



# Mortgages

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Wednesday, September 19 2007

# Mortgages Overview

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Mortgages is an end to end business

- Sales management for nonbranch channels (60% of sales)
- Servicing and fulfilment for all consumer home loans

Most awarded Australian home lender

- Home Loan Lender of the Year 9 times<sup>1</sup>
- 2nd most Cannex 4 and 5 star awards among majors

Core Proposition is convenience, simplicity and responsibility – not price

- Customers can get a market leading home loan through their channel of choice, for the same competitive price
- Focus is on a simple and easy customer experience

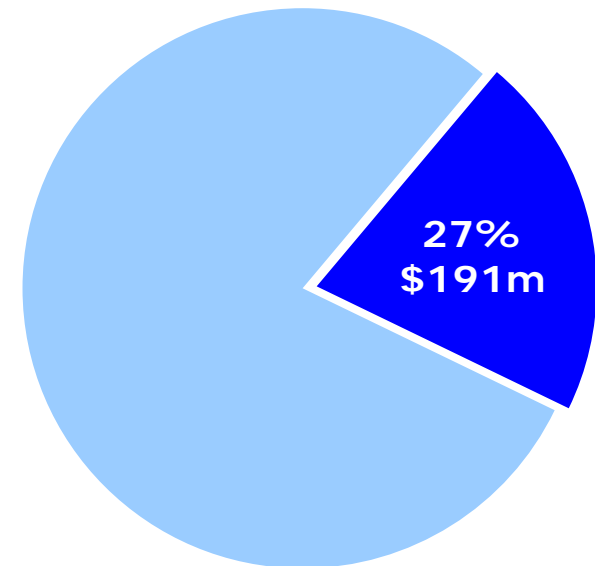
Second fastest growing major home lender

- FUM growth ahead of market
- Margin compression continues due to global liquidity squeeze
- Business process transformation will reduce unit costs

Bears full impact of volatility in short term funding costs (basis risk) rather than Group Treasury

Arrears increasing in line with expectations

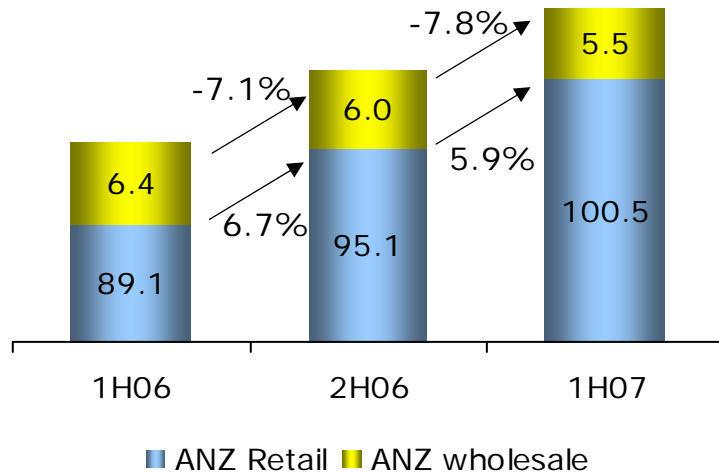
## Contribution to Personal Division NPAT (1H07)



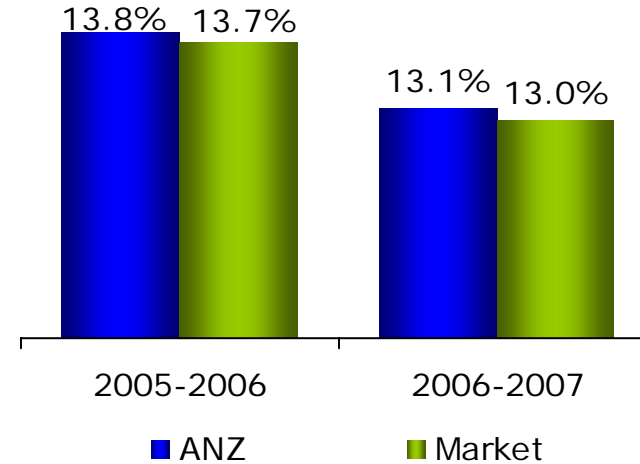
1. Money magazine's Home Loan Lender of the Year 2007, 2006 and 2005  
Personal Investor magazine's Home Lender of the Year 1999-2002, 2004 and 2005

# Retail mortgage loan book growth continues

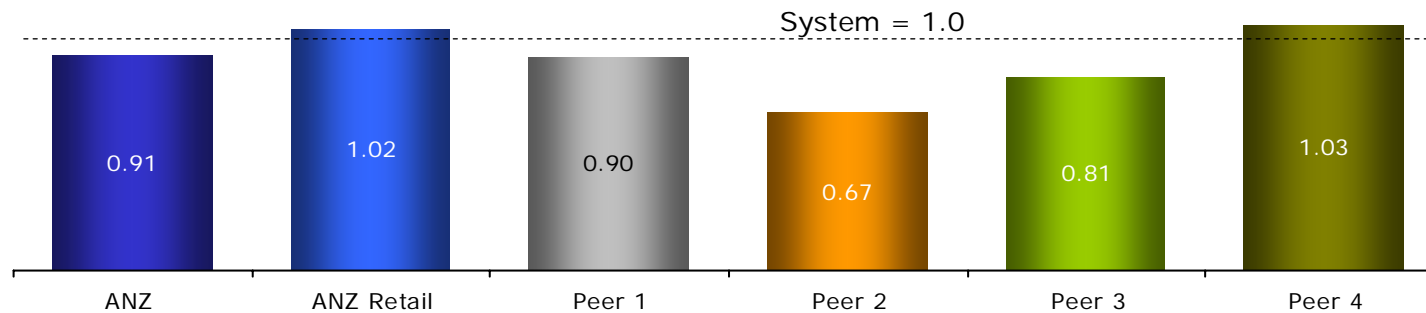
Continued strong Retail FUM growth, offset by Origin decline (\$b)



Retail FUM growth remains just ahead of market (06/2006 - 06/2007)



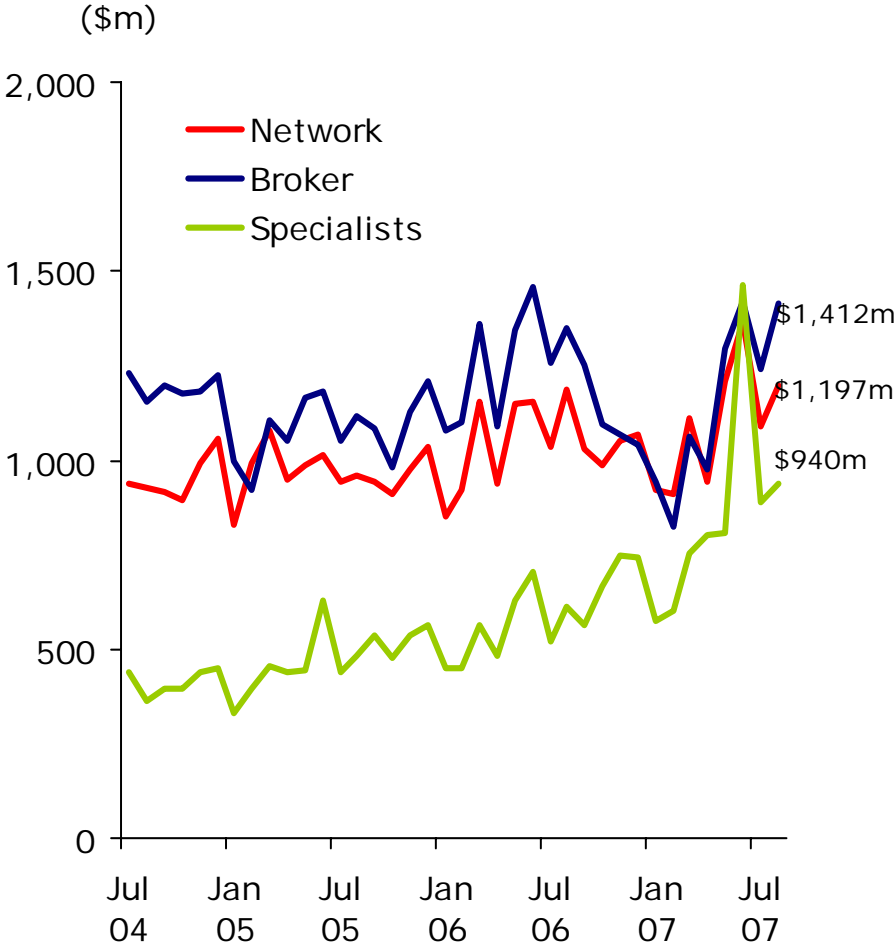
ANZ Retail (excluding Origin) second fastest growing major bank (volume growth relative to system July 06 – July 07<sup>1</sup>)



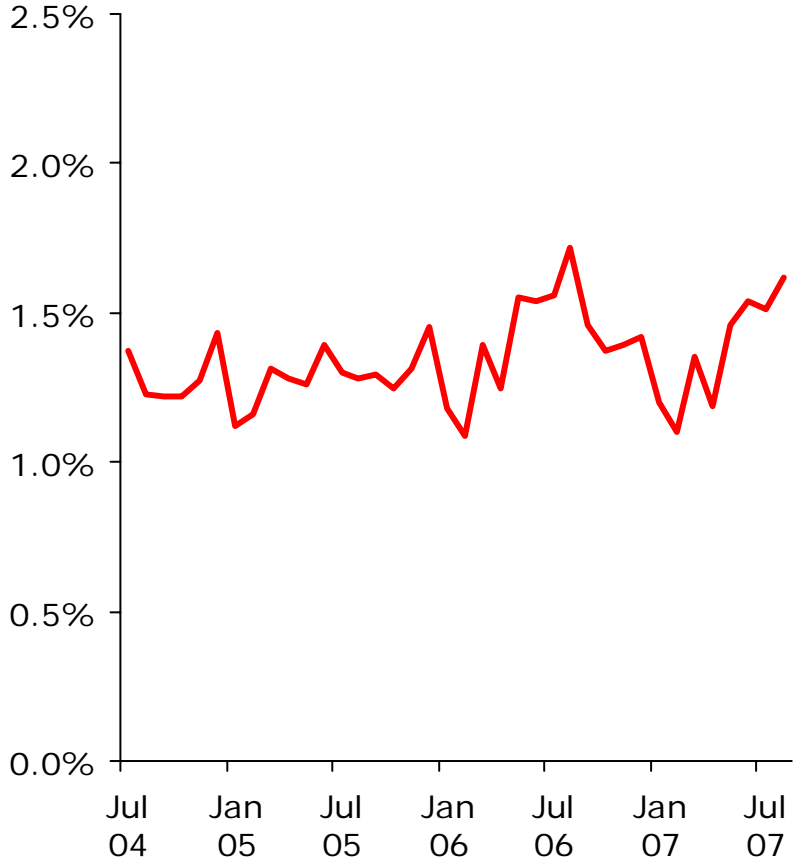
1. Source RBA. \*ANZ Retail includes all channels except Wholesale

# Strong sales and low prepayment rates in 2007

**Monthly Sales remain strong**  
ANZ Retail

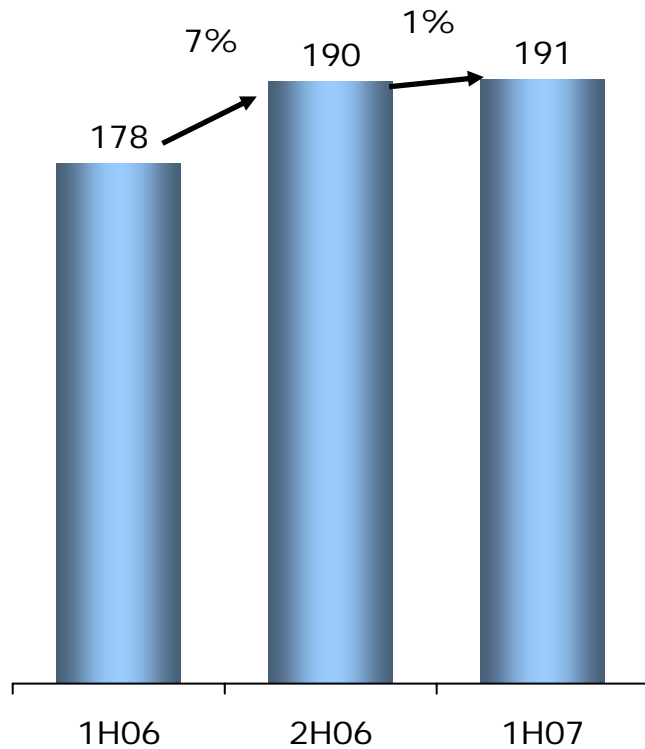


**Low Monthly Prepayment Rates support FUM growth**  
Payment in advance of schedule



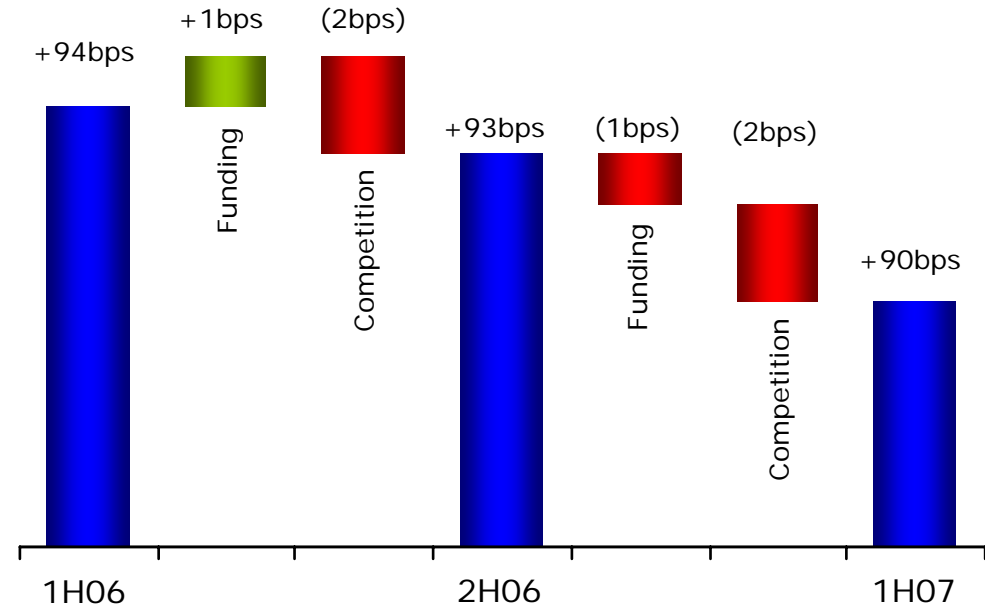
# Earnings constrained by margin compression

Earnings growth constrained in 1H07... (NPAT \$m)



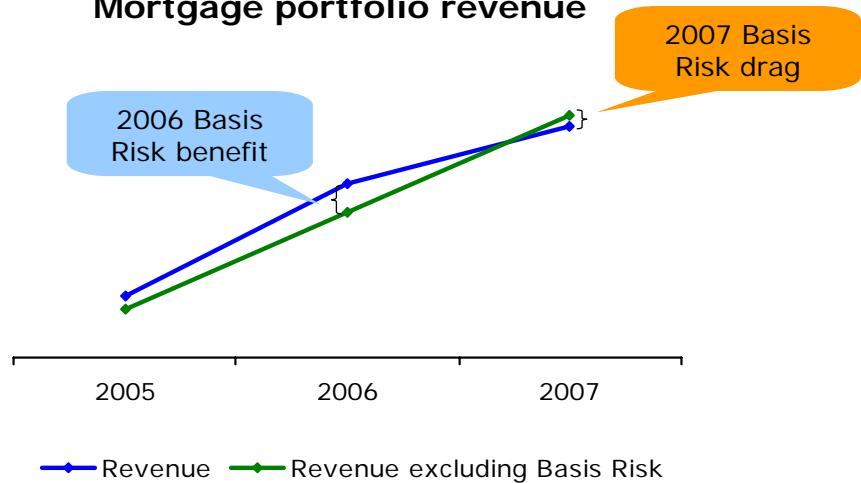
...impacted by margin pressure

Mortgages Average Margin Basis Points

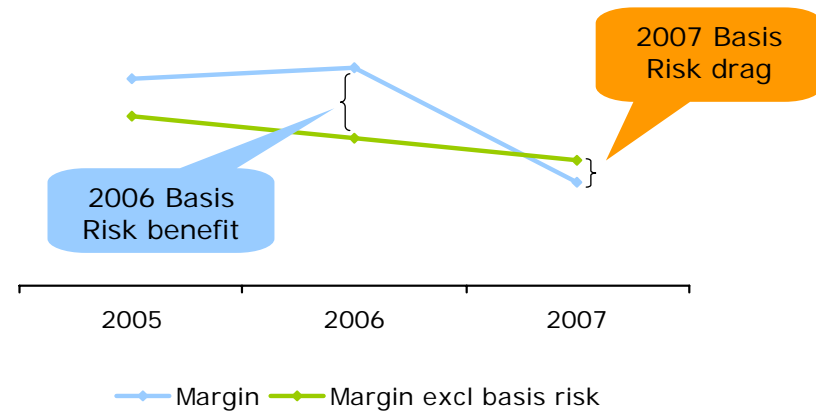


# Normalising for basis risk shows consistent growth

### Mortgage portfolio revenue

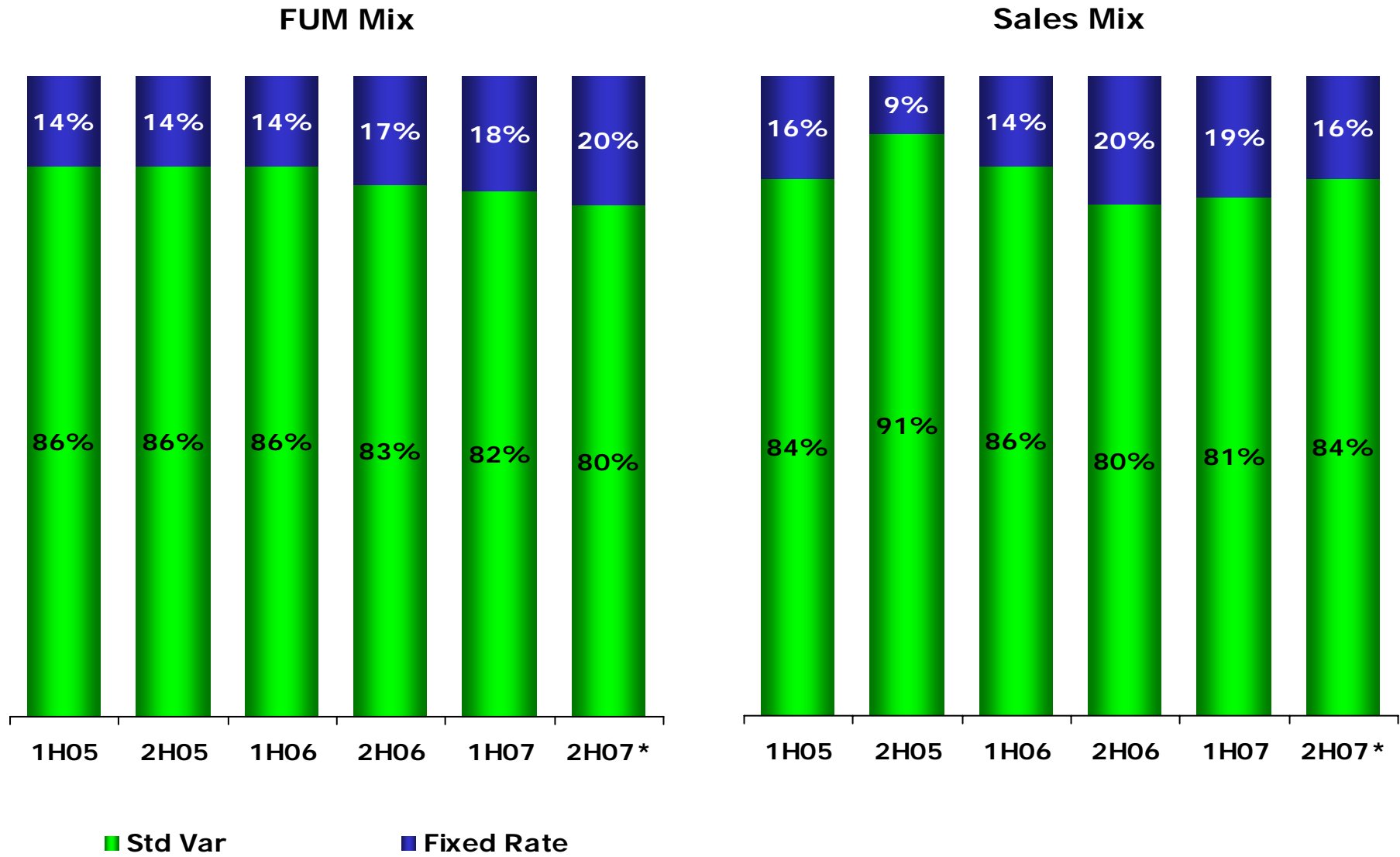


### Mortgage Portfolio margin



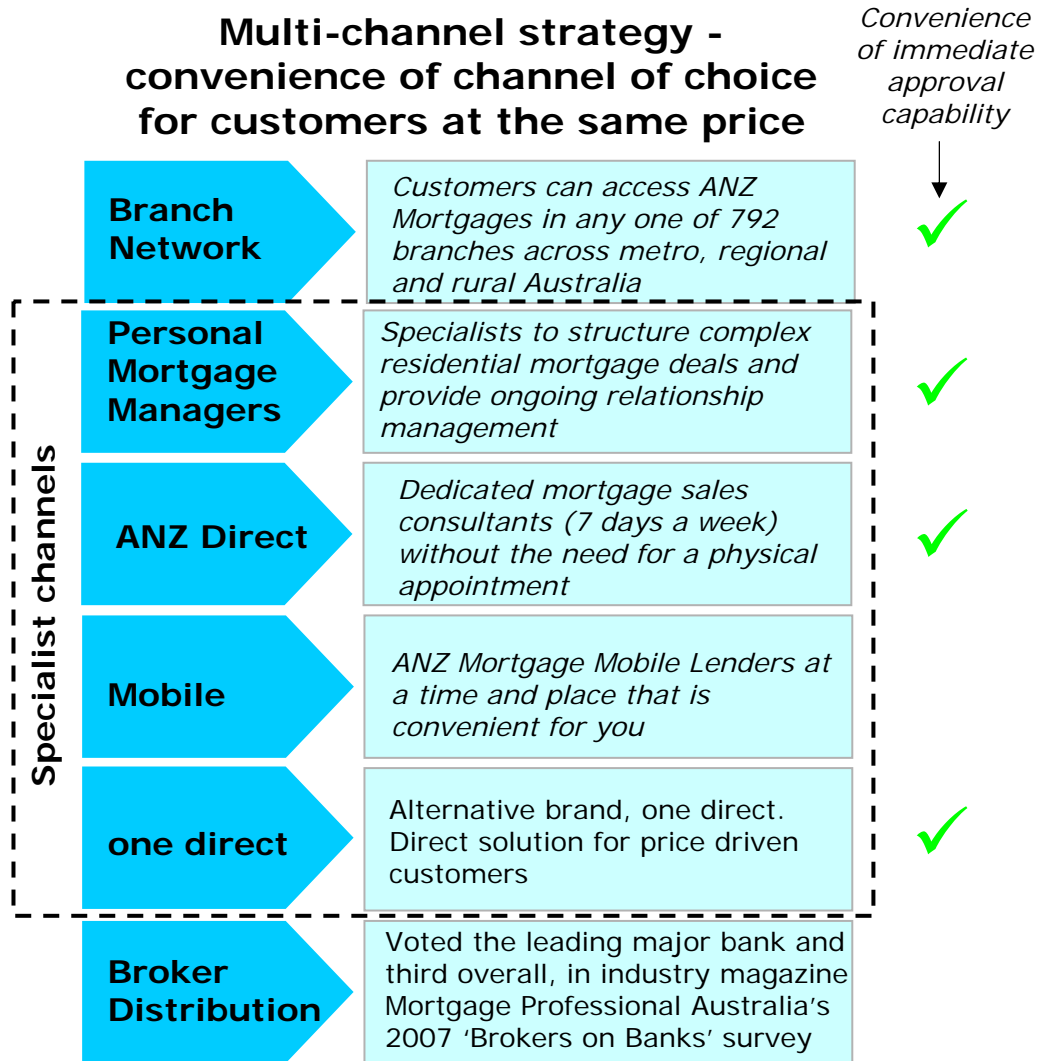
- Normalising for wholesale funding volatility shows a consistent growth of Mortgages' revenues
- Margin decline largely driven by wholesale funding volatility between 2005 and 2007 - Underlying margin decline in line with external benchmarks

# Margins have also been impacted by a shift to fixed rates

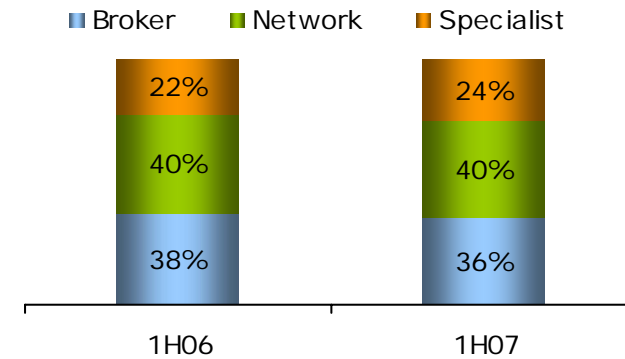


# Multi-channel convenience will continue to drive growth

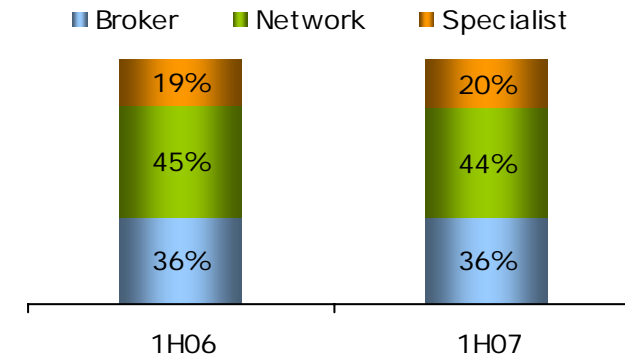
## Multi-channel strategy - convenience of channel of choice for customers at the same price



## Mix of distribution channels (% flows)



## Mix of distribution channels (By FUM)



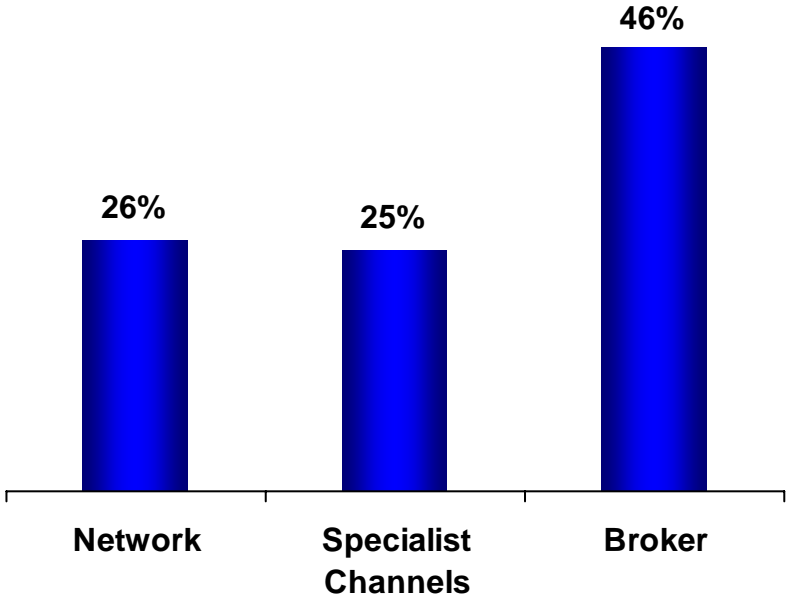


# Broker channel remains attractive

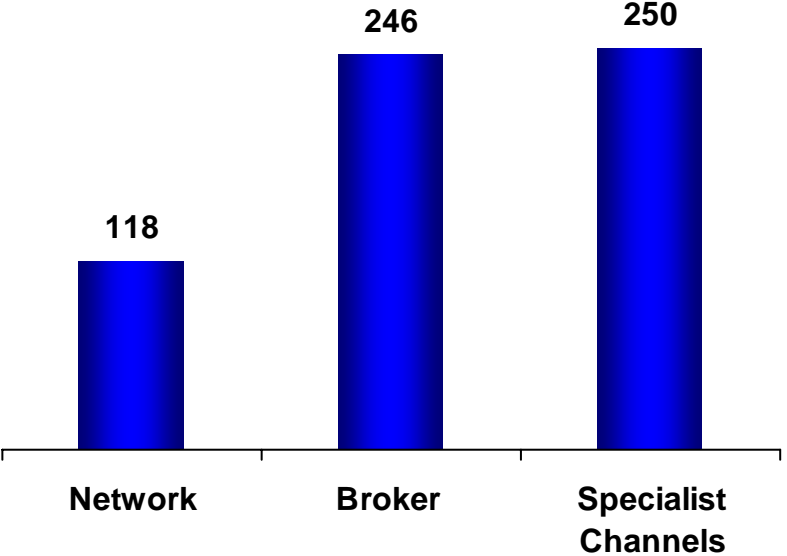
- Brokers are ~40%<sup>1</sup> of the market
- Valuable source of new customer acquisition for overall Group
- Expands distribution footprint

- Broker Channel ROE comfortably above Group ROE
- Distribution costs fully variable
- Larger average loan size

**Key source of "New to ANZ" customers**  
New to ANZ Customers as % of Total  
As at July 2007



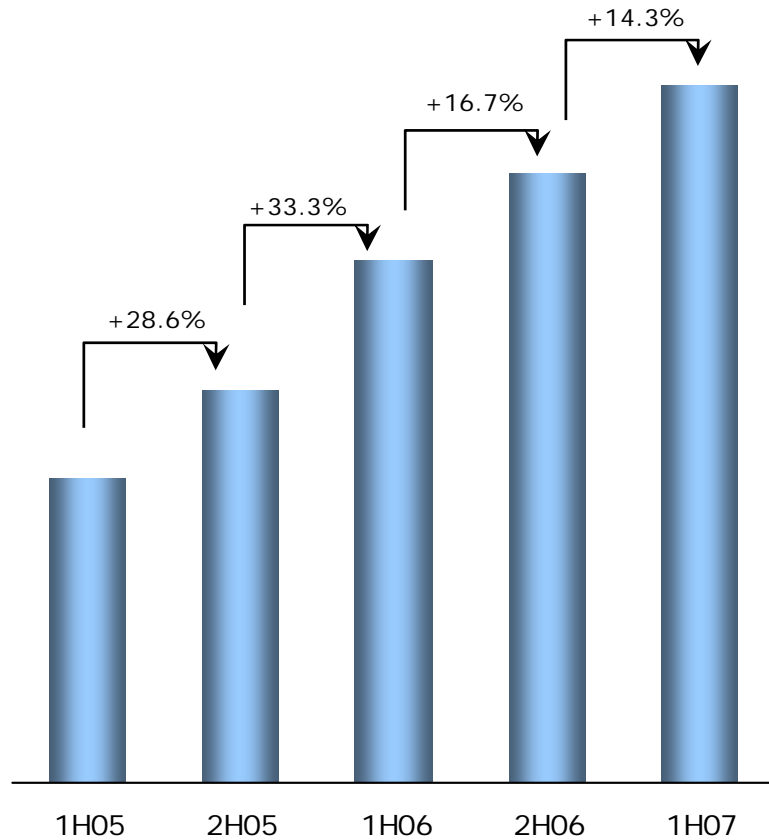
**Delivers large average loan size**  
\$'000s



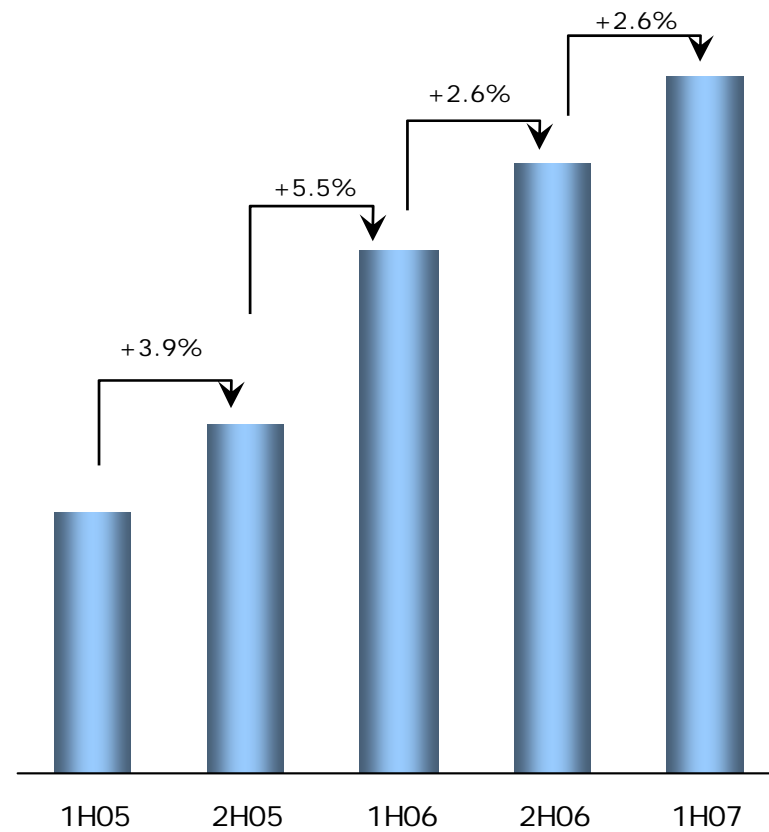
1 - Source JP Morgan / Fujitsu Consulting

# Substantial opportunity in branch network to drive growth

Specialist channels are driving loan book growth (Gross Retail FUM\*)



Opportunity to drive higher mortgage sales productivity in the Branch Network



# Targeted initiatives will drive Network home loan growth

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## Making Mortgages Simple

- Common Sales Process including new front end tool
- Removal of administrative tasks from frontline
- Revised credit policies
- Revamp of LMI Product/Process
- Revised performance metrics
- Simplified of mortgage product set

# Process transformation will materially lower unit costs

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## New Operations Model

### Automation

- More agile and better able to deal with increases in volume
- Delivering new products faster and smarter



*Eg. 4.7m pieces of paper in credit assessment will be reduced by more than 50%*

### Reengineering

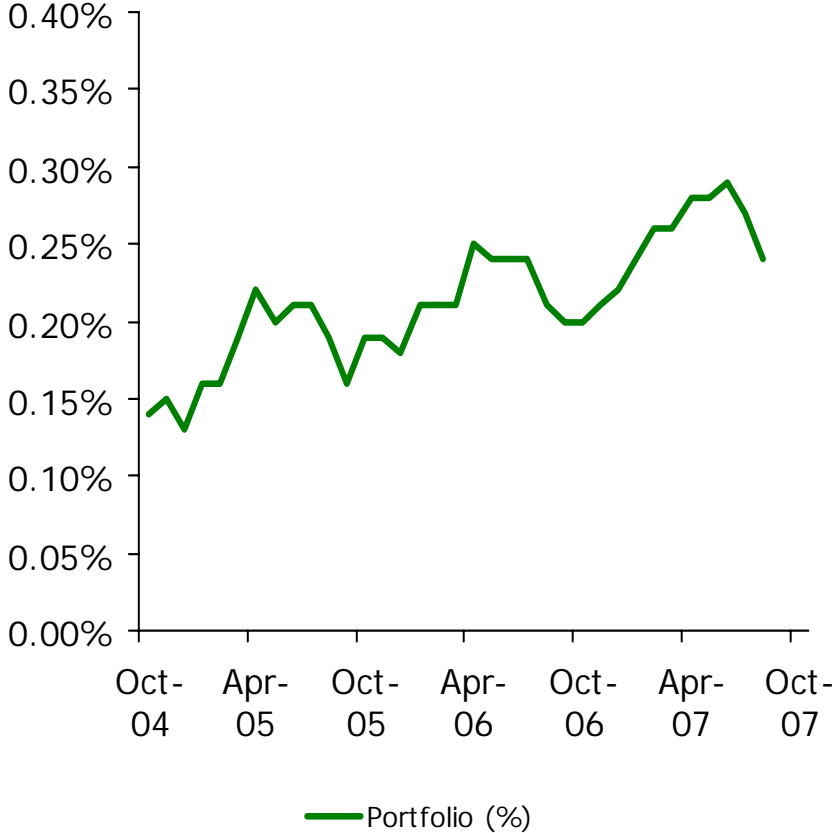
- Minimising rework
- Seamless workflow through assessment, documentation, settlement, servicing and collections

### Relocation

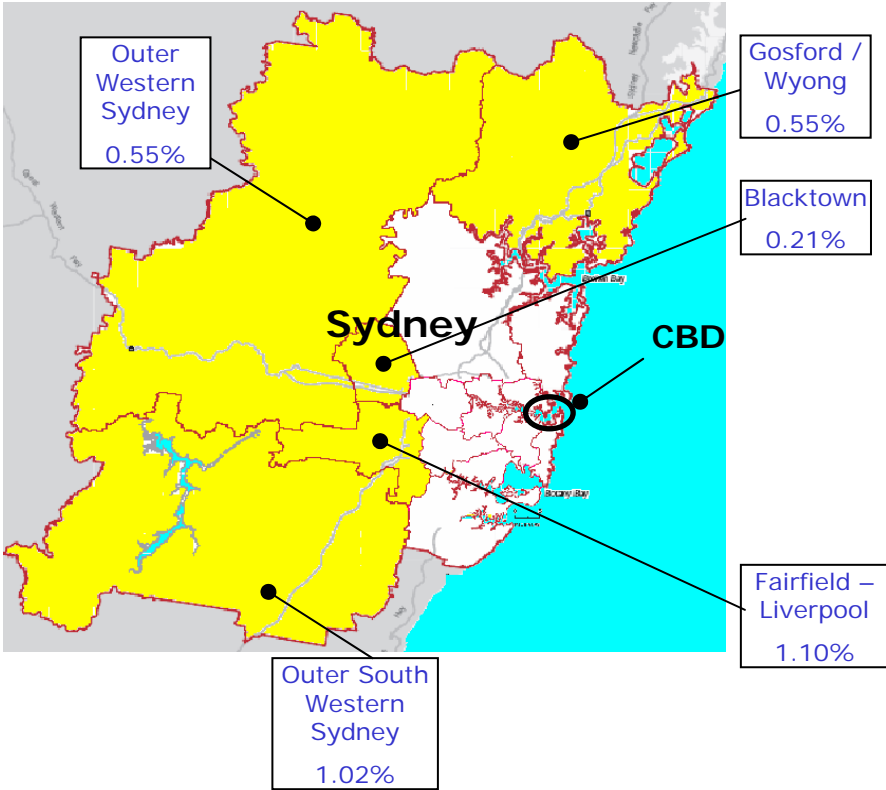
- Leverage specialist skills and ANZ India to reduce our costs
- Balance load among centres to improve customer experience and minimise risk

# Arrears in good shape, delinquencies are localised

**Arrears still in good shape  
( > 60 day delinquencies )**



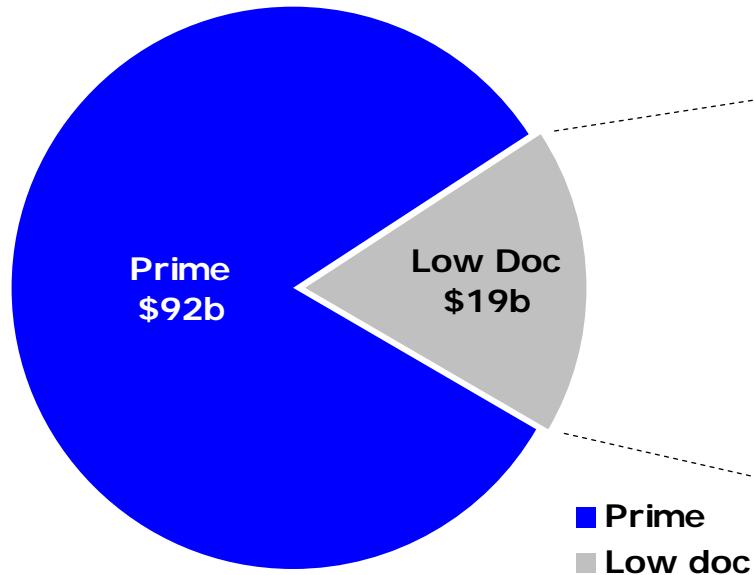
**Mortgages Retail Delinquency  
Exposure Hot Spots (August-07)**



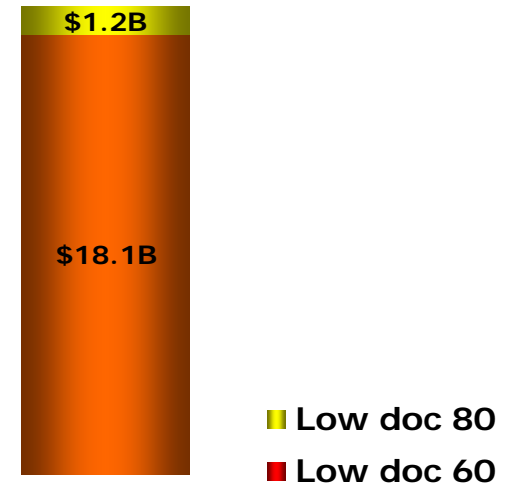
# Mortgages does not offer Sub-prime loans

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ANZ Australia Loan portfolio



Low doc components



## ANZ Definition

- **Lo Doc** – applicants who self certify their income but provide documentation to support other aspects of the application. They are usually self-employed.
- Lo Doc 60 = minimum 40% equity

## Mortgages summary

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- ***Convenient to do business with, wherever, whenever*** - Multi-distribution strategy
- ***Simple to do business with*** - Competitive product suite evidenced by Cannex and Home Lender of The Year awards
- Targeted in-branch customer home loan **experience improvements** underway are key to growing our market share and revenue
- The **transformation program** in progress will give us market leading fulfilment capabilities
- **Unprecedented opportunity** to win back share from smaller players given current market disruptions



**Goal:  
Grow above  
market to  
2010,  
delivering 1%  
market share  
gain**