

News Release

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ANZ comments on APRA revised mortgage risk weight target

Following the announcement on Friday 5 August 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 20 July 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 1 July 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 1 July 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 30 June 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% and the aggregate capital impact would be offset by the equity raising undertaken by ANZ in August and September 2015.

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 previously announced 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 30 June 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 as announced at the 1H16 Financial Results.

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.

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