

ANZ ASIA INVESTOR TOUR 2014

AUSTRALIA AND
NEW ZEALAND
BANKING GROUP
LIMITED

23 JULY 2014

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Risk & Regulatory

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ANZ Risk Framework supports the achievement of IIB's Strategic Objectives within the Group's Risk Appetite

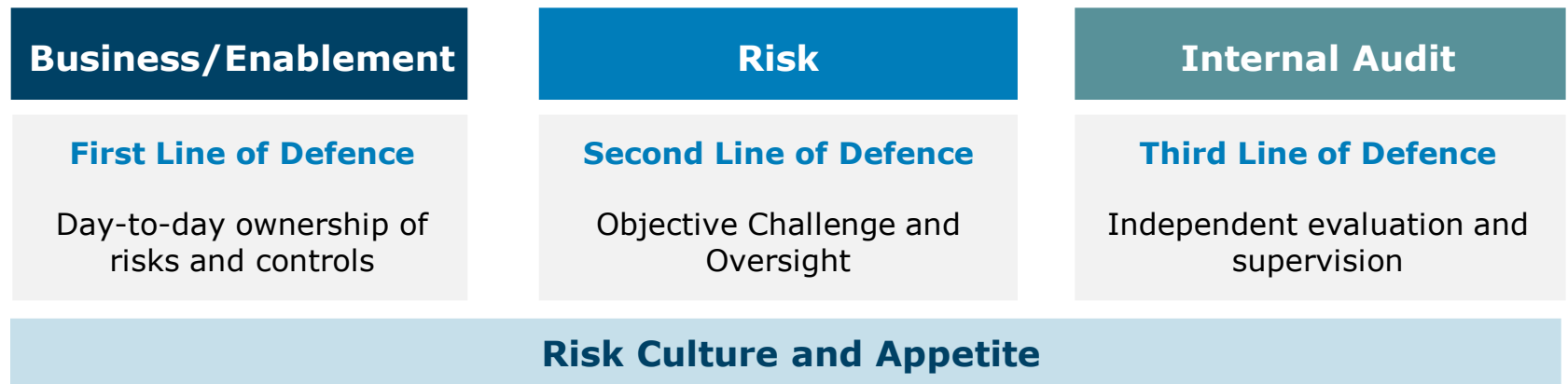


IIB governance mirrors Group governance model to ensure robust end-to-end risk management framework

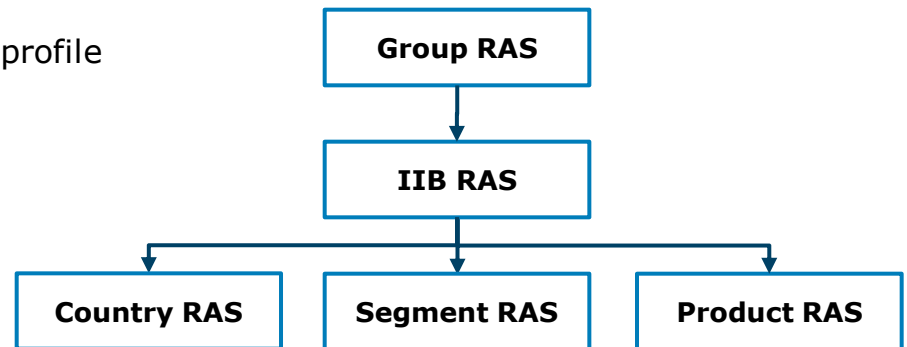
| | Credit Risk | Market Risk | Operational Risk | Compliance | Reputational Risk | Liquidity & Balance Sheet Risk (chaired by CFO) |
|---|---|-------------|---|------------|-----------------------------------|--|
| Board | Risk Committee | | | | | |
| | | | Technology Committee | | Governance Committee | |
| Group <small>(members including CEO IIB, Andrew Géczy & CRO IIB, Doug Stolberg)</small> | Credit and Market Risk Committee (CMRC) | | Operational Risk Executive Committee (OREC) | | Reputational Risk Committee (RRC) | Group Asset & Liability Committee (GALCO) |
| | Credit Rating Systems Oversight Committee (CRSOC) | | | | | |
| Divisional <small>(chaired by IIB CRO, Doug Stolberg)</small> | Risk Management Committee (RMC) | | | | | Asset & Liability Committee (ALCO) |
| | Product Committees | | | | | |
| Country <small>(chaired by Country CROs)</small> | Risk Management Committee (RMC) | | | | | Asset & Liability Committee (ALCO) |

Risk Culture and Appetite are Fully Integrated and Aligned

“Risk is the guardian of the Balance Sheet, Reputation and Strategy”



- Risk is included within Business Unit and Individual performance metrics
- Risk has input into Remuneration
- Effective challenge from second line of defence and oversight via governance model
- Group Risk Appetite Statement (RAS) is approved by the Board and cascaded across the Divisions / Business Units (country, client segment and product)
 - Used by management teams to monitor risk profile
 - End-to-end coverage of all risk types
 - Qualitative and quantitative
 - Monthly dashboard reporting and escalation framework



Global approach to risk management executed locally

“Setting the bar high”

ANZ operates a Global Risk Framework which specifies stringent standards required to be consistently met across the globe. The Risk Operating Model is based on global expertise for specialised and technical areas of Risk, executed locally by experienced jurisdictional management and Risk teams

Subject Matter Expertise

- Specialist and technical expertise include Market Risk, Wholesale Credit, Product specialisation (e.g. project and structured financing), Client Segment specialisation (e.g. Natural Resources, Financial Institutions and Government, etc.), Compliance

Local Execution

- Global frameworks and policies are implemented through the local Risk teams
- Local in-country Risk teams are capable of and accountable for managing all risk disciplines in their specific jurisdiction and they hold primary accountability for Compliance and Operational Risk

Global Consistency

- Scale, knowledge sharing and DRP/BCP are enabled through centres of excellence in Melbourne, Wellington, Bangalore, Manila and Chengdu

Comprehensive risk management processes and controls ensure global consistency and disciplined execution

Credit & Country Risk

- Consistent global credit principles and policies
- Dual credit approval process ensures Business and Risk support for transactions
- Early Alert process in place to proactively manage deteriorating credits and emerging risks
- Deep-Dive portfolio reviews directed by Risk Management Committee
- Exposures to countries are managed by a specialist team through a country limit framework which takes into consideration various factors including macro economy, jurisdictional enforcement, product types, tenor, etc.
- Deep in-country experience across the region (Asia is not one country). Country CRO's have right of veto on decisions impacting their balance sheet and portfolio
- China example - Customer selection, jurisdictional selection, Trade beneficiary and applicant selection, exposure diversification

Market Risk

- Value at Risk limits authorised and monitored globally for both traded and non-traded market risk. We are driving uncorrelated / diversification of our market risk
- Fit for purpose systems for more granular measurement and reporting: Market Risk Engine, Counterparty Credit Risk Engine, Derivative Valuation Rebuild – Credit Valuation Adjustment, Funding Valuation Adjustment. All new business investment plans include Risk Technology and resourcing requirements
- Conduct risk / risk culture – rogue trader controls, Trade systems and communication surveillance framework, Customer suitability framework, training
- The Markets Risk team based in APEA has increased 28% since 2012 and now represent 53% of the Global Markets Risk team

Comprehensive risk management processes and controls ensure global consistency and disciplined execution

Liquidity & Balance Sheet Risk

- Policy and framework established by Group ALCO and Group Treasury including standard minimum liquidity and funding parameters tested under different scenarios
- Compliance with the metrics is overseen by the Market Risk team and ALCO
- Stress testing methodology ensures that asset portfolios are structured for both credit and liquidity characteristics e.g. Trade Finance – short term and self-liquidating with favourable liquidity characteristics
- Proactively managing capital efficiency and productivity

Operational Risk

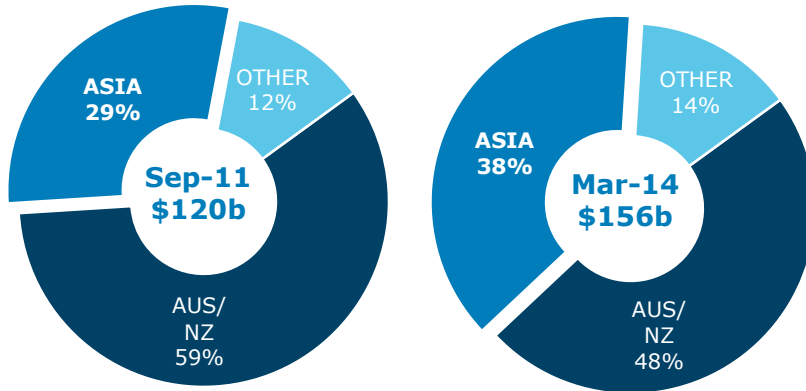
- A standardised Operational Risk Measurement and Management Framework ensures global consistency in identification of key risks and controls across all functional business lines
- All in-country High residual risks are escalated to the Divisional IIB RMC for review and acceptance of Treatment Plans. Local execution of these Treatment Plans is centrally monitored
- Quality Assurance and Key Control Testing embedded within all Business Units
- In-country Business Unit Risk Forums have been established to enable management to identify emerging risks, resolve issues and track remediation plan implementation
- In addition to Group standard controls, unique local controls are implemented to address specific jurisdictional risks
- Strong emphasis on documentation risk and enforceability

Compliance

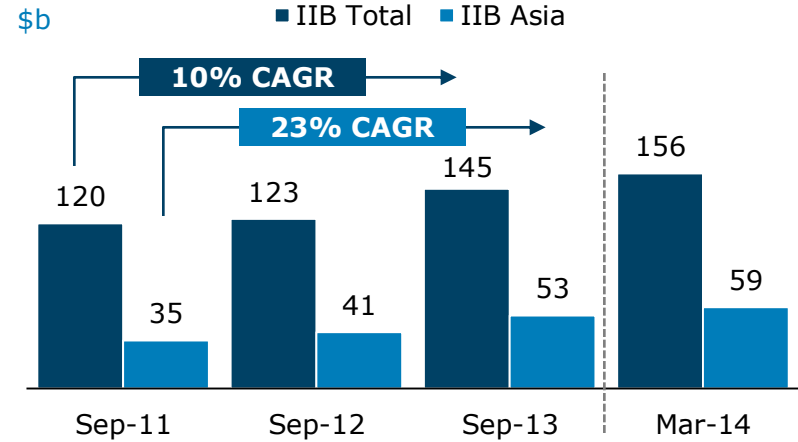
- Global compliance framework ensures consistently high compliance standards in all the jurisdictions in which we operate – default to the most stringent jurisdictional standard wherever possible
- Conduct: Clear expectations set and reinforced for all staff, particularly in Global Markets
- Customer suitability / sales governance frameworks closely monitored and regularly enhanced
- Established a global Centre of Excellence for AML/CTF compliance support
- Regulatory risk: We are committed to strict compliance given the number of jurisdictions we operate in and the changing regulatory landscape

High quality credit risk profile maintained through growth phase “We will not compromise our standards”

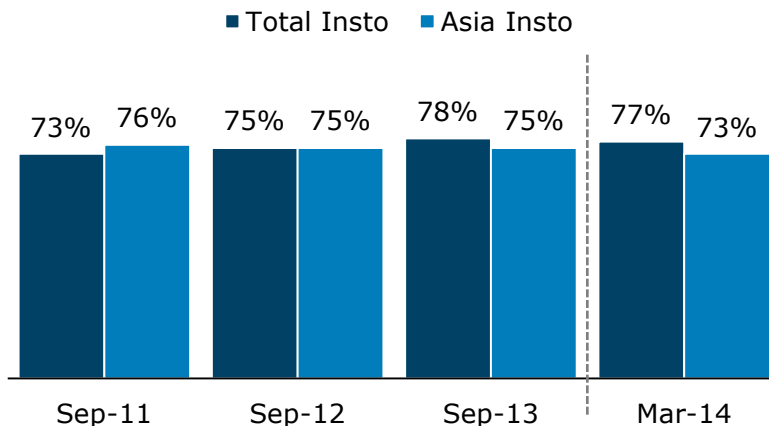
IIB portfolio composition Credit Risk Weighted Assets (CRWA)¹



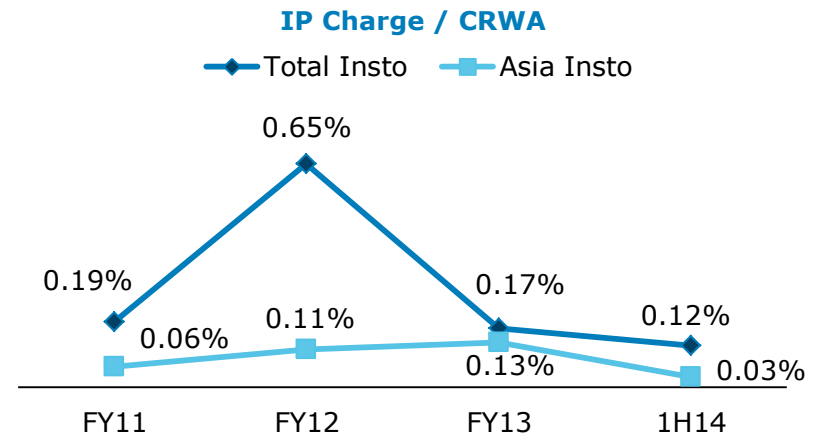
CRWA Trend



Portfolio Quality Investment Grade as % Exposure at Default



Low credit provision charges



1. "Other" comprises of Europe, America and Pacific.

IIB's strategic priorities have clear implications for our areas of focus over the coming two years

| IIB STRATEGIC PRIORITIES | KEY AREAS OF FOCUS FOR RISK |
|--|--|
| Connecting more Customers by Providing Seamless Value | <ul style="list-style-type: none">• Simplify Risk processes to streamline decision making and ensure consistency• Establishment of Peak Credit Appetite globally to enable effective and timely responsiveness to customer requirements• Extend target client appetite into key business corridors and supply chains – banking our customer's customer• Connecting the global Risk team in alignment with global Relationship teams driving multi-jurisdictional client relationships – consistency in appetite |
| Delivering Leading Products through Insights | <ul style="list-style-type: none">• Drive greater alignment between specialised Risk resources and Business growth / priorities – investing in specialist Risk expertise• Deploy Risk resourcing / expertise globally in alignment with Business leadership |
| Intensifying Balance Sheet Discipline | <ul style="list-style-type: none">• Improve capital efficiency through active business / portfolio reviews and enhanced data management |
| Scaling & Optimising Infrastructure | <ul style="list-style-type: none">• Increase and enhance the use of Centres of Excellence to drive global efficiency, scalability and Best Practice• Adopt Global Risk systems, processes and policies wherever possible (do things one way globally) |

Proactive relationships with our Regulators

ANZ recognises that our relationships with regulators need to be strong and well managed to sustain respect and trust. Our objective is to be open, transparent, and collaborative in our regulator interactions, and demonstrate our ongoing commitment to strict regulatory compliance

| | Responsibility | Areas of focus |
|---|---|--|
| Group | Oversees a global regulator engagement approach | <ul style="list-style-type: none">• Provides global insights to support local engagement• Identifies matters relevant to multiple regulators• Performs consolidated reporting of regulatory obligations and engagement |
| Country CEO and CRO in conjunction with Head of Compliance | Manages local regulator engagement | <ul style="list-style-type: none">• Communicates summary of local regulator interactions to Group• Escalates issues to Group as necessary• Performs local regulatory reporting |

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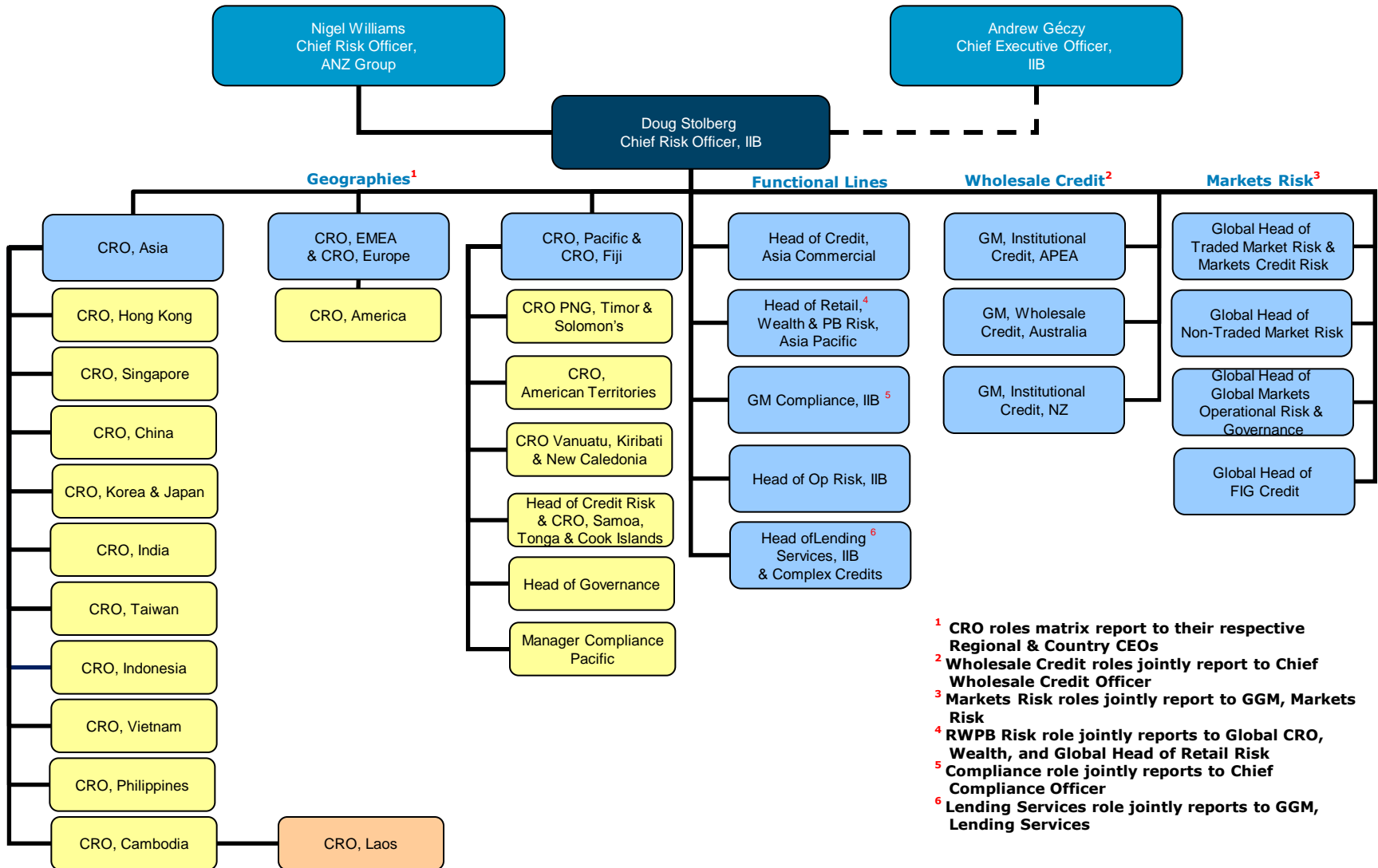
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IIB Divisional Risk Management Structure



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