The ANZ Risk Management Framework

Australia and New Zealand Banking Group Limited

27 July 2004

Dr Mark Lawrence
Chief Risk Officer
Creating a more sustainable, lower risk business

- Significantly improved credit risk framework, profile and outcomes
- Strong market & operational risk capability
- Economic capital models embedded for all major risks across all businesses
- Independent central risk team is formally involved in all strategic initiatives
- Simplifying and strengthening compliance - ongoing
The Broad Framework
**Context: ANZ has been building its Risk Management Capability for more than a decade**

<table>
<thead>
<tr>
<th>Year</th>
<th>Events</th>
</tr>
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<tbody>
<tr>
<td>Prior to 1994</td>
<td>No formal “Risk Management” function, but ANZ had a credit “workout” area and an operational risk function; Rudimentary risk grading and pricing processes; no risk-based capital allocation</td>
</tr>
<tr>
<td>1995</td>
<td>Credit risk unit formed, with a particular emphasis on handling our actual and prospective property portfolio</td>
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<tr>
<td>1996–97</td>
<td>Board Risk Management Committee established; Regulatory Compliance framework implemented; Credit risk grading models built – Probability of Default, Loss Given Default; Portfolio granularity enhanced; economic capital for credit risk; EVA</td>
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<td>1999</td>
<td>Market and Operational Risk capability strengthened</td>
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<td>2000</td>
<td>Operational Risk economic capital model implemented; Creation of dedicated Retail Risk function</td>
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<td>2001</td>
<td>Basel II project commenced</td>
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<td>2002</td>
<td>Substantial Risk Management capability embedded in consumer businesses;</td>
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<td>2003</td>
<td>Increased focus on the management of project risks; Formal Group Risk Management involvement in Strategy</td>
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<tr>
<td>2004</td>
<td>Specialised Technology Risk function created</td>
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<td></td>
<td>Group Compliance framework enhanced</td>
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</tbody>
</table>
ANZ Organisation & Board Governance

ANZ Board

Board Risk Management Committee

Board Audit Committee

Principal Executive Risk Committees

Credit & Trading Risk Committee (CTC)
- Policy
- Major Lending Decisions
- Asset Writing Strategies
- Portfolio
- Trading Risk

Asset & Liability Committee (GALCO)
- Balance Sheet Risk

Operational Risk Executive Committee (OREC)
- Compliance
- Payments/operational risk
- Security

Project & Initiative Review Committee (PIRC)
- Project risk
- Project governance
- Project priorities
Governance Role of Group Risk Management

- Final authority to determine the risk boundary conditions for the Group and for each business

- Responsible for risk policies, principles and process standards that define ANZ Group’s risk strategy and appetite

- Satisfy the Board that controls, skills and systems enable compliance with Group policies and standards

- Responsible for measuring, assessing and monitoring the level of risk in the Group; approving material risk exposures, limits and transactions; and reporting these and other material risk issues to Executive Management, the Board and Regulators

- Champion ANZ’s reputation and risk culture, with objectivity and independence, ensuring that risk is always considered as part of the strategic agenda
ANZ Culture: A Question of Balance

- ANZ is focused on achieving growth within appropriate risk/control boundaries
- Balance is the **KEY** to ANZ’s success & **PEOPLE** provide that balance

**Group Risk’s Function:**
To probe, analyse, mitigate and accept risk within agreed appetite and bounds

The Challenge is to bring together disparate parts to form a cohesive whole

**Customer Needs & Financial objectives**

**Portfolio monitoring & effective controls, using technical skills & a macro view of the system process/institution built around a shared cultural approach**
Market Risk
Market Risk: Current Risk Profile

- Based on publicly-reported VAR measures, ANZ now has the lowest trading risk profile of the major Australian Banks
What is VaR?

The “Value at Risk” (VAR) of a portfolio:
- is a statistical estimate of the potential daily loss to a specified confidence level (e.g., 97.5%)
- is based on an historical simulation using changes in market prices over the past 500 days...
- ... which takes into account correlated movements across the different products/currencies/positions.

The graph below shows a typical distribution of the 500 simulated profit-and-loss results, and the corresponding level of the Value-at-Risk.

**Note:** to ascribe meaning to the VAR number which results from this calculation, is to assume that the movement in the various rates and prices over the next 24 hours will be broadly similar to and reflected in the historical rate movements experienced over the past 500 days.

**3 limitations of VAR are very important to understand:**
- If tomorrow is not like the past, then calculated VAR will be misleading – i.e., *Event Risk is not covered.*
- VAR is typically a 2 or 3 standard deviation measure. *VAR is not “Worst Case” – actual losses can be many multiples of the VAR estimate for certain portfolios.*
- VAR presumes market liquidity, irrespective of position size.

**Conclusion:** VAR numbers must be interpreted with great caution – they are not used in the direct management of risks on the dealer’s desk. A comprehensive framework of Detailed Control Limits is used for this purpose.

*The PAST is not a proxy for the FUTURE*
Value-at-Risk Limits and Exposures

• ANZ utilises VAR limits as an “outer-bound” constraint on dealer activity

• Limits are allocated by Market Risk at Global ANZ Trading Book level, by each business line down to individual trading desks, by product line, and by geography

• VAR Limits are monitored daily by the independent Market Risk Unit, with all excesses thoroughly investigated, action taken as appropriate, and reported to the Credit & Trading Committee as part of the regular monthly Market Risk Report

**NB:** VAR aggregation at higher levels takes account of correlation/diversification effects across portfolios and is not simply lower level portfolios combined on an additive basis

• Other limits are used to more tightly control dealing activities

  ➢ **Cumulative Stop-Loss Limits** specify the maximum loss that a business can sustain before trading is suspended (as a firm policy requirement). When/if this limit is breached, a full written management assessment (considering causes, evolving market dynamics, trading strategy and style, skills, mindset, etc.) is required before Market Risk will authorise resumption of trading.

  ➢ **Detailed Control Limits** comprise a detailed set of product-specific measures and sensitivity limits which are designed to control trader behaviour and complement the VAR limit structure.
Detailed Control Limits Framework

- There are several Detailed Control Limits which further constrain risk levels in different books. Some examples applicable to specific portfolios:

**Open Position Limits**
Open position limits are used to limit the outright currency risk position for the Spot FX trading business.

**“Delta-Gamma” Limits**
“Delta-Gamma” limits are P/L sensitivity limits which specify the maximum loss an options book is permitted to sustain for specified movements in underlying rates. Importantly, these limits pick up the non-linearity or convexity risk (Gamma) inherent in open option positions.

**“Vega” Limits**
“Vega” limits specify the maximum loss an options book can sustain for a 1% shift in the underlying *implied volatility rate* - a key input into option pricing – e.g. from 12% to 13%.

**Interest Rate Delta Limits**
IR Delta limits are used to limit the interest rate risk position for each maturity bucket, for each currency portfolio. The interest rate “delta” is the dollar sensitivity of a portfolio to a one basis point shift in interest rates.
Credit Risk
Volatility in specific provisions generally driven by large single name losses

Specific Provisions

Significant impact from single customers

Net specific provisions
ELP charge

27 July 2004
Larger loans require sound judgement, rating tools, and a dual approval process.

**Business Unit**
- e.g. Institutional Banking

- **Relationship Team**
  - Has responsibility for customer relationship
  - Customer pricing, taking into account risk, capital allocation, relationship costs

- **Relationship Credit Group**
  - Prepares credit submissions
    - Financial Analysis
    - Credit scoring
    - Rating agencies
    - KMV
    - Sound judgement
    - Deal Structuring & Security/Covenants

- **Group Risk**
  - **Independent Risk Function**
    - Separate from relationship team
    - Remuneration not linked to deal flow
    - Experienced practitioners
    - Largest deals approved by CTC & Board RMC

- **Credit decision**
  - Dual approval process

**Single customer concentration limits**

**Portfolio Caps**

**Credit Training**

**Portfolio modelling**
Ratings tools are increasingly powerful

• ANZ customer credit rating (CCR) must be at or below the equivalent rating from a ratings agency

• KMV tool can be a useful early warning indicator. Policy in place now requires material movements in KMV rating be investigated and CCR signed off by credit chain

• ANZ’s automated rating tool, aligned with Basel II, has been released internally via the Intranet to most Institutional and Middle Market points and is accompanied by strict, dual-approval policies

• ANZ utilises industry-accepted rating and capital allocation methodologies (Monte Carlo simulations) for its Structured Project lending book

• Additional models for the Institutional Banking market are being refined.
Single customer concentration limits are in place to cap single name exposures within the portfolio.

Maximum Direct Credit Lending Limits for Individual Customers

<table>
<thead>
<tr>
<th>% of Max Direct Credit Limits</th>
<th>Offshore (Collateral &lt; 80%)</th>
<th>Offshore (Collateral 80%+)</th>
<th>Onshore* (Collateral &lt; 80%)</th>
<th>Onshore* (Collateral 80%+)</th>
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<tbody>
<tr>
<td>100%</td>
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<td>90%</td>
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* Customers classified as Global Offshore Corporates can borrow according to Onshore lending policy.
Portfolio caps also help drive diversification

% of ANZ Group Lending Assets
(Australia and New Zealand)

- Commercial Property
- Manufacturing
- Retail Trade
- Finance - Banks
- Wholesale Trade
- Agriculture
- Business Services
- Finance - Other
- Cultural & Rec services
- Accomm, Pubs, Clubs
- Transport & Storage
- Other

Policy Cap

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Credit Policies & “Scorecards”: the key risk management tools in retail lending

Write-offs in the personal loan portfolio

- Scorecard rebuilt to target 3.5% loss rate
- Retail risk capabilities enhanced
Key challenge: achieving the appropriate risk-vs-return trade-off

Scorecards aim to achieve an appropriate risk/return trade-off

Ratio of ‘good’ customers to ‘bad’ customers

At a score of 600, expect 150 ‘good’ customers for each ‘bad’ customer

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At a score of 600, expect 150 ‘good’ customers for each ‘bad’ customer
Low exposure to Inner City residential mortgage lending

- Total Lending for inner city property at 3.9% of Australian Mortgages portfolio, with 2.2% for investment purposes. Tight policies to control emerging risks include:
  - valuations required on all new properties
  - rental income allowable in debt servicing calculation 60%
  - non-inclusion of negative gearing benefit in serviceability calculation for first time investors
  - inner city is broadly defined, and extends well beyond CBD
- Exposure to Melbourne Docklands area ~0.07% of the Australian mortgages portfolio, or <2% of the inner city lending portfolio
- Delinquencies
  - only 16 inner-city customers nationally with arrears >90 days
  - no delinquencies in the Docklands and Southbank books
Operational Risk
The Oldest Risks?

- Fraud
- Hijacking
- Sick buildings
- Pandemics
- System failures
- Human error
- Litigation
- War, political & civil unrest
- Harm to staff
- Project failure
- Model failure
- Regulatory breaches
- Professional negligence
- System failures
- Earthquakes, storms and fires
- Fines

Resulting in:

- direct loss
  - expense
  - distraction

- indirect loss
  - reputation
  - opportunity

Failure of service providers
Recent experience makes it clear that risks other than credit and market risks can be substantial:

- Barings
- Enron
- 9/11
- Allfirst (Allied Irish)
- Life insurance & pension mis-selling in UK
- “Spitzer” issues - Underwriting/research conflicts + Mutual fund scandals (etc)
We are now seeing greater focus on Operational Risk by financial services providers, government & others...

Financial Services (Banks, Insurance Companies, Fund Managers)

- Specialist Operational Risk functions
- Framework, policy, measurement and monitoring
- Capital allocation for operational risk – now happening
- Loss, event and near-miss data collection & analysis
- Extensive, ‘what if’ scenario analysis
- Business continuity testing and crisis management training
- Executive and Board Risk Committees

Government

- Consumer protection
- Corporate Governance
- Basel II
- Sarbanes Oxley
- Standards & Guidelines

Others

- Sustainability
- Reputation indices
- Rating Agencies
Key Elements of an Effective Operational Risk Framework

Once Operational Risk is defined within the organisation, what are the other key elements the need to be designed and implemented?

- Governance Structure
- Operational Risk Identification & Assessment methodology/process
- Operational Risk Measurement methodology
- Policies, procedures and processes for mitigating and controlling Operational Risks
- Process for the timely capture, analysis/monitoring and reporting of Operational Risks to key decision points within the organisation

These elements can be shown graphically as follows:
Operational Risk Categories

- A set of common operational risk categories have been adopted by ANZ, which further define what operational risk means in ANZ. These risk categories are represented below:

**Internal Operational Risks**
These risks arise in execution of business strategy and should be controlled by management

- Personnel failure
- Regulatory & Statutory compliance failure
- Project failure
- Failure of IT
- Modelling Errors

**External Operational Risks**
These risks arise as a result of external environmental factors

- Action by Govt & Regulators
- Failure of suppliers / outsourcers
- Commercial & Legal disputes

**Both Internal & External Operational Risks**

- Failure of Financial Infrastructure
- Fraud
- Theft & Crime
- Damage to Premises & Environment

27 July 2004
Central Operational Risk Management Structure

- **Chief Executive Officer**
  - **Chief Risk Officer**
    - **Operational Risk**
      - **Fraud Risk and Investigations**
      - **Business Continuity & Crisis Mgt**
      - **Operational Risk Measurement & Policy**
      - **Payments Risk**
      - **Operational Risk Identification & Insurance**
      - **Technology Risk**
  - **BU Managing Directors**
  - **Business Unit Risk Heads**
Impact of Basel II

Regulatory Capital for Operational Risk:

- Basel I (1988) - zero
- Basel II (2007 onwards) - substantial!
The Big Controversy!

- How much capital should be held for Operational Risk?
  - ~20%?  (Base CP2, January 2001)
  - ~12%?  (Base CP3, April 2003)
  - (Other?)

* The magnitude of this shift illustrates the difficulty of the measurement challenge!
The Difficulty of Measurement

• In recent years, we have seen the first serious attempts to measure operational risk... *really the birth of a new discipline*

• The industry has made great progress, but difficult questions remain:

1. *What are the principal determinants of the level of Operational Risk?*

2. *What are the key differences between Operational, Credit and Market Risks? Which statistical methods used to measure Credit and Market Risk are applicable to Operational Risk?*

3. *When is historical loss experience a reliable guide to Operational Risk in the future? More generally, how can Operational Risk measures be made forward-looking?*

4. *What is the role of historical information, including loss data?*
The Difficulty of Measurement

- The industry has made great progress, but difficult questions remain:

5. When is external information (including loss data) relevant? How should it be used?

6. How should specific operational scenarios be incorporated in the measurement of Operational Risk?

7. What about “Key Risk Indicators”?

8. How can we incorporate an assessment of the quality of operational processes and internal controls into the Op. Risk measurement process? How important is this?

9. What is the role of Senior Executive judgment in the Operational Risk measurement process? Where is the “right” balance between quantitative and qualitative factors?

10. How can unexpected loss and capital be measured?
Despite the phrase “1,000 flowers are blooming”, there are 3 principal methods in use in banks today:

- Loss Distribution Approach (statistical)
- “Scorecard” or “Risk Drivers and Controls” Approaches (more qualitative)
- Scenario-driven methods

Regardless of which method is chosen, to qualify for AMA accreditation under Basel II, a bank must clearly specify how its method makes use of:

- Internal data
- External data
- Quality control assessments
- Scenarios
To develop an operational risk measurement methodology which:

- Directly connects risk measurement with the operational risk management process;
- Provides increased understanding and transparency of operational risk exposures;
- Provides a ‘road map’ for reducing risk; and
- Provides transparent incentives for banks to invest in internal controls.
“Risk Drivers and Controls” Approaches

- A “Scorecard” methodology refers to a class of diverse approaches to operational risk measurement and capital determination, which all have at their core an assessment of specific operational risk drivers and controls.

These can also be called “Risk Drivers and Controls Approaches”, or “RDCAs”.

- Such approaches are effectively expert systems, which assess:
  - the level of a bank’s exposure to specified drivers of risk, and
  - the scope and quality of a bank’s internal control environment, key operational processes and risk mitigants,

and directly link these assessments to risk capital.
Key Features of RDCAs

- A measurement framework designed to focus on the principal drivers and controls surrounding operational risks
- A series of weighted, risk-based questions by risk type or category
- Reflects the organization's unique operational risk profile by:
  - Devising organization-specific questions
  - Calibrating responses to establish a range from “leading practice” to “ineffective”
  - Applying customized question weightings and response scores aligned with the relative importance of individual risks
- The specific risk categories, customized suite of questions, weightings and scored response options provide business managers with transparent priorities for risk management improvements
Key Benefits of RDCAs

Business Line Involvement
- RDCAs leverage the collective operational risk knowledge of the organization
- Business line involvement underpins their “ownership” of the results.

Forward-looking
- RDCAs attract capital when vulnerabilities & weaknesses are identified
- RDCAs provide an objective evaluation of the level of each business unit’s risk drivers and further serves as an effective proxy for future risk.

Behavioural Incentives for Improved Risk Management
- Maximized if a direct linkage between capital charges and management performance is established:
  
  E.g. Employ economic capital for operational risk within a RAROC or “Economic Value Added” (EVA) model, and use RAROC/EVA as the basis for:

  *risk-adjusted performance measurement and compensation*
Key Benefits of RDCAs (cont.)

Transparency

- All risk assessments are explicit and transparent, especially to line managers, and are regularly subjected to managerial, audit and/or supervisory interrogation.
- The linkage to capital is formula-driven, transparent and risk sensitive, reflecting risk profile changes.

Responsive to change

- Responsive to changes in the risk profile resulting from changes to the business mix or new operational risks.
- Before losses are experienced (e.g. Information Technology Security risks)

Fully Integrated into the Operational Risk Management Process

- RDCA methodologies are fully aligned with the organization’s operational risk management framework, thus *directly linking the measurement and management of operational risk.*
“...and one of the things I think that really does matter to this is the earlier introduction of EVA at the transactional and the customer level, means that we have a self-correcting mechanism that is in fact ensuring that risk comes down over time, without it being necessarily driven from the centre.

And in fact the fact we are one of the few banks in the world that allocate capital to Operational Risk in our EVA model, is also a leading edge indicator, which means that Operational Risks also get managed in the same way ...

And we think that’s a very important device because it means that an individual decision that leads to a negative EVA does not get done.”

John McFarlane, CEO, ANZ Banking Group (25 October 2001)
We have also implemented a specialised framework for project risk management

PIRC

Group Project Centre of Excellence (GPCE)
- Project Management QA
- Financial QA
- “Is it still sensible to continue with this project?”

Technology Risk Management (TRM)
- Technology Risks in the project (not Project Management Risks)
- Risk Management consulting to the project
Simplifying and strengthening Compliance: a holistic approach

- Strengthening compliance oversight has been identified as a key component to achieving operational excellence.

New model extends compliance to address:
- financial & prudential control
- credit, market & other operational control requirements for core processes
- Stronger consequence management for non-compliance breaches

Previous model focussed on legal/regulatory compliance

Risk that cannot be controlled by compliance (eg strategic risk, pure credit and market risk)
Strategy & Business Risk
Strategy and Business Risks important risk dimensions

- Credit, Market and Operational Risks are now documented
- Strategy and business risk is now at the forefront of risk management capability
- Business Risk is the risk that value will be lost through the selection of specific business directions or through changes to the Group’s overall business model.

[Diagram showing the relationship between Business Risk, Credit Risk, Operational Risk, and Market Risk, with examples such as losing money due to wrong strategy, customer failing to pay, inadequate or failed internal processes, and changes in market prices.]
Strategy and Business Risks: a differentiator for ANZ

- Group Chief Risk Officer is accountable to the Board for *oversight* of risk in the integration.
- Accountability includes the development of a framework that assigns accountability for the management of integration risks.
- Day-to-day management of integration risks is undertaken at a local level.

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1 BSI = Business Systems Integration
Strategy Engagement

Group Risk Management is formally involved in all strategic initiatives

- A substantial part of the bank’s risk profile is determined by its strategy and growth initiatives
- “Best practice” risk management involves an independent group providing input into strategy development and key investment decisions, ensuring that all the risks are transparently reflected and properly understood at key decision levels
- At ANZ Group Risk Management is actively involved in key strategy developments and major investment decisions
- Specific engagements over the last 6 months have included:
  - Decision to acquire NBNZ
  - Establishment of a strategic alliance with the Shanghai Rural Credit Cooperatives Union
Capital Allocation, Risk-Adjusted Pricing, and Basel II
**Economic Capital: Conceptual Framework**

**Conceptual Framework:**
- Risk models employed to quantify economic risk are used to allocate economic capital - the amount of capital needed to support a bank’s risk taking activities
- Credit risk capital allocation systems typically based on institutional estimates of their credit loss distribution
- Economic capital allocated to a particular activity reflects that activity’s marginal risk contribution to the portfolio taking into account diversification

**Applications:**
- Measure risk adjusted profitability and ensure efficient usage of shareholder funds
- Portfolio risk management in the setting of limits & reporting of portfolio credit quality
Risk adjusted EVA based pricing methodology makes the risk/return trade-off explicit to relationship managers

### Illustrative example

<table>
<thead>
<tr>
<th>Component</th>
<th>Example</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of Funds</td>
<td>6.00%</td>
<td>Funds Transfer Pricing Systems</td>
</tr>
<tr>
<td>Loan Loss Provision</td>
<td>0.53%</td>
<td>Credit Risk Models</td>
</tr>
<tr>
<td>Direct Expense*</td>
<td>0.15%</td>
<td></td>
</tr>
<tr>
<td>Indirect Expense*</td>
<td>0.15%</td>
<td>Product Cost Accounting Systems</td>
</tr>
<tr>
<td>Overhead*</td>
<td>0.10%</td>
<td></td>
</tr>
<tr>
<td><strong>Total charges before</strong></td>
<td><strong>6.93%</strong></td>
<td></td>
</tr>
<tr>
<td><strong>capital charge</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital Charge</td>
<td>0.34%</td>
<td></td>
</tr>
<tr>
<td><strong>Total Required Loan Rate</strong></td>
<td><strong>7.27%</strong></td>
<td>Funds Transfer Pricing Systems</td>
</tr>
</tbody>
</table>

### Capital calculation

- Allocated equity/loan = 6.7%
- Opportunity cost of equity = 11% ("hurdle rate")
- FTP Benefit = 6%

After tax capital charge = 0.067x (0.11 - 0.06) = 0.3%
Tax Rate (imputation-adjusted) = 0.108
Pre-tax capital charge = 0.3%/0.892 = 0.34%

* includes fixed and variable components
ANZ’s Basel II Programme

- ANZ formally established its Basel II Programme in December 2001.
- Our objective is compliance with the Advanced IRB approach for Credit Risk and the AMA approach for Operational Risk.
- The Programme has, at its core, a central programme office, with multiple core projects and workstreams.
- The senior executive Steering Committee meets monthly to review status, and consists of senior business unit representatives and senior central function executives (e.g. Risk, Finance and Technology), including several members of the Management Board.
- The evaluation phase was completed in 2003 and an independent Quality Assurance check by PwC placed ANZ in the top tier of Banks aspiring to be accredited at the more advanced levels within the new Basel Accord.
- The design and implementation phase of the programme is well underway with some key phases of the programme now nearing completion.
- Regular meetings are conducted with APRA to present programme progress and specific developments in the programme workstreams.
Basel II benefits

- QIS 3 - the first comprehensive survey of likely Basel II effects on Pillar 1 capital – forecasts large regulatory capital reductions for ANZ and other Australian banks.

- While based on Sept 02 data and CP2 capital formulae, it is directionally in line with what could be expected from the raw calculation of the minimum 8% capital requirement under Basel II.

- Nonetheless, ANZ is not expecting such drastic falls in regulatory capital to be permitted. Capital for Pillar 2 and potentially other add-ons will be required. However, we do expect a moderate fall in regulatory capital to flow (eventually).

- Principal benefits will flow from improved risk measurement and management infrastructure, further improvements to rating tools and other quantitative loss modelling, an enhanced corporate collateral management system, and improved data collection and integration.
We have transformed ANZ into a more sustainable, lower risk business

Reduction in risk and movement towards domestic consumer businesses

Has significantly reduced earnings volatility

And has not had a material impact on group earnings

* Standard deviation in six monthly NPAT growth for ANZ, excluding abnormal/significant items
Supplementary info
We continue to actively manage our exposure to the US Energy sector.

Over the past 18 months, exposure to the merchant energy sector and other non-core segments has reduced substantially through repayments, sell-downs and restructuring.

Whilst Non Accrual Loans have increased in the US portfolio as a result of the lagged credit effect, prudent management has resulted in a lower level of expected losses from the portfolio. Any further losses can be readily absorbed within existing ELP levels.

US: March 2004
- Outstandings: $0.6bn (70%)
- Other Committed: $0.2bn (25%)
- Uncommitted: $0.1bn (5%)

Customers
- Investment Grade: 10
- Non Accrual: 4
- Total: 19

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1. Excludes Settlement Limits but includes Contingent and Market-Related products domiciled in the US.
The quality of the Telcos book continues to improve

Total Telcos Limits (1)

**March 2004**
- Outstandings: $0.6bn (70%)
- Other Committed: $0.2bn (25%)
- Uncommitted: $0.1bn (5%)

**Note:**
1. Excludes Settlement Limits but includes Contingent and Market-Related products.
Proactive reduction in volume of “Top 10” client committed exposures

- Implementation of credit management policies to diversify the loan book exposure, has resulted in reducing the client concentration risk, despite the inclusion of NBNZ exposures. This has been achieved through reducing the volume of “Top 10” client committed lending.

- Sustained management of client exposures has reduced the sensitivity of the capital base of “Top 10” clients (to 68% of ACE in March 2004 from 75% of ACE September 2003).

Note:
1. March 2004 derivative exposures were calculated using a Monte Carlo model to calculate ANZ’s potential credit loss. The impact in moving to this methodology reduced the above ratio by 4.4 percentage points in comparison to ANZ’s previous methodology.
Quality of Consumer & SME portfolios again better than expected

- Mortgage delinquencies (60 days) improved over the half
- Delinquency for customers new to SME since September 2002 is in line with delinquency on legacy SME portfolio
- Strong economic conditions and prudent credit practices have continued to see our Retail delinquency and loss rates remain very low

- Delinquency for Mortgage products have flattened over the half
  - delinquencies on RILs and Broker introduced loans have remained in line with the wider portfolio
- Australia’s low unemployment rate should continue to help maintain the quality of the portfolio

TPMI – third party mortgage introducers *Excludes NBNZ
O/O – owner occupied
The material in this presentation is general background information about the Bank’s activities current at the date of the presentation. It is information given in summary form and does not purport to be complete. It is not intended to be relied upon as advice to investors or potential investors and does not take into account the investment objectives, financial situation or needs of any particular investor. These should be considered, with or without professional advice when deciding if an investment is appropriate.

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