2.3.8 Capital Adequacy & ACE Ratio

The Australian Prudential Regulation Authority (APRA) guidelines require capital to be allocated against credit and market risk. Banks must maintain a ratio of qualifying capital (comprising Tier 1 and Tier 2 capital), to risk weighted assets, and off-balance sheet exposures determined on a risk weighted basis, of which at least half must be Tier 1 capital. The Bank adopted the 'standard model' approach prescribed by APRA to measure market risk. The resultant capital after applying a numeric conversion factor, forms part of risk-weighted assets.

	Consolidated 2005 $m	Consolidated 2004 $m
Risk weighted capital ratios		
Tier 1	8.01%	8.38%
Tier 2	2.38%	1.97%
Total capital ratio	**10.39%**	**10.35%**
Qualifying Capital		
Tier 1		
Contributed capital	589.3	551.6
Retained profits & reserves	128.1	97.9
Less,		
Intangible assets	79.0	63.7
Net future income tax benefit	14.2	8.4
Other adjustments as per APRA advice	11.4	7.7
Total Tier 1 capital	612.8	569.7
Tier 2		
General provision for doubtful debts	42.2	37.4
Subordinated debt	262.1	199.3
Asset revaluation reserves	3.0	4.9
	307.3	241.6
Less,		
Subsidiary investment residual	9.2	8.9
Total Tier 2 capital	298.1	232.7
Less,		
Investments in non-consolidated subsidiaries or associates and other bank's capital instruments	115.7	99.1
Total qualifying capital	795.2	703.3
Total risk weighted assets	**7,655.1**	**6,797.2**

Adjusted Common Equity ("ACE")

Adjusted Common Equity is one measure considered by Standard & Poor's in evaluating the Bank's credit rating. The ACE ratio has been calculated in accordance with the Standard & Poor's methodology.

	2005 $m	2004 $m
Adjusted Common Equity		
Tier 1 capital	612.8	569.7
Deduct:		
Preference share capital	43.0	-
Subsidiary investment residual	9.2	8.9
Investments in non-consolidated subsidiaries or associates and other banks' capital instruments	115.7	99.1
Total Adjusted Common Equity	444.9	461.7
Adjusted Common Equity ratio to risk weighted assets	**5.81%**	**6.79%**