

2014 NEW ZEALAND UPDATE

AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED
September 2014

David Hisco
Chief Executive Officer, New Zealand



New Zealand is "core" to ANZ's strategy

ANZ remains focused on building the best connected, most respected bank across Asia Pacific

SUPER REGIONAL STRATEGY

STRONG
CORE
MARKETS

PROFITABLE
ASIAN
GROWTH

ENTERPRISE
APPROACH

STRONG LIQUIDITY AND CAPITAL MANAGEMENT

DISCIPLINED AND EXPERIENCED MANAGEMENT

Improving
Customer
Experience

Diversifying
Revenue

Improving
Productivity

Improving
Returns

New Zealand: Strong Core Market

A strong domestic franchise in New Zealand is critical to the success of ANZ's Super Regional strategy

The New Zealand strategy is focused on:

- Delivering a **better banking experience** for our customers by **simplifying the business** (products, processes and systems)
- Delivering **scale benefits** and driving **improved efficiency and returns**
- Growing **market share** in target segments

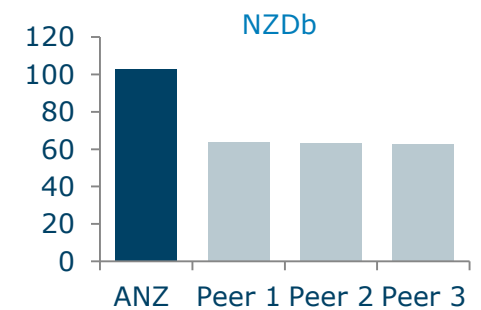
Strong well established domestic franchise

ANZ NZ Geography		
ANZ NZ Division		
<ul style="list-style-type: none"> Retail Commercial <ul style="list-style-type: none"> - Comm Agri - Small Business 	Instit- utional	Wealth

The largest bank in NZ
 • ~8,300 staff, ~2.1m customers

	July 14	vs Sep 13
Market share	30.7% ¹	↑ 22bp
• Mortgages:	28.7% ²	↑ 29bp
• Total deposits:	30.7% ³	↑ 120bp
• Commercial lending:	28.8% ⁴	↑ 68bp
• Credit cards:		
• #1 lead Relationship banking position ⁵		

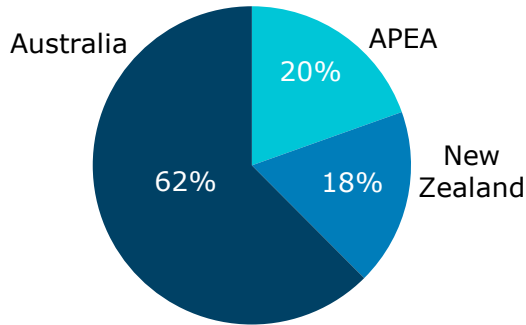
New Zealand major bank Net Loans & Advances⁶



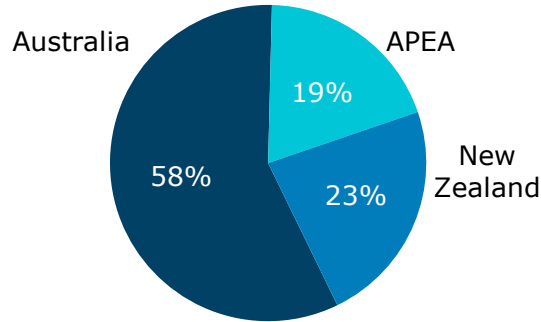
1. RBNZ C6 – July 2014; 2. RBNZ S8 – July 2014; 3. RBNZ S7 NZD claims, excludes Agriculture, Finance, Non-residents and Households – July 2014; 4. RBNZ S5 – July 2014. 5. Peter Lee Associates Large Corporate and Institutional Relationship Banking surveys New Zealand 2014. 6. as reported in 1H14 company reports

A significant contributor to the Group

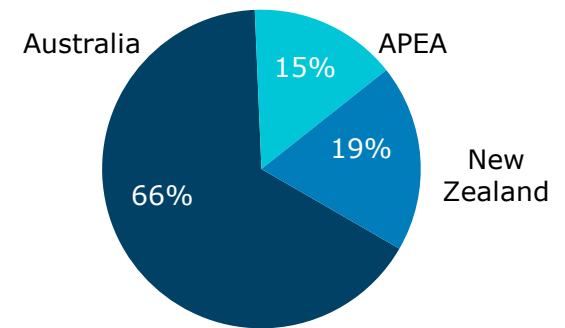
Operating revenue by geography (1H14, AUD)



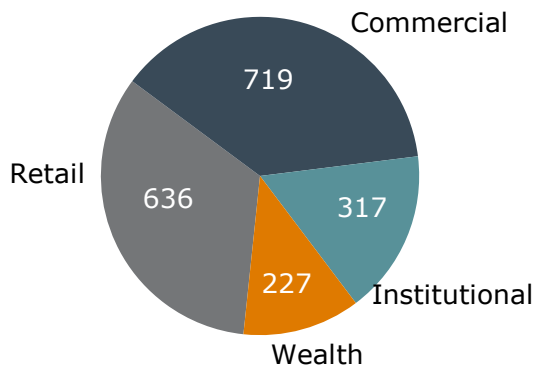
Cash NPAT by geography (1H14, AUD)



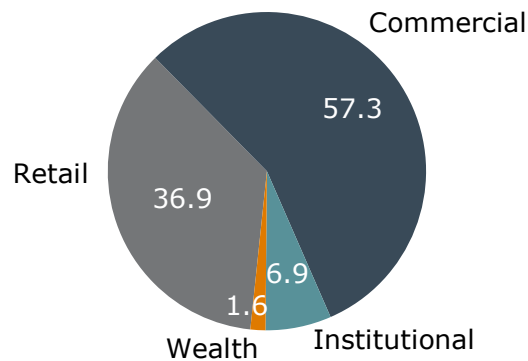
Customer lending by geography¹ (1H14, AUD)



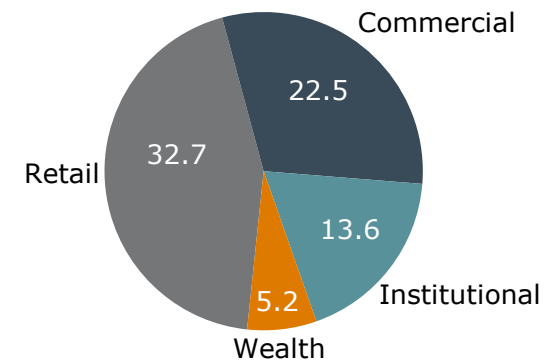
NZ geography: operating revenue by business (1H14, NZDm)



NZ geography: customer lending by business¹ (1H14, NZDb)



NZ geography: customer deposits by business (1H14, NZDb)



1. Customer lending represents Net Loans and Advances including acceptances

Our journey is to create New Zealand's best bank

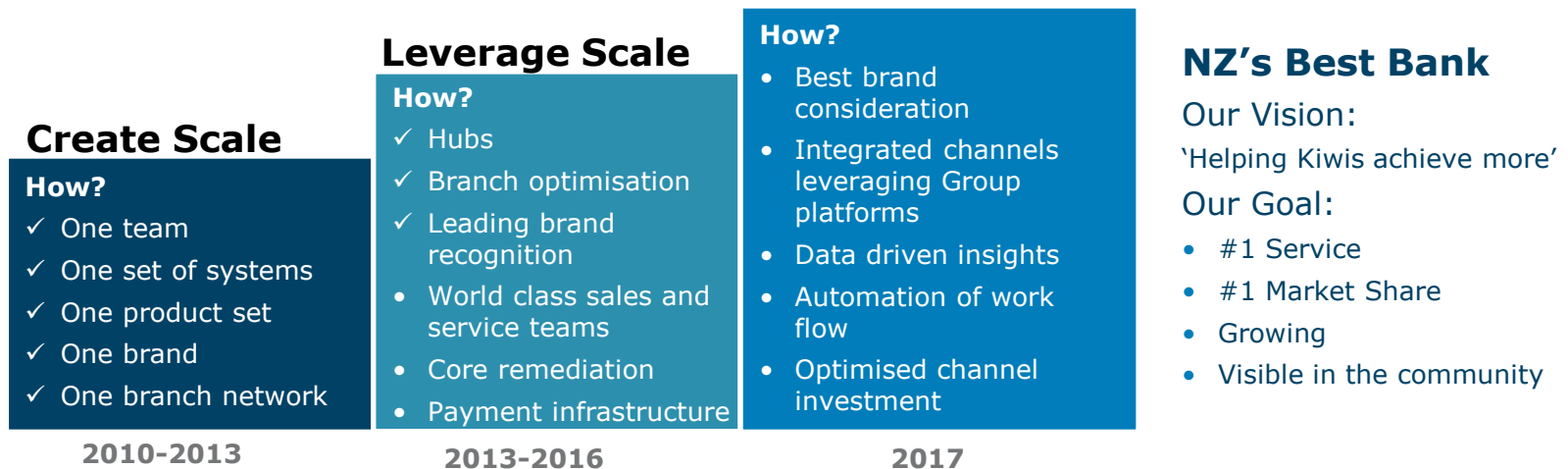
ANZ Group Strategy



ANZ New Zealand's Strategy

1. Leverage our scale advantage by **building and enabling world class sales teams** to capture cross sell and share growth
2. Empower customers and drive efficiency and sales through further **developing digital and payments capability**
3. Maximise our scale advantage by **simplifying** our products, processes, policies, technology & leveraging Group investment
4. Capitalise on our data advantage by **improving our data and insights** infrastructure and end-to-end leads processes
5. Improve our **connections between frontline channels** to support customer interactions

NZ's Best Bank



Significantly simplifying and focusing the business to create scale

	Create Scale 2010 - 2013	Leverage Scale 2013-2016	Scale advantage 2017
	2010 (FY10)	2014 (1H14)	2017
Core systems	2	1	1
Brands	2	1	1
ANZ brand consideration¹	27%	43%	Market leading
Staff engagement²	64%	78%	Best practice
NZ Geography - CTI	49.1%	38.1%³	Market leading
- Cash profit (NZDm)	882	1,432 (FY13) 887 (1H14)	
NZ Division - CTI	48.4%	41.5%	Market leading
- Cash profit (NZDm)	545	1,063 (FY13) 598 (1H14)	

- | | | |
|--|--|---|
| <ul style="list-style-type: none"> • Brought 2 brands together • Moved to 1 core banking system • Created 1 mgt structure • Simplified and moved to a single set of policies, processes and products | <ul style="list-style-type: none"> • Leveraging global hubs and shared platforms • Improving branch coverage • Rolling out customer data focused sales strategy | <ul style="list-style-type: none"> • Natural competitive advantage in key markets • Enhancing digital offering for improved customer experience and banker efficiency |
|--|--|---|

1. Brand consideration - sourced from IPSOS Brand Tracking (first choice, or seriously considered)

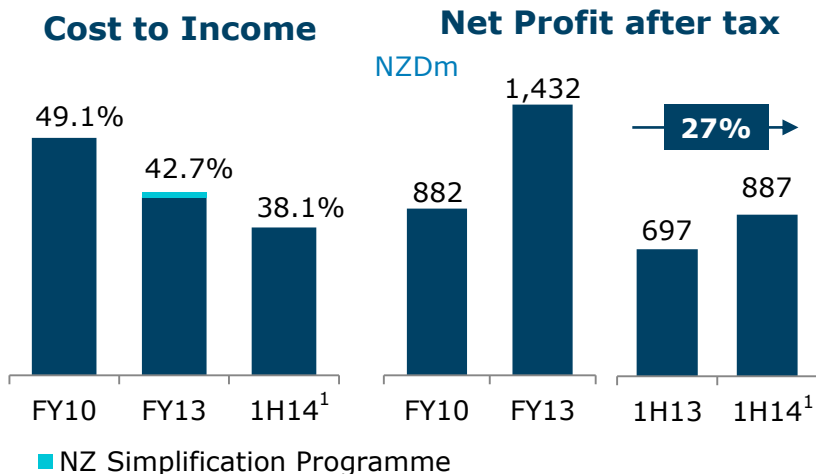
2. Staff engagement survey for 2014 as at July 2014

3. Including the one off insurance recovery related to the ING frozen funds (excluding: 39.97%)

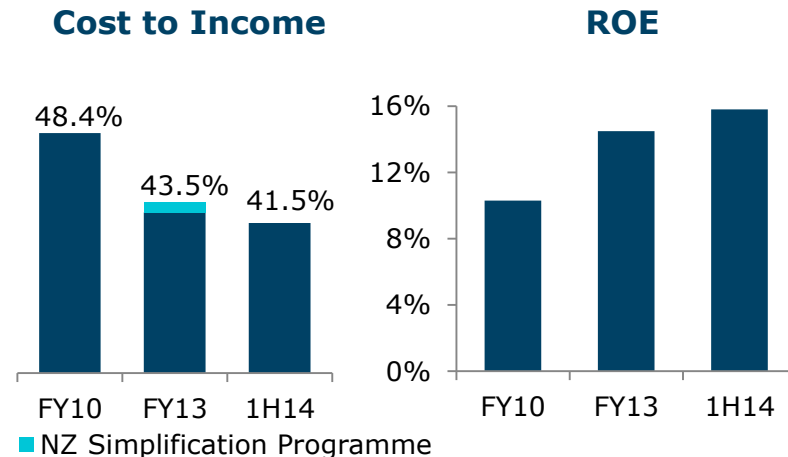
Note: FY10 financials are based on underlying profit definition, subsequent years cash profit definition as detailed in respective Results Announcement documents

Growth has been achieved through disciplined execution, productivity and efficiency

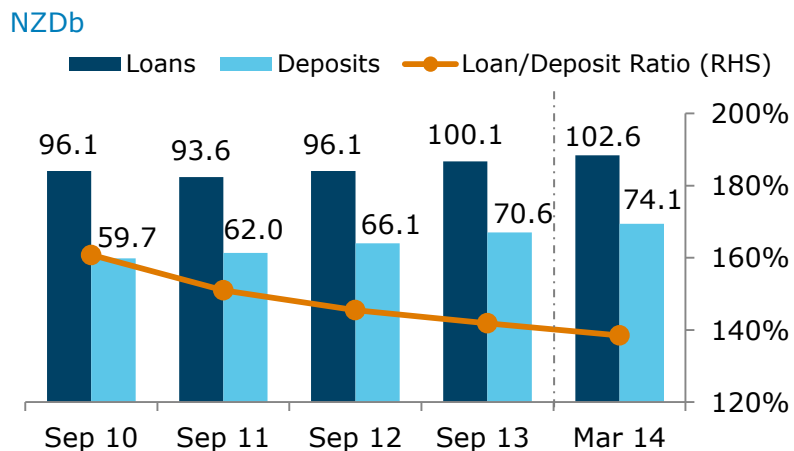
New Zealand Geography



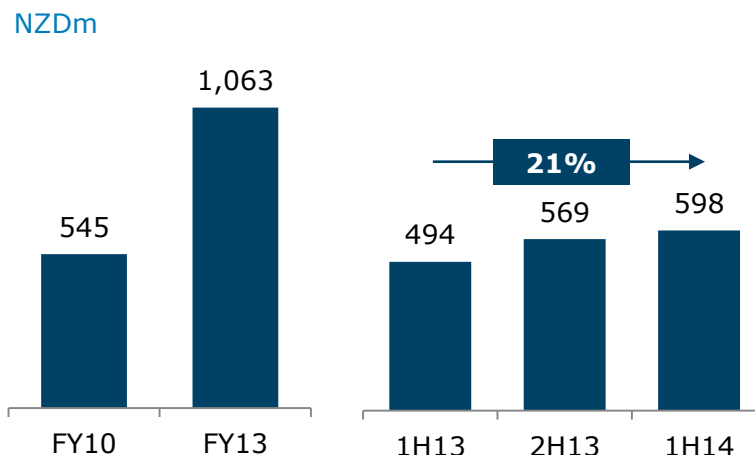
New Zealand Division



Loans and customer deposits



Net Profit after Tax



1. Including the one off insurance recovery related to the ING frozen funds (excluding: 39.97%)
 Note: FY10 financials are based on underlying profit definition, subsequent years cash profit definition as detailed in respective Results Announcement documents

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2014 Half Year Results



1H14 results saw New Zealand geographic CTI below 40% for the first time

NZ Division 1H14 NPAT up 21% to NZD 598 million

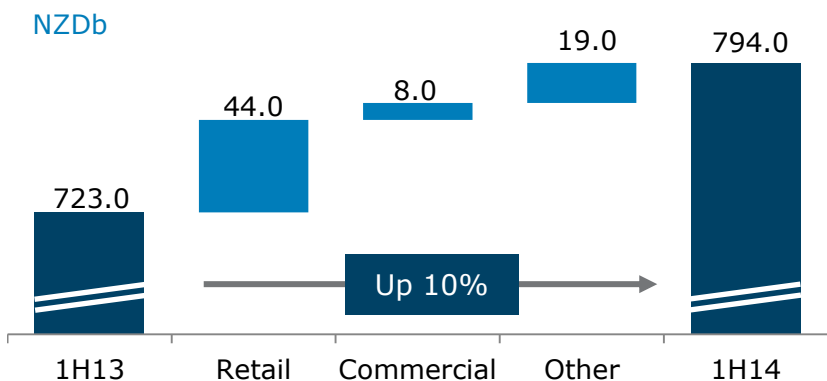
NZ Division ROE accretive to ANZ Group: up 235bps to 15.8%¹

Efficiency		Market Share		Brand	
↓649 bps	CTI 41.5% for NZ Division v Sep 2010 ² (NZ Geog: ↓1,111bps to 38.1% ³)	↑share	Both total lending & total deposit share have grown YTD ^{5,6}	#1	Brand consideration compared to major banks ¹⁰ – from last to first position in 3 years
↑20%	Revenue per Branch	↑22bps	Mortgage market share YTD ⁷	↑17%	Uplift in brand consideration ¹⁰
82% Branch Coverage⁴	Improved footprint leading to: <ul style="list-style-type: none"> • ↑7 percentage point improvement in mortgage sales via Branch • ↑47% KiwiSaver account sales via Branch 	#1	Share of new mortgage sales in all major NZ cities – the first time in Auckland & Christchurch ⁸	↑14%	Retail new customer acquisition
↑10%	Commercial cross-sell revenue from Institutional products	↑20bps	Commercial lending share - growth in all regions ⁹	↑29%	Small Business Banking new customer acquisition

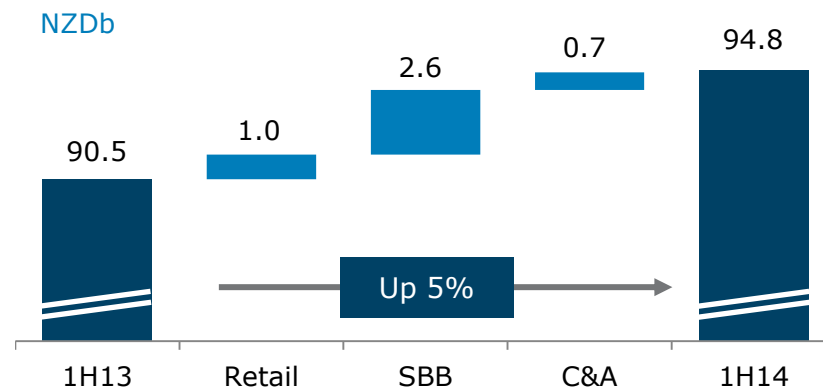
Note: All figures PCP unless otherwise stated; 1. ROE on Internal Expected Loss (IEL) basis; 2. CTI is against September 2010 – the reporting period immediately preceding the commencement of NZS; 3. Including the one off insurance recovery related to the ING frozen funds (excluding: 39.97%); 4. Branch Coverage measures the areas in which ANZ is represented relative to where New Zealanders do business – March 2014; 5. RBNZ S7 – February 2014; 6. RBNZ S8 – February 2014; 7. RBNZ C6 – February 2014; 8. Source: Terralink – March 2014; 9. RBNZ S7 NZD claims, excludes Agriculture, Finance, Non-residents and Households; 10. Source: IPSOS Brand Tracking (first choice, or seriously considered) – March 2011 v March 2014

New Zealand Division delivered strong financial results in 1H14

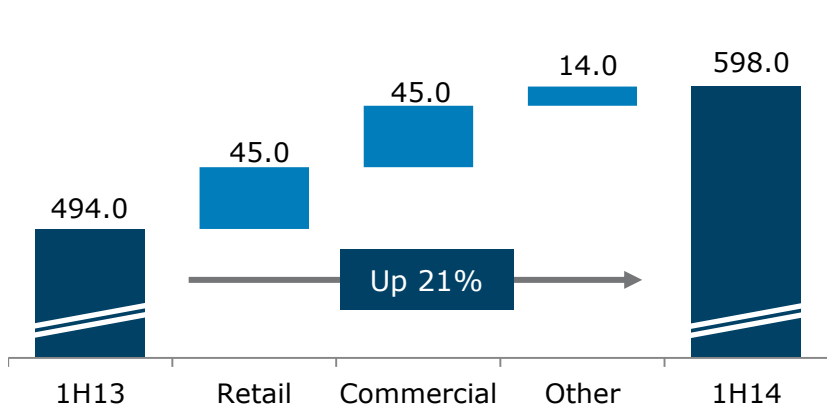
Profit Before Provisions Movement Mar 2014 v Mar 2013



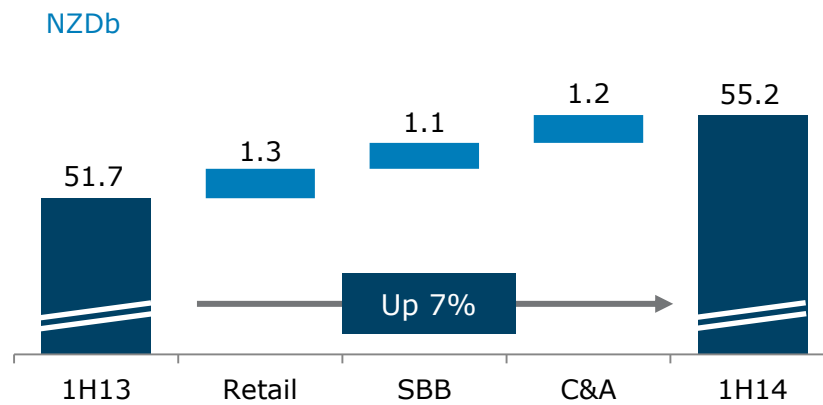
Customer Lending Movement Mar 2014 v Mar 2013¹



Net Profit after Tax Movement Mar 2014 v Mar 2013



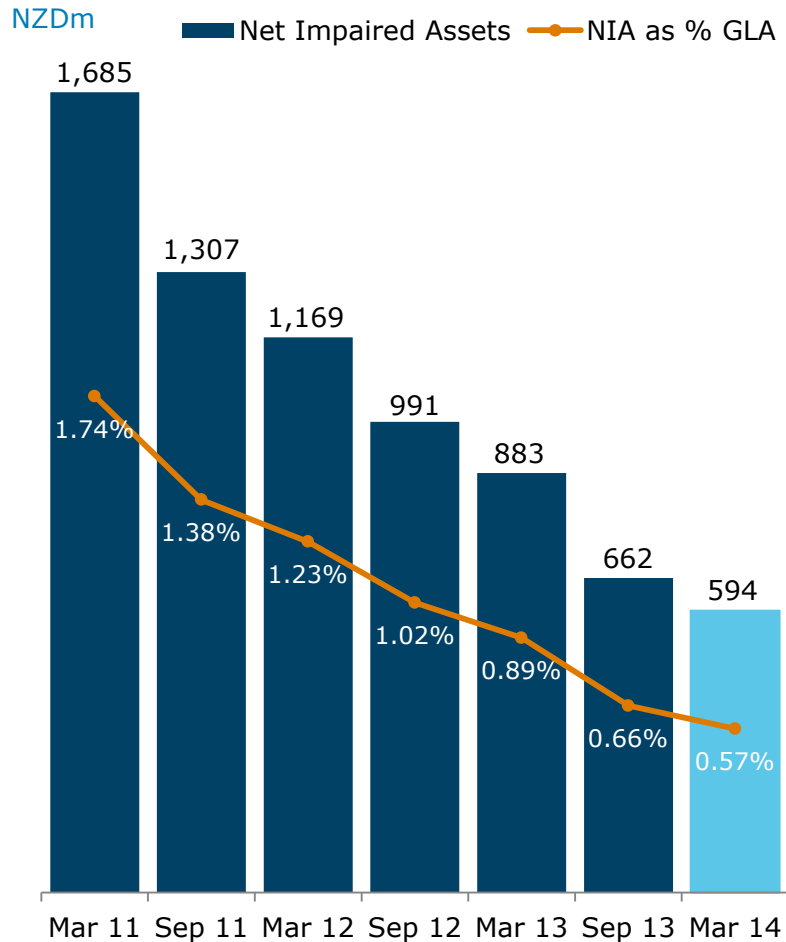
Customer Deposits Movement Mar 2014 v Mar 2013



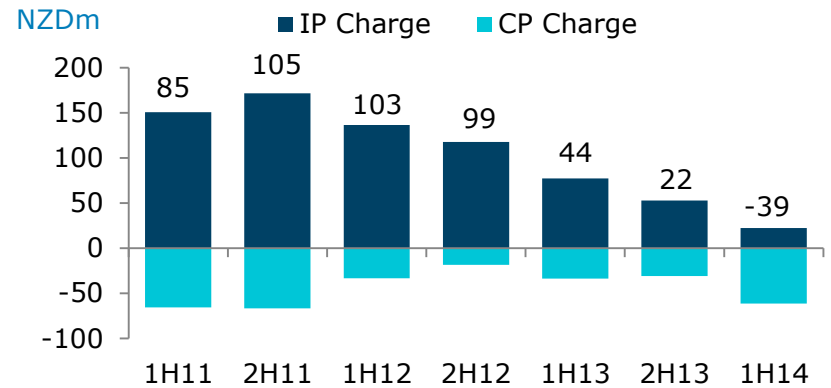
1. Gross Loans and Advances

Continued improvement to credit quality across the New Zealand book

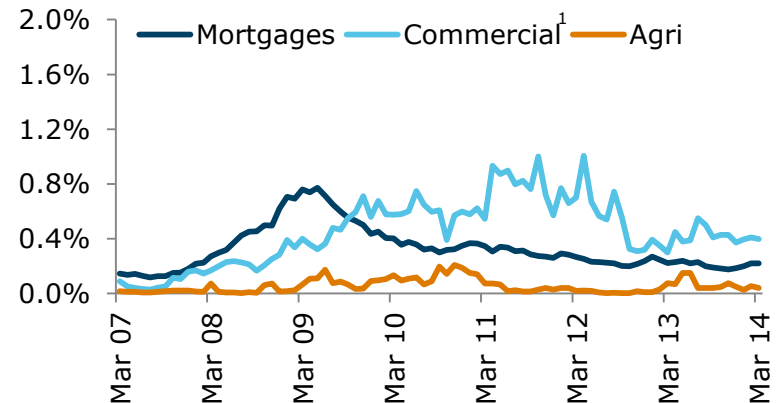
New Zealand Geography Net Impaired Assets



New Zealand Geography Total Provision Charge



New Zealand Division 90+ days delinquencies



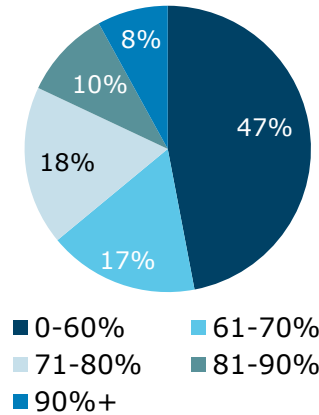
1. Spikes in 2012 Commercial 90 day delinquencies are primarily due to internal classifications rather than any deterioration in underlying credit quality

New Zealand home loan portfolio well diversified

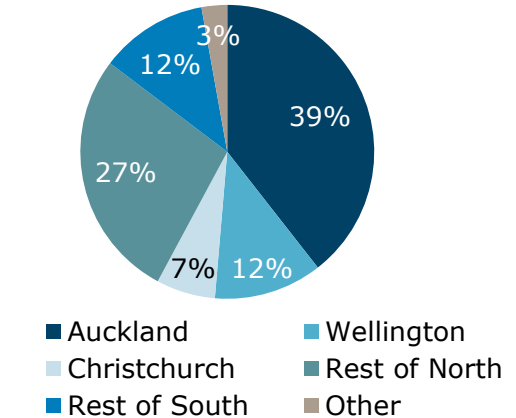
1H14 Portfolio Statistics

Total Number of Home Loan Accounts	484k															
Total Home Loan FUM (NZD)	\$61b															
% of Total New Zealand Lending	59%															
% of Total Group Lending	11%															
Owner Occupied Loans - % of Portfolio	76%															
Average Loan Size at Origination (NZD)	\$254k															
Average LVR at Origination	63%															
Average Dynamic LVR of Portfolio	46%															
% of Portfolio Paying Interest Only ¹	21%															
Individual Provisions as a % of Gross Loans:																
	<table border="1"> <thead> <tr> <th></th> <th>2H12</th> <th>1H13</th> <th>2H13</th> <th>1H14</th> </tr> </thead> <tbody> <tr> <td>Group</td> <td>0.43%</td> <td>0.27%</td> <td>0.24%</td> <td>0.24%</td> </tr> <tr> <td>NZ Home Loans</td> <td>0.03%</td> <td>0.02%</td> <td>0.02%</td> <td>0.02%</td> </tr> </tbody> </table>		2H12	1H13	2H13	1H14	Group	0.43%	0.27%	0.24%	0.24%	NZ Home Loans	0.03%	0.02%	0.02%	0.02%
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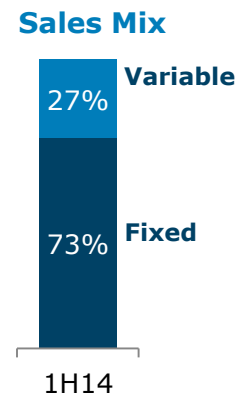
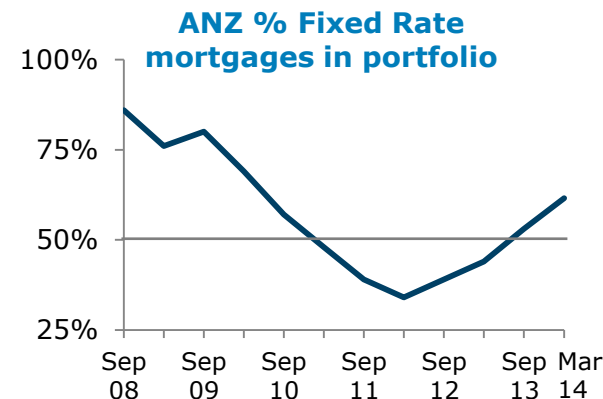
Dynamic Loan to Valuation Ratio



Home Loan portfolio by Region



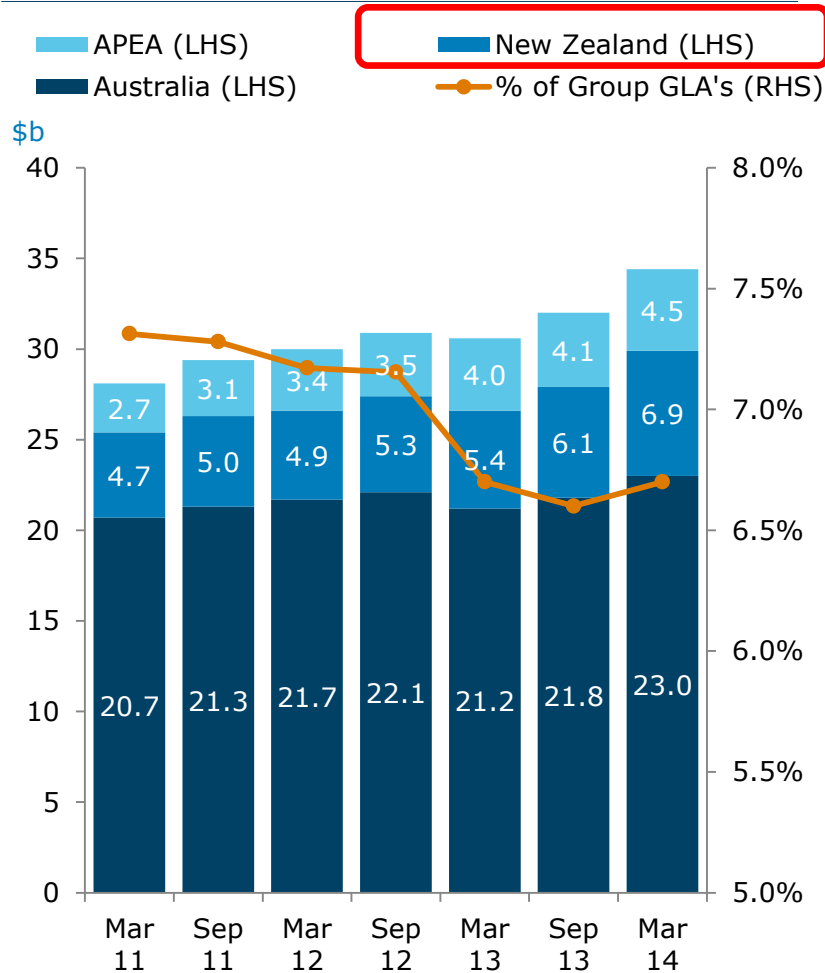
Mortgages have re-trended towards fixed rates



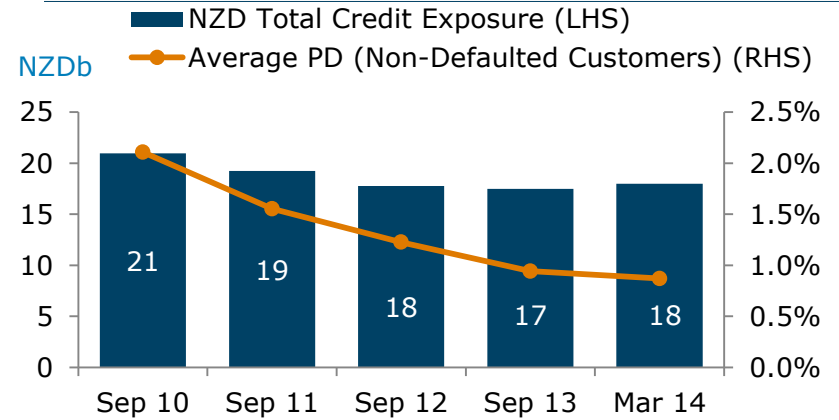
1. Excludes revolving credit facilities

Commercial Property and Agriculture well managed

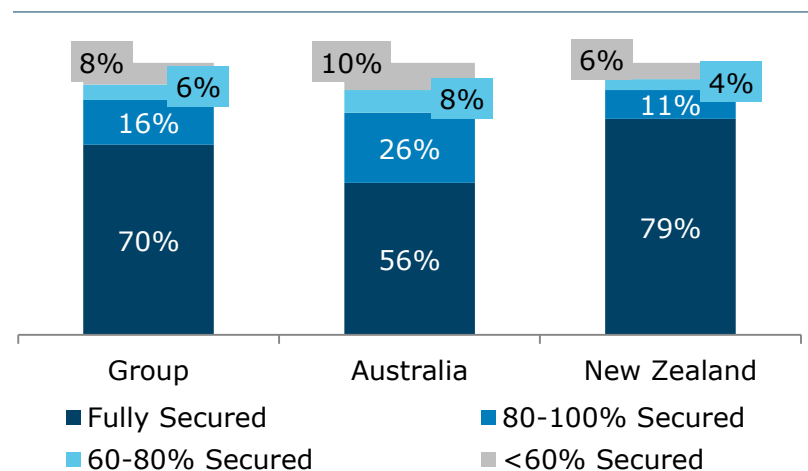
Commercial Property Outstandings by Region



New Zealand Agri Exposure and Average Probability of Default



Agriculture security levels



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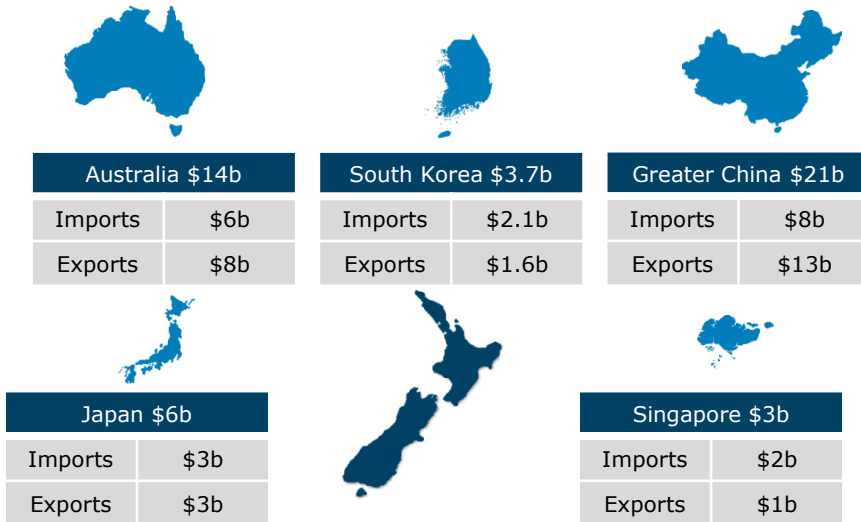
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[Additional information](#)

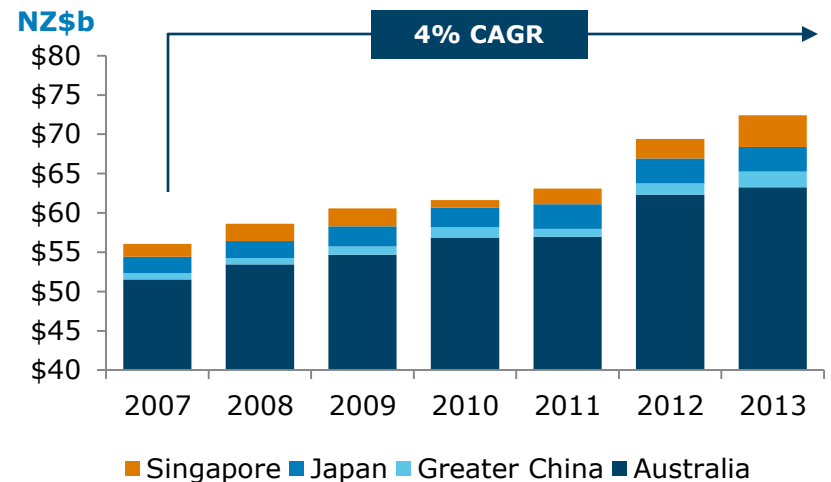


New Zealand benefiting from ANZ Corporate & Institutional position in Australia and growing strength in Asia

7 of the top 10 countries New Zealand trades with are from Asia Pacific region



Australia FDI accounts for 68% of all FDI in New Zealand



China has surpassed Australia as New Zealand's largest trading partner with Chinese trade growing rapidly following the signing of a FTA in 2008.

In 2014 New Zealand signed a CNY/NZD direct convertibility agreement with China. This is expected to further facilitate trade and investment flows.

The majority of New Zealand's exports to China are agricultural products whilst most Chinese imports to New Zealand are manufactured goods.

ANZ's FDI Strategy

Proactively identify specific FDI opportunities by leveraging ANZ NZ's market leading position and capabilities, deep industry knowledge and insights.

Conduct regular face-to-face meetings with existing and prospective foreign investors to clearly understand their investment objectives and criteria and focus on building trusted relationships first and then conducting business.

Leverage ANZ's "Super Regional" network and connectivity to provide a "whole of bank" superior solution to on-board or retain key customers and maximise growth and revenue opportunities.

Source: Statistics New Zealand

NZ Economic Update

The foundations for solid growth remain in place.

- Financial conditions are still consistent with 3% growth (growth >3% is not sustainable given supply-side capacity of the economy, which we put at a little under 3%)
- Commodity prices (ex dairy and forestry) are holding up well
- A period of consolidation for house prices is welcome after the sharp run-up in 2013
- There are signs the trend rate of growth (i.e. beyond the business cycle) is higher

The economic picture is however becoming more fractured

- Dairy prices have dropped sharply, as have forestry prices. A sub \$6 per kg MS milk price now looks a reality
- New Zealand's terms of trade peaked in Q2, and history shows commodity price booms tend to be short and sharp
- House prices – whilst rising strongly in annual terms have started to soften
- Financial conditions – a higher NZD and falling commodity prices – have tightened

Other key drivers of the economic expansion remain.

- Construction sector activity (projected to lift from 10 to 12% of GDP) is strong; this is supporting SME's in particular
- Net migration flows (around 1% of the population) are providing considerable impetus
- The unemployment rate is at a six year low and wage growth is lifting
- Business and consumer confidence remain elevated and productivity growth is robust
- Firms continue to express a strong desire to invest and unheralded factors behind NZ's economic upswing remain in play (unlocking natural resources, reasonable political platform, building Asia connectivity, progress in the free-trade arena, a very good collection of microeconomic initiatives and uplifts in productivity growth)

The expansion is now maturing from strong growth off lows to moderate growth off better levels

- The availability of labour as opposed to demand is becoming more relevant as constraints on firms.

Risks around the outlook are balanced

- Upside risks from better migration inflows & construction sector, downside risks from weaker dairy payout & global uncertainties

Inflation pressures are benign

- Construction sector inflation is not spilling over into the broader economy, the high NZD continues to suppress tradable inflation and solid productivity growth is capping service sector inflation
- However, the RBNZ will remain alert to drivers of medium-term inflation trends (such as a falling unemployment rate)

The RBNZ is expected to keep the Official Cash Rate unchanged for the remainder of 2014

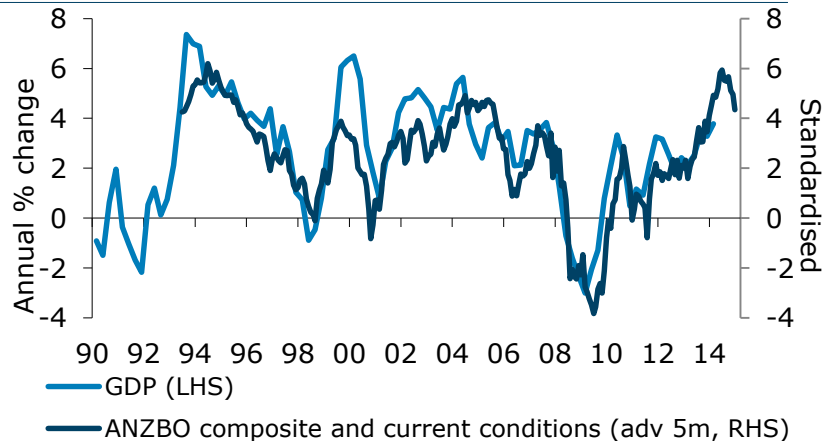
- A tightening bias remains intact and we expect rates to move up again (in a modest fashion) in 2015

The NZD has receded from extremes but remains elevated and is expected to do some for a while yet

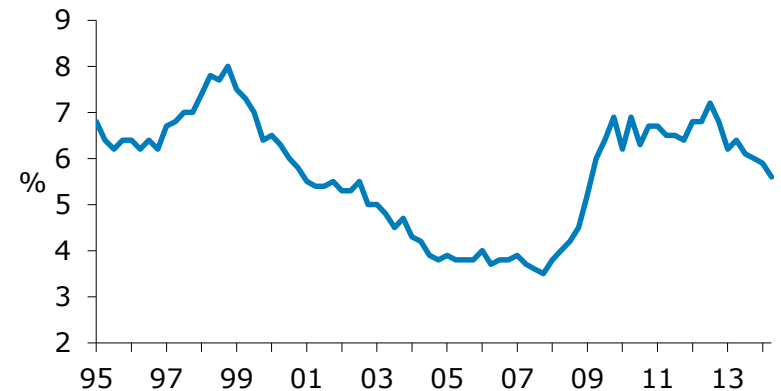
- A glaring 300 point yield differential remains on offer with roughly 2/3rds the world (by GDP) still having cash rates sub 1%

Still a lot of positives across the economy

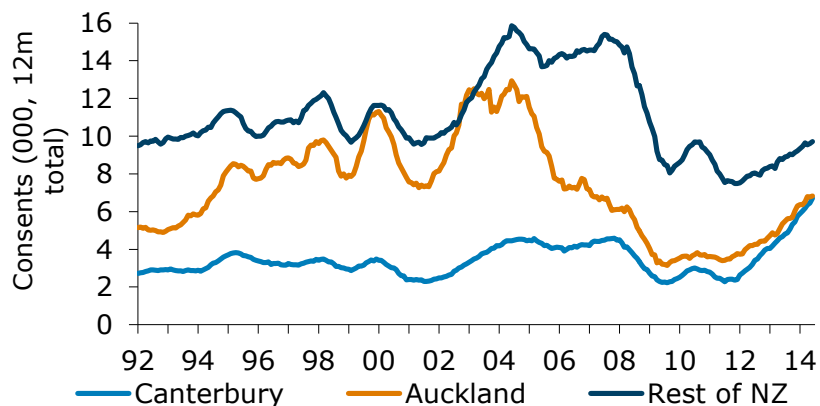
GDP vs Confidence Composite – still a strong feel-good factor



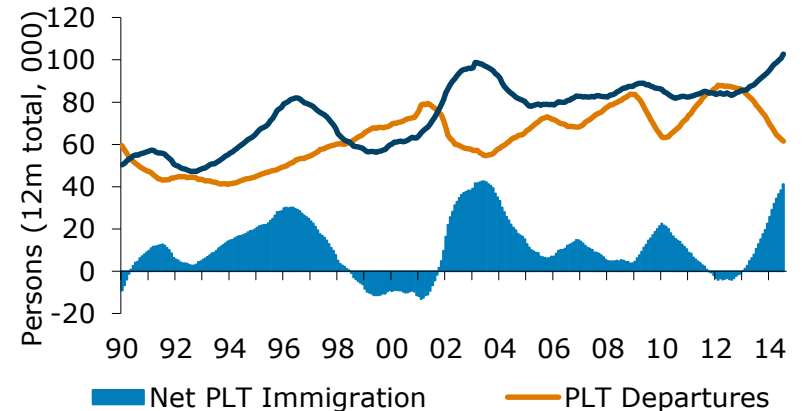
Unemployment rate falling: surfeit of labour less apparent



Residential building consents up across the board – rebuild & housing shortages

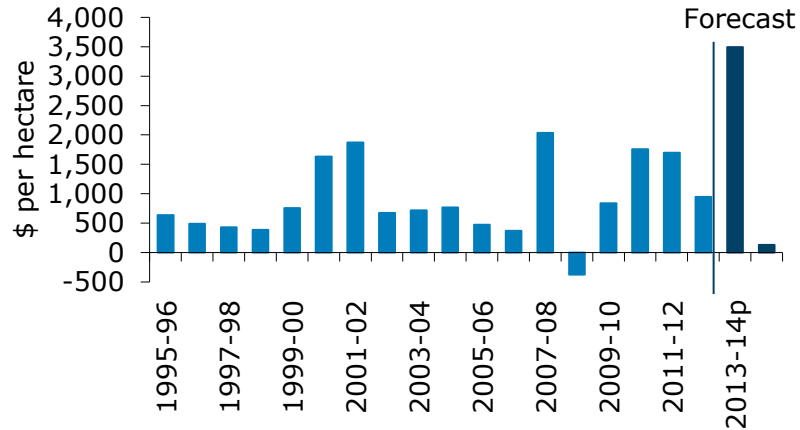


Strong net migration adding to housing demand but also the labour pool

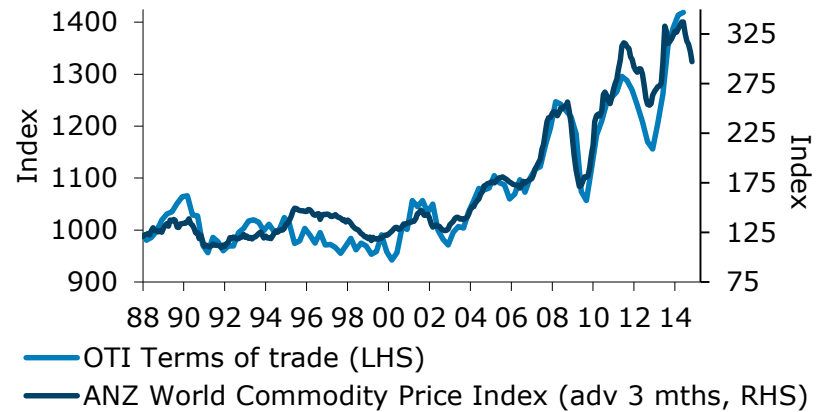


More risks to manage and be mindful of

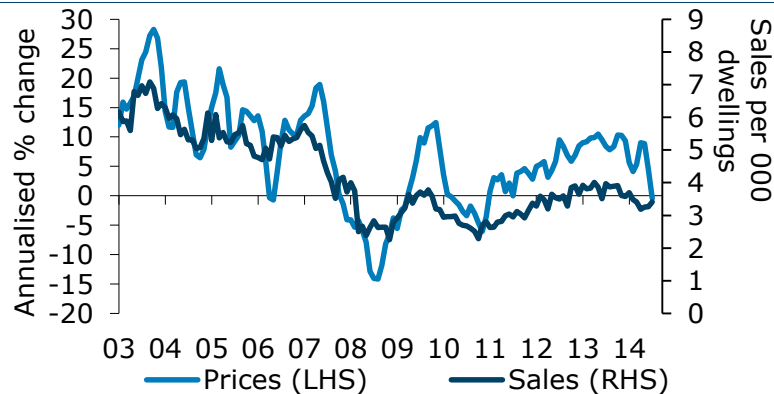
Average dairy farm profitability before tax – good 2014, more challenging 2015



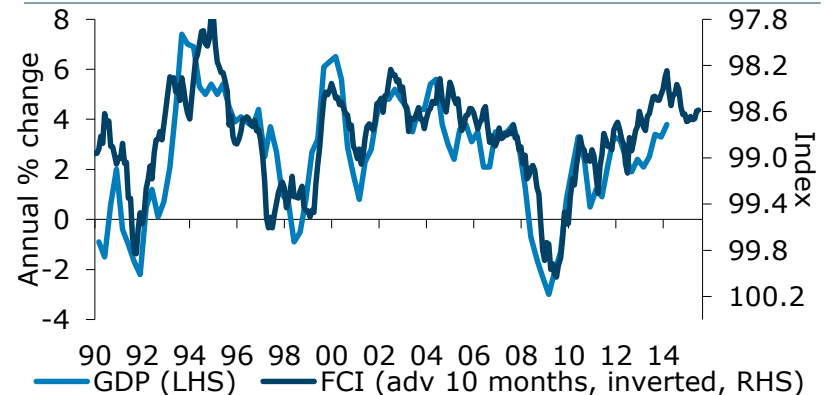
Terms of trade still high despite falls in dairy prices



House prices and sales – LVR restrictions and OCR hikes at work

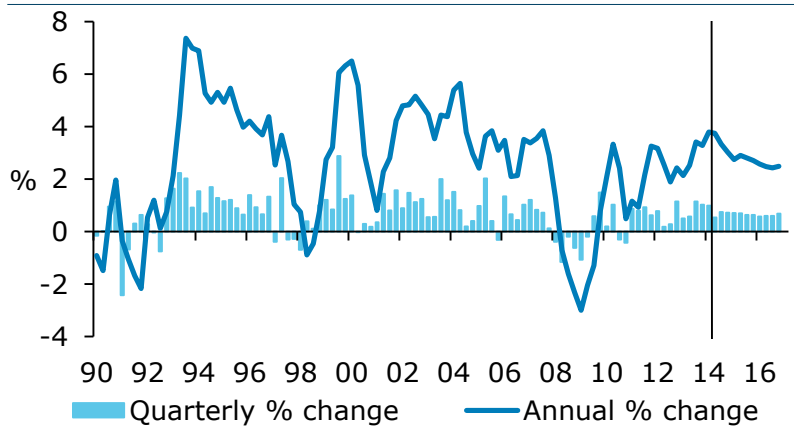


Financial conditions have tightened – NZD not adjusting as quickly as commodity prices

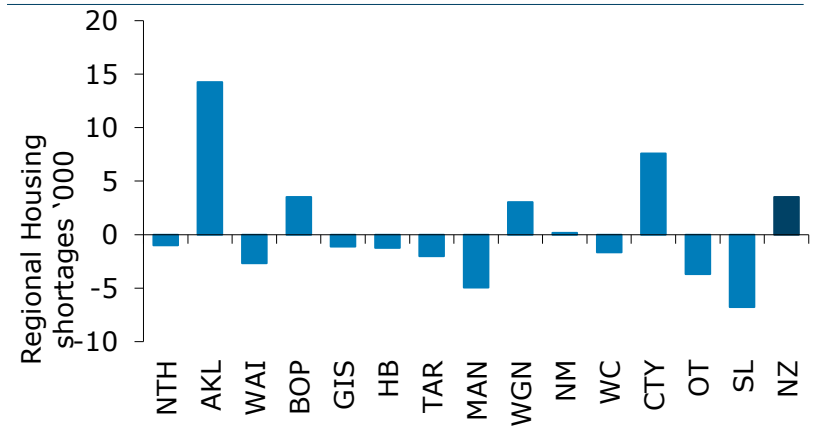


Key thematics: solid growth, modest lifts in OCR, building boom but restrained consumer & inflation to rise gradually

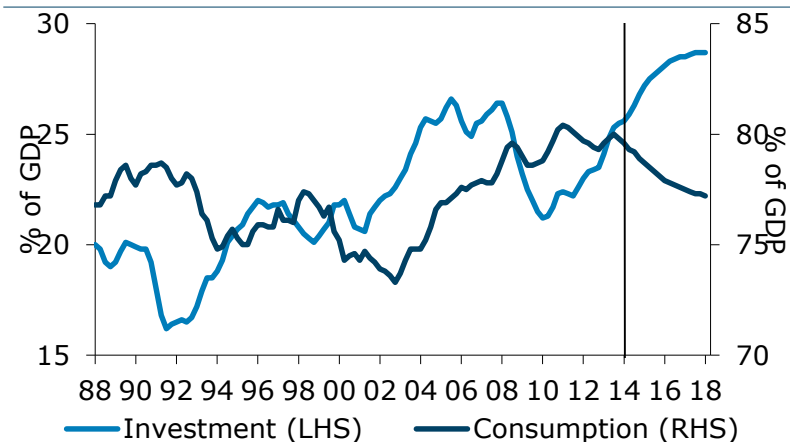
Still solid growth for New Zealand



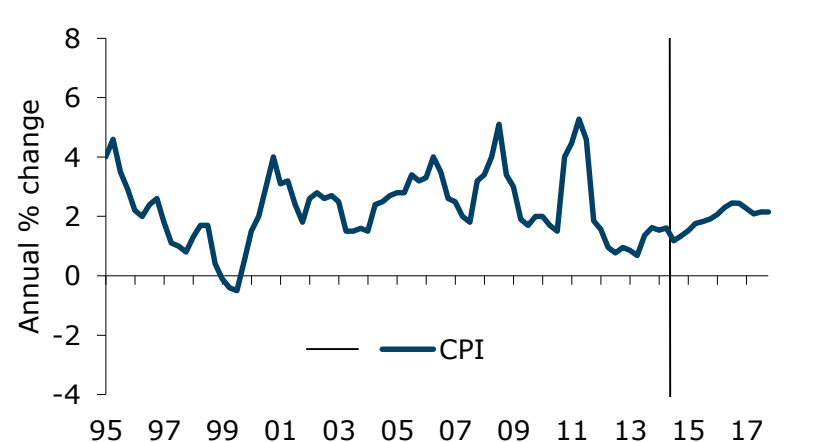
Auckland and Canterbury housing undersupply a major stimulus



Consumption needs to give way for a construction boom



Inflation to rise gradually



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This presentation may contain forward-looking statements including statements regarding our intent, belief or current expectations with respect to ANZ's business and operations, market conditions, results of operations and financial condition, capital adequacy, specific provisions and risk management practices. When used in this presentation, the words "estimate", "project", "intend", "anticipate", "believe", "expect", "should" and similar expressions, as they relate to ANZ and its management, are intended to identify forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. Such statements constitute "forward-looking statements" for the purposes of the United States Private Securities Litigation Reform Act of 1995. ANZ does not undertake any obligation to publicly release the result of any revisions to these forward-looking statements to reflect events or circumstances after the date hereof to reflect the occurrence of unanticipated events.

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