U.S. Investor Website Update

September 12, 2016

Recent Developments

The purpose of this "Recent Developments" update is to supplement the U.S. Investor Website for information relating to:

- ANZ Capital Notes 4;
- Moody's outlook change;
- a class action complaint launched in the United States relating to bank trading and the bank bill swap rate;
- ANZ's trading update for the 9 months to June 30, 2016; and
- the Australian Prudential Regulation Authority's revised mortgage risk weight target.

References to "$" are to Australian dollars.

ANZ Capital Notes 4

ANZ intends to issue a new Additional Tier-1 capital security, ANZ Capital Notes 4, pursuant to an Australian prospectus.

On 24 August 2016, ANZ announced that following the bookbuild for ANZ Capital Notes 4, it will allocate $1.3 billion of ANZ Capital Notes 4 under the bookbuild, with the margin set at 4.7% per annum. The final size of the offer will be determined following the completion of offers described in the Australian prospectus for the ANZ Capital Notes 4. No action has been taken to register or qualify notes or the offer or to otherwise permit a public offering of ANZ Capital Notes 4 outside Australia.

ANZ Capital Notes 4 have not been, and will not be, registered under the US Securities Act of 1933, as amended (US Securities Act) or the securities laws of any state of the United States and may not be offered or sold in the United States or to, or for the account or benefit of, a US person (as defined in the US Securities Act).

ANZ comments on Moody's outlook change

On August 19, 2016, ANZ confirmed Moody's decision to revise Australia's macro profile has resulted in a change in the outlook for the major Australian banks, including ANZ, from stable to negative.

Moody's reaffirmed ANZ's Aa2 rating moving from Aa2 (Outlook Stable) to Aa2 (Outlook Negative) saying it expected a more challenging operating environment for the banks in Australia for the remainder of 2016 and beyond.

The ratings outlook change has not impacted Moody's rating of ANZ's baseline credit or counterparty risk assessment.

ANZ comments on US class action complaint

On August 18, 2016, ANZ confirmed it was among 17 banks and two international broking houses named in a class action complaint launched in the United States by two US-based investment funds and an individual derivatives trader.

The class action relates to bank trading and the bank bill swap rate (BBSW).

Since mid-2012 the Australian Securities and Investments Commission (ASIC) has been investigating the practices of 14 panel bank participants in the Australian interbank BBSW market. ANZ has rejected allegations regarding bank trading and the bank bill swap rate (BBSW) made in a statement of claim by ASIC in March 2016 and is vigorously defending the legal action brought by ASIC.

ANZ notes there has been no allegation by ASIC of collusion between it and other institutions.

ANZ will also be vigorously defending the US class action complaint.

ANZ Trading Update - 9 Months to June 30, 2016

Performance Highlights **Basis of comparison: Comparisons are based on the 9 months to June 30, 2016 with the same 9 month period for the previous financial year unless otherwise stated. The results are unaudited.**	
Group	• Statutory net profit $4.3 billion, down 23%. • Cash Profit (Adjusted Proforma[1]) $5.2 billion, down 4%. • Profit before credit impairment provisions was up 3%[2], with income increasing at a faster rate than expenses. Increased technology, D&A and project costs were offset by productivity savings including lower employee (FTE) numbers. FTE reduction continued at a steady rate through the period. • Group Net Interest Margin (NIM)[3] was stable assisted by portfolio rebalancing in Institutional offset by increased funding costs and asset pricing competition.
Retail & Commercial	• The Retail businesses in both Australia and New Zealand performed well. Retail experienced modest asset growth and margin pressure in a competitive market for mortgages and deposits. Small Business Banking remains an area of good growth in both markets, while conditions in Corporate and Business Banking remained highly competitive.
Institutional	• The rebalancing of the Institutional business continued with further reductions in lower yielding assets supported by business restructuring. • The ongoing focus on reducing and improving the quality of Risk Weighted Assets (RWA) has delivered a $15 billion decrease in Credit Risk Weighted Assets (CRWA) on a constant currency basis. Momentum has been consistent throughout the year to date with approximately a third of that total reduction in CRWA occurring in the third quarter. • Divisional revenue decreased by a lower percentage than the reduction in RWAs. At period end cost growth was in the low single digits benefitting from prior period productivity initiatives.[4] • The rebalancing of the business had a positive impact on the Division's margins of approximately 5 bps (excluding Global Markets). Including Global Markets margins declined 5 bps. [3] • Global Markets income was $1.5 billion, 90% of which came from Customer Sales flows.
Credit Quality **Including June Quarter APS 330**	• The total provision was $1.4 billion comprised of individual provisions of $1.34 billion and collective provisions of $60 million. • The third quarter individual provision was in line with the average of the First Half.

Capital	• APRA Level 2 Common Equity Tier 1 (CET1) ratio was 9.7% at June 30, 2016. • Excluding the payment of the 2016 interim dividend (net of the dividend reinvestment plan), CET1 increased 44 bps in the third quarter, primarily driven by cash earnings generation and capital benefits from the continued reduction of lower return assets in Institutional. • Further changes are expected to the average credit risk weighting of the Group's Australian residential mortgage lending book, resulting in a likely increase above those previously announced. The possible impact of this is set out below under the heading "ANZ comments on APRA revised mortgage risk weight target".

Specified Items – Capitalized Software

The ANZ 1H16 results outlined the impact of a number of items referred to as "Specified Items" which included changes to the application of the Group's software capitalisation policy effective from 1 October 2015. These Specified Items are excluded from Adjusted Proforma.

As outlined, the higher capitalization threshold and direct expensing of more project costs will result in higher software expense in the second half (Year to Date FY16 $126 million pre-tax which includes 1H16 $73 million pre-tax).

CEO Commentary

ANZ Chief Executive Officer Shayne Elliott said: "ANZ has now established a consistent focus on delivering the strategic outcomes outlined to shareholders in our First Half 2016 result.

"This includes a steady pattern of strong cost management outcomes and initiatives to rebalance our portfolio to improve capital efficiency and returns.

"There continue to be opportunities for growth in Retail and Commercial in Australia and New Zealand, and in Institutional Banking including business supporting trade and capital flows in Asia. For example, our leadership in launching Apple Pay and Android Pay in Australia has seen us attract significant numbers of new to bank retail customers and helped deepen relationships with our existing customers.

"The revenue environment for banking, however, is more constrained and this means a consistently strong focus on productivity and capital efficiency disciplines is now fundamental to the way we are running the business.

"Further good progress was also made on our broader strategic priorities: creating a simpler, better capitalized, better balanced bank; investing in attractive, winning market positions; leading a purpose and values led transformation to benefit our customers, staff and the community; and building capability to successfully compete in the digital age," Mr Elliott said.

Footnotes:

1. Adjusted Proforma refers to Cash Profit adjusted to remove the impact of Specified Items (please refer to 1H16 Results disclosures including Page 29 of the 2016 Half Year U.S. Disclosure Document). In the nine months to June 30, 2016 there have been approximately $790 million of Specified Items impacts. Cash profit excludes non-core items included in Statutory Profit. These non-core adjustments mainly relate to accounting timing differences that will reverse through earnings in future periods. In the nine months to June 30, 2016 there have been approximately $100 million of after tax non-core adjustments.
2. On an Adjusted Proforma basis.
3. All NIM commentary is June 30, 2016 compared to March 31, 2016. Group NIM at March 31 was 201 bps.
4. On an Adjusted Proforma basis. Page 48 of the 2016 Half Year U.S. Disclosure Document outlines the impact of Specified Items on the Institutional Division.

ANZ comments on APRA revised mortgage risk weight target

Following the announcement on Friday August 5, 2016 by the Australian Prudential Regulation Authority (APRA) reaffirming its revised average mortgage risk weight targets, ANZ advises that the average credit risk weighting of the Group's Australian residential mortgage lending book will increase.

The announcement by APRA provided an update on discussions and reviews it is conducting with the authorised deposit taking institutions (ADIs) accredited to use an internal ratings-based (IRB) approach to credit risk, regarding refinements to risk models as part of its routine supervisory process. APRA announced that it is recalibrating the impact of refinements to risk models on the required risk weighting for residential mortgages.

The exact increase for ANZ will not be confirmed until ANZ has submitted and had approved its new mortgage capital model, and APRA has completed its recalibration, but is expected to be within the 25% - 30% range recommended by the Financial Services Inquiry. This is expected to be effective in the First Quarter of FY2017.

This follows APRA's announcement of July 20, 2015 which advised changes to capital requirements for Australian residential mortgage exposures for IRB ADIs in response to a recommendation from the Financial Services Inquiry. The outcome of those changes was, from July 1, 2016 an increase in the average credit risk weighting applied to ANZ's Australian residential mortgage lending from approximately 15% to approximately 25%.

APRA has, since 2008, sought to strengthen major bank capital ratios through a number of adjustments to Risk Weighted Assets (RWA) across a variety of asset classes and risk types. This has the effect of the reported capital ratio remaining broadly unchanged despite ADIs increasing the absolute amount of capital held.

While the exact increase for ANZ remains uncertain, the table below sets out the impact of APRA's previously announced changes and the possible impact of additional risk model changes, on ANZ's Common Equity Tier-1 position (CET1), based on a credit risk weighting at the mid-point of the 25%-30% range recommended by the Financial Services Inquiry.

Credit Risk Weighting	**Common Equity $bn (at 9% CET1)**	**CET1 ratio Impact**
Increase from 15% to 25% (effective July 1, 2016)	2.5	-0.60%
25% to 27.5%	0.6	-0.14%
Total	3.1	-0.74%
Capital raisings Aug and Sept 15	3.2	0.76%

On a proforma basis as at June 30, 2016, based on a credit risk weighting at the mid-point of the 25%-30% range, ANZ's CET1 ratio would be approximately 9.0%.

Any 1% increase or decrease from the mid-point would have an impact on the proforma CET1 ratio of approximately 0.06% and on Common Equity of approximately $250 million.

ANZ believes that while the size of any increase in the RWA charge on Australian residential mortgages remains uncertain, it has the ability to meet its current stated capital objectives, including an internationally comparable capital position within the top quartile of international peers and an APRA CET1 ratio of approximately 9%.

ANZ’s capital plan includes:

- Rebalancing the Group’s capital allocation by continuing to reduce the amount of capital allocated to its Institutional Banking business and reviewing certain assets in the portfolio. In 9 months to June 30, 2016, Institutional Banking’ s Credit Risk Weighted Assets have declined by $15 billion (on an FX adjusted basis) and ANZ has completed the sale of its Esanda dealer finance business.

- Gradually reverting to the historical Dividend Payout Ratio range of 60-65% of annual Cash Profit.

Over time, ANZ expects that these and other initiatives will allow the Group to target a stronger balance sheet and capital structure. However alternatives such as providing a discount to the Dividend Reinvestment Plan (DRP) and/or DRP underwriting could provide additional flexibility if required.