U.S. Investor Website Update

ANZ Trading Update - 3 Months to 31 December 2016

On 17 February 2017, ANZ released a Trading Update for the three months to 31 December 2016 which included the following information.

Performance Highlights **Basis of comparison: First Quarter to 31 December 2016 compared to the quarterly average of the second half of Financial Year 2016 unless otherwise noted. The results are unaudited.[1]**	
Group	• Statutory net profit of $1.6 billion up 8%. Cash Profit of $2.0 billion up 31% (Adjusted Proforma up 20%[2]) benefited from a good performance in Australia and New Zealand Retail and in Institutional along with a lower provision charge and the sale of 100 Queen Street. • Profit before Provisions up 17% (Adjusted Proforma up 9%). • Revenue up 7% (Adjusted Proforma up 4%). • Further progress was made on efficiency with expenses down 4% (Adjusted Proforma down 1%) driven by current and prior period productivity initiatives and tight cost management. • Group Net Interest Margin (NIM) declined several basis points (bps) reflecting lower earnings on capital and higher funding costs driven by improving liability mix from strong deposit growth.
Retail & Commercial	• The core businesses in Australia and New Zealand performed well. Retail was again a strong contributor in particular in the home lending segment while lending volumes in Commercial were more subdued. • Deposit growth was a feature in both countries and was particularly strong in Australia, with Commercial up 6% and Household up 4%.[3] • Initiatives including ApplePay and AndroidPay are driving ongoing net customer acquisition gains in Australian Retail Transaction Banking.
Institutional	• Credit Risk Weighted Assets (CRWA) reduced by $0.9 billion (FX adjusted), with a ~$3 billion decrease in Institutional lending products RWA during the quarter and growth in Markets. • Improvement in RWA composition, assisted by increased sovereign exposures, drove a reduction in the average risk weight of the Institutional portfolio. • Global Markets income of $706 million benefited from favourable trading conditions arising from a strengthening USD and rising yield curves. Customer Sales and Franchise Trading accounted for 77% of the Global Markets income with Balance Sheet also performing strongly benefiting from tighter bond spreads. Valuation adjustments provided a $99 million benefit.
Credit Quality **(Including December Quarter APS 330)**	• Gross Impaired Assets increased 1.8%.The Total Provision charge was $283 million with the Individual Provision (IP) charge $325 million. A Collective Provision release of $42 million was assisted by portfolio composition improvement and exposures transferring to IP. There were no changes to management overlays. • Risk Weighted Assets grew 1% ($3.8 billion) for the quarter. CRWA grew 1% largely reflecting FX impacts, with growth in Australian Home Lending CRWA being offset by a reduction in Institutional CRWA. • The average risk weight of the lending book declined 50 bps driven by

1 The results were not the subject of a formal audit or review by KPMG.

2 Adjusted Proforma refers to Cash Profit adjusted to remove the impact of 'Specified items' in FY16 including the accelerated amortisation impact of software capitalisation policy application changes, Asia Partnership impairment charge (AMMB) and gain on cessation of equity accounting (Bank of Tianjin), restructuring expenses in FY16, sale of Esanda Dealer Finance business, and derivative credit valuation adjustment. Note, FY16 specified items have been restated to remove the impacts of amortisations benefit and higher project expenses from the amended application of policy as those particular Specified items in FY16 were made to allow comparability with FY15. Further detail provided in the ANZ Full Year 2016 consolidated Financial Report page 16. Restructuring expenses incurred in 1Q17 have not been classified as 'Specified items'.

3 Growth from end of FY2016 to end of December 2016 (1 October to 31 December 2016).

	improved Institutional portfolio mix and Australian home lending growth.
Capital & Funding	• APRA Common Equity Tier 1 (CET1) ratio was 9.5% at 31 December. • Excluding the payment of the 2016 Final Dividend (net of the Dividend Reinvestment Plan), CET1 increased 40 bps in the first quarter, primarily driven by organic capital generation of 48 bps which is substantially stronger than the Post Basel III 1Q average of 21 bps. • There was no capital benefit from asset disposals in the quarter.

Specified Items including Progress on non-core Asset Disposals

Since the start of FY2017, ANZ has signed agreements to sell its 20% stake in Shanghai Rural Commercial Bank (SRCB), the UDC Finance business in New Zealand and ANZ's Retail and Wealth businesses in five Asian countries. The transactions are expected to complete in the second half of FY2017 and 1H2018 subject to regulatory approvals. For the purposes of comparison, if the earnings from the businesses being sold were to be excluded from Cash Profit performance for 1Q17 it would show an increase of 33% (+31% including).

In FY2016 a number of actions were classified as Specified Items which formed part of the Group's Cash Profit. This classification assisted investors and analysts to look through the impact of strategic initiatives to determine underlying business performance trends and included the disposal of Esanda, restructuring charges, a write down of the valuation for the investment in AmBank, and accounting methodology changes. In 2017 the classification of Specified Items will be limited to the impact of disposals.

Capital and Funding

The transactions outlined above will boost ANZ's APRA CET1 position by ~$2.7 billion or ~70bps upon completion further improving ANZ's capital flexibility.

Strong deposit growth and solid progress with the Group's term wholesale funding plan has contributed to a further improvement in the Group's liquidity and funding position. The Group's average Liquidity Coverage Ratio (LCR) for the quarter was 137% (proforma 132% if adjusted for the $6.5 billion reduction in the Committed Liquidity Facility effective January 2017). ANZ's Net Stable Funding Ratio (NSFR) is estimated to be in excess of 108%.

CEO Commentary

ANZ Chief Executive Officer Shayne Elliott said: "The first quarter saw a positive start to the year. There was further momentum in executing our strategy to build a simpler, better balanced and fairer bank that more consistently meets customer expectations, and delivers improved shareholder returns.

"Our early progress in transforming ANZ is providing capacity to invest in new initiatives that provide a better experience for customers. Our ability to deliver these outcomes for customers while maintaining good earnings momentum has been supported by strong productivity gains and improved capital efficiency.

"Our key customer businesses delivered good outcomes. Retail and Commercial in Australia and New Zealand again performed well. Highlights include market share gains in customer deposits and Australian home lending, and further gains in new-to-bank customers driven by the success of ApplePay and AndroidPay. Institutional Banking delivered pleasing results in Australia and Asia. This has seen us manage the revenue impact of initiatives to improve capital efficiency and returns.

“We also saw progress with a strong organic capital generation performance. Together with the capital benefits from the sale of minority investments and non-core businesses, this leaves us in a very strong capital position ahead of domestic and international regulatory changes. Once the regulatory environment is clearer, we will be in a position to consider what capital flexibility this provides us.

“The outlook on provisions is also a little more positive. It is still too early to be definitive about the year as a whole however the first quarter together with our experience during first six weeks of the second quarter suggests the credit environment is marginally better than we expected at the time of our 2016 Full Year result which was for the provision charge in 2017 to remain broadly the same as a percentage of gross lending assets.

“Overall we have seen good progress in the first quarter. Clearly though, there is still a great deal to do to sustain this progress in a low growth environment and to deliver a winning proposition that meets our customers’ rapidly changing needs,” Mr Elliott said.