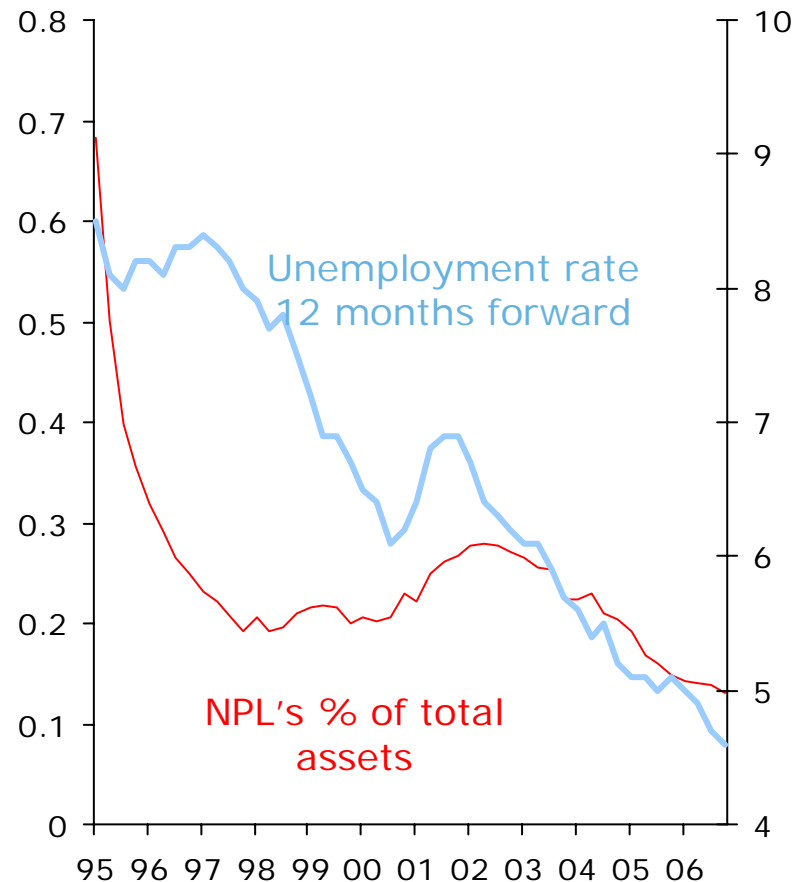


Total non-performing loans are more correlated with unemployment than household debt ratio

Household debt service ratio vs NPLs



Employment rate vs Non performing loans

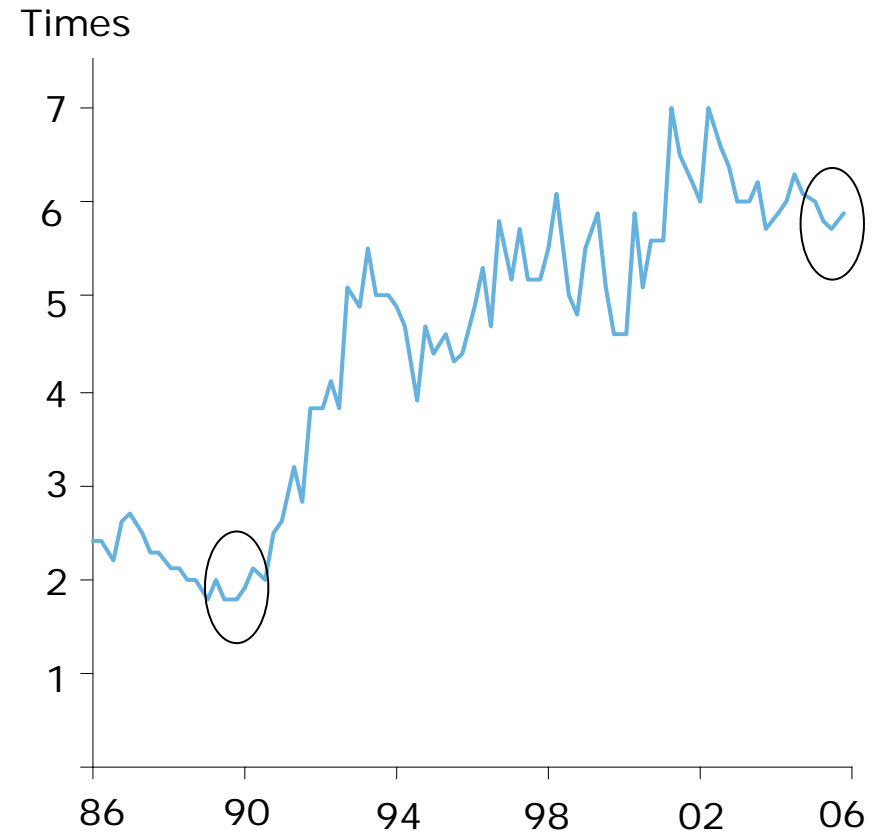


Corporate balance sheets are in better shape than ever before

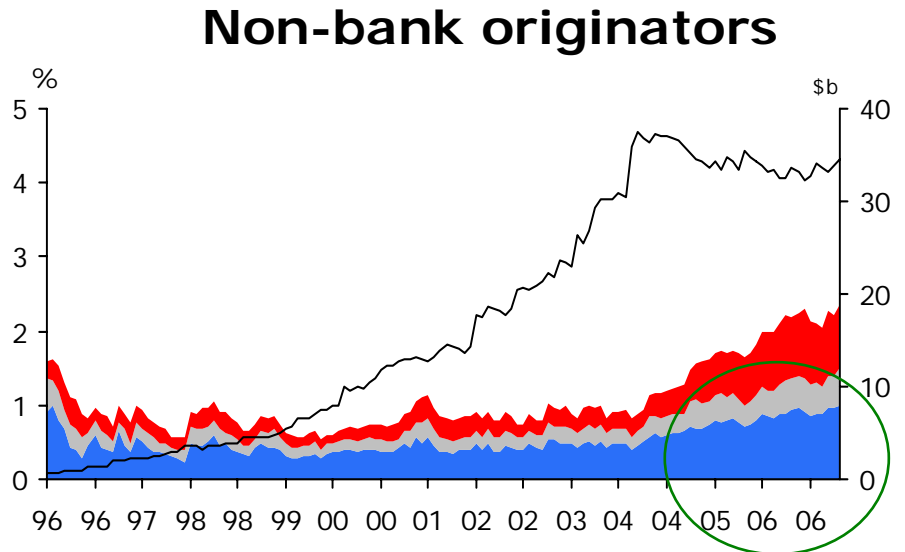
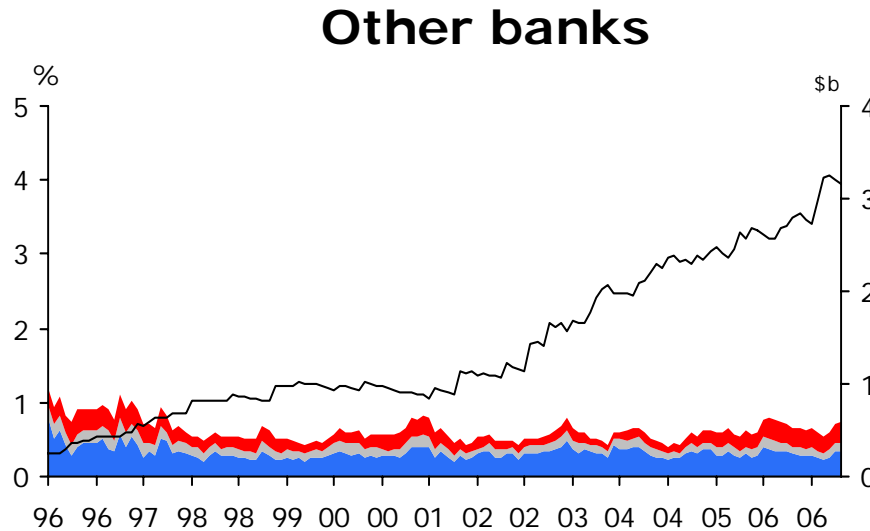
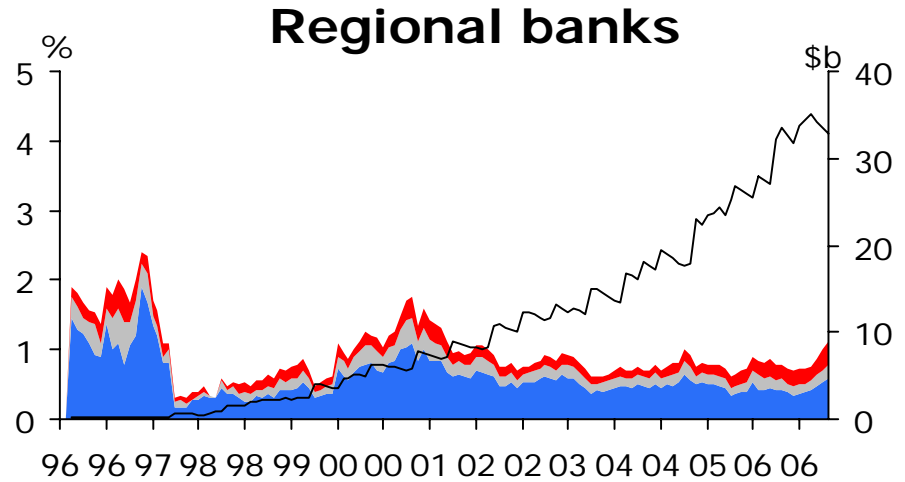
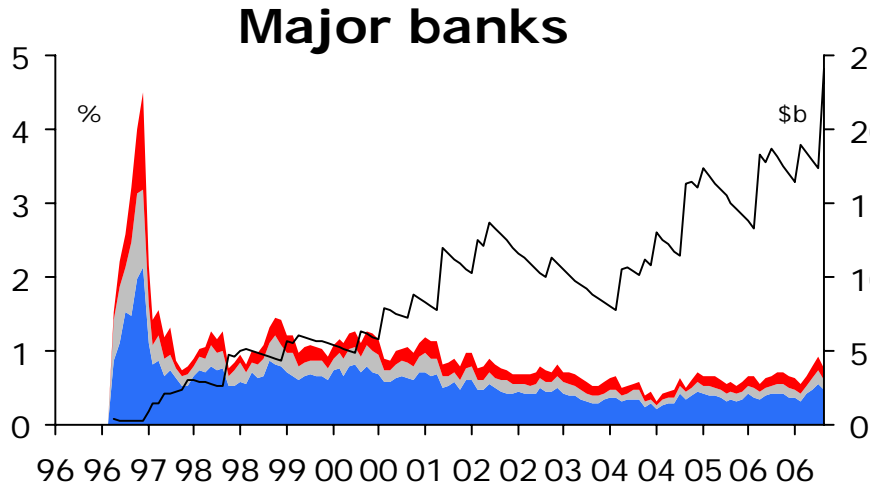
Corporate Gearing Ratio



Corporate interest cover



Rising mortgage loan delinquencies largely confined to non-banks



■ 31 – 60 days
 ■ 61-90 days
 ■ 90+ days
 — Total current loan balances (TCLB)

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.

For further information visit

www.anz.com

or contact

Stephen Higgins
Head of Investor Relations

ph: (613) 9273 4185 fax: (613) 9273 4899 e-mail: stephen.higgins@anz.com