# Capital

| Impact | Book Equity | ACE & Tier 1 | Tier 2 | Description |
|---|---|---|---|---|
| **Total Impact** | **↓ $1,239m** | **↓ $48m** | **↓ $215m** | |
| Derivative Financial Instruments<br>AASB 139 | ↑ $8m | ↓ $132m | | • Under AIFRS, all derivative financial instruments are recognised at fair value (instead of some being recognised at cost).<br>• Book Equity includes the creation of a Reserve arising from mark to market ("MTM") of derivatives used in cash flow hedging. APRA has stated that such a Reserve will not be permitted to be included in Tier 1 capital.<br>• APRA has stated that where long term bonds are MTM through the P&L under the hedge accounting rule, any MTM related movement in the issuers own credit spread will not be permitted to be included in Tier 1<br>• View additional disclosure on derivative hedging impacts |
| Credit Loss Provisioning<br>AASB 139 | ↑ $184m | ↑ $184m | ↓ $184m | • Under AIFRS provisions can only be raised for loans where a "loss event" has occurred and is objectively verifiable<br>• AIFRS is more prescriptive in its guidance on impairment provisioning leading to an adjustment of the ELP methodology through discounting cash flows and introducing certain judgemental risk measures<br>• The $184m impact reflects the reduction of provisions previously charged under ELP where an objectively verifiable "loss event" has yet to occur<br>• The Tier 2 impact reflects the reduction in General Provision for Loan Loss due to the release to retained earnings. |

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| Defined Benefit Scheme<br>AASB 119 | ⬇ $117m | | | • Under AIFRS, surpluses or deficits in defined benefit superannuation plans are recognised as assets or liabilities<br>• APRA has provided transitional rules which has deferred the reduction in prudential capital due recognising pension liabilities on balance sheet to 1st July 2006. APRA also requires any surplus recognised on the balance sheet to be reversed for prudential purposes unless otherwise agreed with APRA<br>• ANZ has elected to recognise actuarial gains and losses in the statement of financial position (i.e. the 'direct to retained earnings' approach) |
| Hybrid Securities<br>AASB 132 | ⬇ $993m | | | • Under AIFRS ANZ StEPS is reclassified from equity to liabilities<br>• No Tier 1 impact given no change in regulatory substance |
| Fee Revenue<br>AASB 118, AASB 139 | ⬇ $279m | | | • Certain fees (such as loan approval & financial service fees) previously reported in the statement of profit and loss under AGAAP, are to be capitalised and amortised over the lives of the financial instruments to which they relate under AIFRS<br>• For ACE & Tier 1 purposes, the write back against retained earnings will be offset by options available to ANZ within the prudential standards relating to deferred income being permitted to be counted as Tier 1 capital under certain circumstances, and set-offs permitted against capitalised expense deduction |

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|---|---|---|---|---|
| Goodwill<br>AASB 138 | ⬆ $199m | | | • Under AIFRS, goodwill is no longer amortised. The $199m increase in goodwill is due to the write-back of goodwill amortisation for the year ended 30 September 2005 (including the notional goodwill on the investment in INGA)<br>• For Tier 1 & ACE purposes the goodwill deduction is determined by the goodwill at acquisition date and hence subsequent amortisation charges are ignored |
| Associates & Joint Ventures<br>AAASB 131 | ⬇ $129m | | | • Carrying value of INGA reduced due to increased policy liabilities resulting from a change in discount rates applied in the actuarial valuation, the write-off of excess EMVONA, and the deferral and amortisation of fee income previously recognised upfront<br>• There is no adjustment for ACE or Tier 1 because these adjustments were already reflected in the size of the goodwill deduction taken for INGA. |
| Other | ⬇ $112m | ⬇ $100m | ⬇ $31m | • The $100m reflects the adjustment to book equity mainly related to accounting for share based payments and adjustments related to bid offer spread and foreign exchange<br>• Tier 1 & ACE capital is a result of offsetting adjustments – the share based payments adjustment being offset by the transfer of $31m from Asset Revaluation Reserve (Tier 2) to Retained Earnings (Tier 1) for assets that have been disposed |