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APS 330: CAPITAL ADEQUACY & RISK MANAGEMENT IN ANZ

December 2008

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Important Notice

This document has been prepared by Australia & New Zealand Banking Group Ltd (ANZ, or the Group) to meet its quarterly disclosure obligations under the Australian Prudential Regulation Authority (APRA) APS 330 Capital Adequacy: Public Disclosure of Prudential Information.

This quarterly disclosure was prepared as at 31 December 2008. ANZ has a continuous disclosure policy, under which ANZ will immediately notify the market of any material price sensitive information concerning the Group, in accordance with legislative and regulatory disclosure requirements.

Table 16: Capital Adequacy[1 2 3]

	Risk Weighted Assets	
	December 2008 $m	September 2008 $m
Subject to Advanced IRB approach		
Corporate	135,553	127,365
Sovereign	1,255	2,079
Bank	11,209	12,624
Residential Mortgage	35,276	33,727
Qualifying revolving retail	8,752	8,703
Other retail	14,331	14,218
Credit risk weighted assets subject to Advanced approach	**206,377**	**198,716**
Credit Risk Specialised lending (SL) exposures subject to slotting criteria	**28,719**	**30,250**
Subject to Standardised approach		
Corporate	16,710	13,348
Sovereign	0	0
Bank	9	21
Residential Mortgage	488	344
Credit risk weighted assets subject to standardised approach	**17,207**	**13,713**
Credit risk weighted assets relating to securitisation exposures	3,800	4,271
Credit risk weighted assets relating to equity exposures	1,970	1,146
Other assets	2,601	2,654
Market risk weighted assets	3,126	2,609
Operational risk weighted assets	17,551	18,017
Interest rate risk weighted assets in the banking book	0	4,058
TOTAL RISK WEIGHTED ASSETS	**281,351**	**275,434**
Capital ratios (%)		
Level 2 Total capital ratio	**11.1%**	**11.1%**
Level 2 Tier 1 capital ratio	**8.3%**	**7.7%**

Total Risk Weighted Assets increased by $5,917m (+2.1%) in the December 2008 quarter. Movement in RWA was largely a result of volume growth, exchange rate impacts and some deterioration in credit quality, notably in the Corporate Asset Class.

Total interest rate risk weighted assets reduced to zero due to the increase in embedded gains on Investment Term of Capital providing an offset to repricing and yield curve risk as measured by VaR.

Standardised risk weighted assets increased by 25.0% due to exchange rate impacts and continued expansion in Asia.

Credit risk weighted assets relating to securitisation exposures decreased by 11.0% impacted by the movement of exposures from securitisation to the Corporate Asset Class (-$0.7bn RWA).

Credit risk Specialised lending exposures subject to slotting criteria decreased by 5.0% due to a large exposure downgrade to default, carrying an increase in Regulatory Expected Loss rather than being included in RWA.

Corporate risk weighted assets increased due to some mark-to-market increases in derivatives and exchange rate impacts on a small number of lower quality counterparties. A few additional counterparty downgrades led to some overall deterioration in the portfolio.

Sovereign risk weighted assets decreased due to a reduction in exposures to relatively higher risk counterparties.

Bank risk weighted assets reduced by 11.2%, largely driven by a continued relative improvement in the profile.

[1] Other assets category is in line with the definition of other assets per APS 113 attachment E paragraphs 5, 9, 10 & 13.

[2] Margin Lending Exposure is disclosed under the standardised approach.

[3] Specialised Lending subject to slotting criteria exposure is where the main servicing and repayment is from the asset being financed. It includes specified commercial property development and investment lending, project finance and object finance.

Table 17a: Regulatory Credit Exposure

	Regulatory Credit Exposure		
Advanced IRB	December 2008 $m	September 2008 $m	Average for the quarter ended 31 Dec 2008 $m
Corporate	226,026	225,169	225,597
Sovereign	20,371	9,350	14,861
Bank	57,219	50,799	54,009
Residential Mortgage	193,012	186,287	189,649
Qualifying revolving retail	23,559	23,458	23,509
Other retail	26,723	26,708	26,715
Total Advanced IRB	**546,910**	**521,771**	**534,340**
Standardised	December 2008 $m	September 2008 $m	Average for the quarter ended 31 Dec 2008 $m
Corporate	17,797	14,827	16,312
Sovereign	0	0	0
Bank	29	28	29
Residential Mortgage	1,388	976	1,182
Total Standardised	**19,214**	**15,831**	**17,523**
Total Exposures	**566,124**	**537,602**	**551,863**

Total Credit Risk Exposure increased by $28,522m (+5.3%) in the December 2008 quarter.

Corporate exposures increased due to exchange rate impacts and mark-to-market on derivatives, partially offset by a reduction in undrawn limits.

Sovereign exposures growth of $11,021m was mainly due to increased deposits with the Federal Reserve (which carries a very small RWA impact).

Increase in Bank exposure was largely driven by derivative mark-to-market changes and exchange rate impacts, with improved portfolio quality reducing the RWA impact.

Standardised growth of $3,383m resulted from continued expansion in Asia and exchange rate movements.

Table 17b: Impaired Assets and Provisioning

Advanced IRB	Impaired Derivatives 4 $m	Impaired Loans / Facilities $m	Past due loans ≥ 90 days $m	Individual provision balance $m	Charges for individual provision $m	Write-offs $m
Corporate	243	2,690	272	583	362	168
Sovereign	0	0	0	0	0	0
Bank	0	36	0	29	0	0
Residential Mortgage	0	192	725	77	22	4
Qualifying revolving retail	0	0	69	0	56	64
Other retail	0	287	158	188	93	81
Total Advanced IRB	**243**	**3,205**	**1,224**	**877**	**533**	**317**
Standardised	Impaired Derivatives 4 $m	Impaired Loans / Facilities $m	Past due loans ≥ 90 days $m	Individual provision balance $m	Charges for individual provision $m	Write-offs $m
Corporate	0	62	40	24	10	8
Sovereign	0	0	0	0	0	0
Bank	0	0	0	0	0	0
Residential Mortgage	0	0	0	0	0	0
Total Standardised	**0**	**62**	**40**	**24**	**10**	**8**
Total	**243**	**3,267**	**1,264**	**901**	**543**	**325**
General reserve for credit losses Balance		**2,826**				

Deteriorating economic conditions continue to impact credit quality for the quarter ending 31 December 2008.

Impaired loans increased $594m largely from the Institutional Division, with an increase in the Australia Division mainly in Esanda.

90 days past due increased by $204m in the December quarter, primarily from Australia Division's Mortgages portfolio with increased financial pressure and reduced exit options.

Individual provision balance increased by $226m, reflecting the deteriorating credit environment. Write-offs were mainly in Australia's Consumer Finance and Esanda and the broader Institutional Division.

General reserve for credit losses (collective provision) balance remained flat. Higher collective provision charges in the Institutional Division were broadly offset by some customers being downgraded to impaired and the subsequent raising of individual provisions.

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[4] Value reported includes a credit valuation adjustment, being a market assessment of the of credit risk of the relevant counterparties, of $79m.