ANZ CAPITAL MANAGEMENT

OVERVIEW

AUSTRALIA[1]

- ANZ reports to APRA on a Level 1 and Level 2 basis, and measures capital adequacy monthly on a Level 1 and Level 2 basis, and is not yet required to maintain capital on a Level 3 basis (APRA have yet to conclude required timing for Level 3 capital requirements)
- For ANZ, Level 1 in the context of APRA supervision, includes Australia and New Zealand Banking Group Limited consolidated with certain approved subsidiaries
- For ANZ, Level 2 in the context of APRA supervision, includes the consolidated ANZ Group excluding associates, insurance and funds management entities, commercial non-financial entities and certain securitisation vehicles
- Consequently, the primary difference between Level 1 and Level 2 is ANZBGL's banking subsidiaries (such as ANZ New Zealand Bank Limited) which are part of the Level 2 regulatory consolidation but excluded from Level 1

Association with related entities

- Prudential Standard APS222 requires Authorised Deposit-taking Institutions (ADI) to implement prudent measures and set limits to monitor and control contagion risks arising from their associations and dealings with their related entities, measured against an ADI's or ELE's Level 1 capital

OUTSIDE AUSTRALIA[1]

- In addition to APRA, the Company's branch operations and major banking subsidiary operations are also overseen by local regulators such as the Reserve Bank of New Zealand, the US Federal Reserve, the UK Prudential Regulation Authority, the Monetary Authority of Singapore, the Hong Kong Monetary Authority and the China Banking and Insurance Regulatory Commission. They may impose minimum capitalisation levels on operations in their individual jurisdictions

1. As detailed in ANZ 2018 Annual Report, pages 137 & 180

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APS222 – CONSIDERATIONS FOR ANZ

- The Australian Prudential Regulation Authority (APRA) confirmed on 20 August 2019 it will implement its previously announced proposal to reduce limits for Australian ADIs' exposures to related entities, reducing limits from 50% of Level 1 Total capital to 25% of Level 1 Tier 1 capital
- ANZ's only exposure to a related entity large enough to be impacted by this change is ANZ New Zealand Bank Limited (ANZ NZ)
- Measuring exposures to related entities is detailed in paragraphs 34 to 37 of the Prudential Standard APS222 (released August 19)
- For ANZ, the following on and off balance sheet exposures are captured:

  On Balance Sheet

  - Injected equity and/or capital securities (e.g. Paid Up Capital) into ANZ NZ less capital deductions (e.g. Goodwill)
  - Intergroup debt exposures (e.g. accruals, receivables, etc.)

  Off Balance Sheet

  - Intergroup derivative exposures (Market exposures)
  - Non-Market exposures (e.g. Liquidity Facilities, Standby Letters of Credit etc.)
- Taking into consideration the above and the lower related entity limit, ANZ's exposure to ANZ NZ will be at or around the revised limit based on the current balance sheet
- The changes announced on 20 August 2019 are effective January 2021. In ANZ news release of 20 August, ANZ notes APRA's statement that they are open to providing entity-specific transitional arrangements or flexibility on a case by case basis. ANZ expects this flexibility could include the timeframe available and the circumstances under which an exemption may be available such as periods of funding market disruption