2012

BASEL II PILLAR 3 DISCLOSURE

QUARTER ENDED 31 December 2012

APS 330: CAPITAL ADEQUACY & RISK MANAGEMENT IN ANZ

ANZ

Important notice

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

This disclosure was prepared as at 31st December 2012. 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.

Scope of application

Top corporate entity

The top corporate entity in the reporting group is Australia and New Zealand Banking Group Limited.

Table 16 Capital adequacy - Capital ratios and Risk Weighted Assets [1]

Risk weighted assets (RWA)	Dec 12 $M	Sep 12 $M	Jun 12 $M
Subject to Advanced Internal Rating Based (IRB) approach			
Corporate	113,027	111,796	103,738
Sovereign	4,615	4,088	4,503
Bank	11,079	10,964	10,579
Residential Mortgage	43,664	42,959	43,029
Qualifying Revolving Retail	7,028	7,092	7,396
Other Retail	22,511	21,277	20,984
Credit risk weighted assets subject to Advanced IRB approach	**201,924**	**198,176**	**190,229**
Credit risk Specialised Lending exposures subject to slotting approach	**27,286**	**27,628**	**27,632**
Subject to Standardised approach			
Corporate	17,339	18,281	26,261
Residential Mortgage	1,863	1,812	1,316
Qualifying Revolving Retail	2,112	2,028	2,007
Other Retail	1,354	1,165	1,328
Credit risk weighted assets subject to Standardised approach	**22,668**	**23,286**	**30,912**
Credit risk weighted assets relating to securitisation exposures	1,132	1,170	1,229
Credit risk weighted assets relating to equity exposures	918	1,030	1,211
Other assets	3,729	3,585	3,671
Total credit risk weighted assets	**257,657**	**254,875**	**254,884**
Market risk weighted assets	6,193	4,664	4,458
Operational risk weighted assets	28,124	28,125	20,072
Interest rate risk in the banking book (IRRBB) risk weighted assets	11,634	12,455	11,276
Total risk weighted assets	**303,608**	**300,119**	**290,690**
Capital ratios (%)			
Level 2 Total capital ratio	**12.1%**	**12.2%**	**12.3%**
Level 2 Tier 1 capital ratio	**10.9%**	**10.8%**	**11.1%**

Credit Risk Weighted Assets (CRWA)

Total CRWA increased $2.8 billion (1.1%) from September 2012 to $257.7 billion in December 2012. The majority of the increase was driven by growth in the Australia Commercial business and Institutional banking portfolios. IRB Residential Mortgages RWA also increased by $0.7 billion driven mainly by growth in the Australian portfolio.

Market Risk Weighted Assets (RWA)

Market RWA increased $1.5 billion during the quarter as portfolio diversification decreased from higher levels observed earlier in the year under the new Basel 2.5 Stressed VaR calculation.

Operational Risk Weighted Assets

Increase in Operational RWA by $8.1 billion (40.1%) in the September 2012 quarter includes operational model risk.

[1] Specialised Lending exposures subject to supervisory slotting approach are those where the main servicing and repayment is from the asset being financed, and includes specified commercial property development / investment lending and project finance.

Table 17 Credit risk exposures

Table 17(a) part (i): Period end and average Exposure at Default [2] [3] [4]

	Dec 12				
Advanced IRB approach	Risk Weighted Assets $M	Exposure at Default $M	Average Exposure at Default for three months $M	Individual provision charge for three months $M	Write-offs for three months $M
Corporate	113,027	192,141	191,884	109	127
Sovereign	4,615	73,109	68,511	2	-
Bank	11,079	47,252	45,352	-	-
Residential Mortgage	43,664	255,208	253,024	11	15
Qualifying Revolving Retail	7,028	20,835	20,874	61	79
Other Retail	22,511	34,599	33,277	57	80
Total Advanced IRB approach	**201,924**	**623,144**	**612,918**	**240**	**301**
Specialised Lending	**27,286**	**31,568**	**31,536**	**35**	**85**
Standardised approach					
Corporate	17,339	17,084	17,508	9	19
Residential Mortgage	1,863	4,086	3,930	-	-
Qualifying Revolving Retail	2,112	2,105	2,063	(5)	2
Other Retail	1,354	1,337	1,242	6	6
Total Standardised approach	**22,668**	**24,612**	**24,747**	**10**	**27**
Total	**251,878**	**679,324**	**669,201**	**285**	**413**

[2] Exposure at Default in Table 17(a) includes Advanced IRB, Specialised Lending and Standardised exposures, however does not include Securitisation, Equities or Other Assets exposures. Exposure at Default in Table 17(a) is net of credit risk mitigation such as guarantees, credit derivatives, netting and financial collateral.

[3] Average Exposure at Default in Table 17(a) for quarter is calculated as the simple average of the balances at the start and the end of each three month period.

[4] Some prior period comparatives have been restated to reflect reclassification between asset classes.

Sep 12					
Advanced IRB approach	Risk Weighted Assets $M	Exposure at Default $M	Average Exposure at Default for three months $M	Individual provision charge for three months $M	Write-offs for three months $M
Corporate	111,796	191,628	185,457	284	307
Sovereign	4,088	63,914	63,442	-	-
Bank	10,964	43,451	42,955	-	-
Residential Mortgage	42,959	250,839	249,878	17	14
Qualifying Revolving Retail	7,092	20,912	21,007	63	77
Other Retail	21,277	31,954	31,660	59	61
Total Advanced IRB approach	**198,176**	**602,698**	**594,399**	**423**	**459**
Specialised Lending	**27,628**	**31,505**	**31,596**	**78**	**46**
Standardised approach					
Corporate	18,281	17,933	21,832	49	12
Residential Mortgage	1,812	3,775	3,623	3	1
Qualifying Revolving Retail	2,028	2,021	2,010	(4)	2
Other Retail	1,165	1,146	1,227	4	5
Total Standardised approach	**23,286**	**24,875**	**28,692**	**52**	**20**
Total	**249,090**	**659,078**	**654,687**	**553**	**525**

Jun 12					
Advanced IRB approach	Risk Weighted Assets $M	Exposure at Default $M	Average Exposure at Default for three months $M	Individual provision charge for three months $M	Write-offs for three months $M
Corporate	103,738	179,286	177,379	169	78
Sovereign	4,503	62,970	59,538	-	-
Bank	10,579	42,458	41,851	-	-
Residential Mortgage	43,029	248,917	246,555	16	21
Qualifying Revolving Retail	7,396	21,102	21,244	70	84
Other Retail	20,984	31,366	30,925	72	70
Total Advanced IRB approach	**190,229**	**586,099**	**577,492**	**327**	**253**
Specialised Lending	**27,632**	**31,686**	**31,530**	**30**	**31**
Standardised approach					
Corporate	26,261	25,730	25,021	5	11
Residential Mortgage	1,316	3,473	3,306	1	-
Qualifying Revolving Retail	2,007	1,999	1,962	9	16
Other Retail	1,328	1,307	1,205	(38)	5
Total Standardised approach	**30,912**	**32,509**	**31,494**	**(23)**	**32**
Total	**248,773**	**650,294**	**640,516**	**334**	**316**

Table 17(a) part (ii): Exposure at Default by portfolio type

Portfolio Type	Dec 12 $M	Sep 12 $M	Jun 12 $M	Average for the quarter ended Dec 12 $M
Cash and liquid assets	33,133	26,435	24,862	29,784
Contingents liabilities, commitments, and other off-balance sheet exposures	125,808	121,752	119,559	123,780
Derivatives	27,375	27,339	27,243	27,357
Due from other financial institutions	15,898	8,721	13,907	12,310
Investment securities	17,905	18,116	17,675	18,011
Loans, advances and acceptances	430,836	426,803	421,299	428,820
Other assets	1,231	839	1,494	1,034
Trading securities	27,138	29,073	24,255	28,105
Total exposures	**679,324**	**659,078**	**650,294**	**669,201**

Table 17(b):[5] Impaired asset [6] [7], Past due loans [8], Provisions and Write-offs

	Dec 12					
	Impaired derivatives $M	Impaired loans/ facilities $M	Past due loans ≥ 90 days $M	Individual provision balance $M	Individual provision charge for three months $M	Write-offs for three months $M
Portfolios subject to Advanced IRB approach						
Corporate	14	2,521	266	817	109	127
Sovereign	-	-	-	2	2	-
Bank	-	-	-	-	-	-
Residential Mortgage	-	454	883	154	11	15
Qualifying Revolving Retail	-	-	81	-	61	79
Other Retail	-	278	230	178	57	80
Total Advanced IRB approach	**14**	**3,253**	**1,460**	**1,151**	**240**	**301**
Specialised Lending	**79**	**1,194**	**119**	**270**	**35**	**85**
Portfolios subject to Standardised approach						
Corporate	2	235	46	146	9	19
Residential Mortgage	-	26	4	17	-	-
Qualifying Revolving Retail	-	50	1	50	(5)	2
Other Retail	-	26	14	33	6	6
Total Standardised approach	**2**	**337**	**65**	**246**	**10**	**27**
Total	**95**	**4,784**	**1,644**	**1,667**	**285**	**413**

[5] Some prior period comparatives have been restated to reflect reclassification between asset classes.

[6] Impaired derivatives is net of credit valuation adjustment (CVA) of $117 million, being a market value based assessment of the credit risk of the relevant counterparties (September 2012: $105 million; June 2012: $57 million).

[7] Impaired loans / facilities include restructured items of $524 million for customer facilities in which the original contractual terms have been modified for reasons related to the financial difficulties of the customer. Restructuring may consist of reduction of interest, principal or other payments legally due, or an extension in maturity materially beyond those typically offered to new facilities with similar risk (September 2012: $525 million; June 2012: $351million).

[8] Past due loans ≥ 90 days includes $1,418 million well secured loans (September 2012: $1,475 million; June 2012: $1,664 million).

	Sep 12					
	Impaired derivatives $M	Impaired loans/ facilities $M	Past due loans ≥ 90 days $M	Individual provision balance $M	Individual provision charge for three months $M	Write-offs for three months $M
Portfolios subject to Advanced IRB approach						
Corporate	15	2,631	358	854	284	307
Sovereign	-	-	-	-	-	-
Bank	-	-	-	-	-	-
Residential Mortgage	-	468	898	163	17	14
Qualifying Revolving Retail	-	-	83	1	63	77
Other Retail	-	286	198	182	59	61
Total Advanced IRB approach	**15**	**3,385**	**1,537**	**1,200**	**423**	**459**
Specialised Lending	**99**	**1,343**	**117**	**326**	**78**	**46**
Portfolios subject to Standardised approach						
Corporate	2	209	30	142	49	12
Residential Mortgage	-	23	4	17	3	1
Qualifying Revolving Retail	-	65	13	53	(4)	2
Other Retail	-	55	12	35	4	5
Total Standardised approach	**2**	**352**	**59**	**247**	**52**	**20**
Total	**116**	**5,080**	**1,713**	**1,773**	**553**	**525**

	Jun 12					
	Impaired derivatives $M	Impaired loans/ facilities $M	Past due loans ≥ 90 days $M	Individual provision balance $M	Individual provision charge for three months $M	Write-offs for three months $M
Portfolios subject to Advanced IRB approach						
Corporate	3	2,566	385	887	169	78
Sovereign	-	-	3	-	-	-
Bank	-	80	-	49	-	-
Residential Mortgage	-	486	1,021	164	16	21
Qualifying Revolving Retail	-	1	97	1	70	84
Other Retail	-	291	207	181	72	70
Total Advanced IRB approach	**3**	**3,424**	**1,713**	**1,282**	**327**	**253**
Specialised Lending	**121**	**1414**	**62**	**282**	**30**	**31**
Portfolios subject to Standardised approach						
Corporate	-	130	78	62	5	11
Residential Mortgage	-	21	4	15	1	-
Qualifying Revolving Retail	-	70	16	70	9	16
Other Retail	-	43	9	36	(38)	5
Total Standardised approach	**-**	**264**	**107**	**183**	**(23)**	**32**
Total	**124**	**5,102**	**1,882**	**1,747**	**334**	**316**

Table 17(c): Specific Provision Balance and General Reserve for Credit Losses [9]

	Dec 12		
	Specific Provision Balance $M	General Reserve for Credit Losses $M	Total $M
Collective Provision	330	2,448	2,778
Individual Provision	1,667	-	1,667
Total Provision for Credit Impairment			**4,445**

	Sep 12		
	Specific Provision Balance $M	General Reserve for Credit Losses $M	Total $M
Collective Provision	334	2,431	2,765
Individual Provision	1,773	-	1,773
Total Provision for Credit Impairment			**4,538**

	Jun 12		
	Specific Provision Balance $M	General Reserve for Credit Losses $M	Total $M
Collective Provision	325	2,683	3,008
Individual Provision	1,747	-	1,747
Total Provision for Credit Impairment			**4,755**

[9] Due to definitional differences, there is a variation in the split between ANZ's Individual Provision and Collective Provision for accounting purposes and the Specific Provision and General Reserve for Credit Losses (GRCL) for regulatory purposes. This does not impact total provisions, and essentially relates to the classification of collectively assessed provisions on defaulted accounts. The disclosures in this document are based on Individual Provision and Collective Provision, for ease of comparison with other published results.

Table 18 Securitisation

Table 18(a) part (i): Banking Book - Summary of current period's activity by underlying asset type and facility [10]

Dec 12

Securitisation activity by underlying asset type	Original value securitised ANZ Originated $M	ANZ Self Securitised $M	ANZ Sponsored $M	Recognised gain or loss on sale $M
Residential mortgage	-	566	-	-
Credit cards and other personal loans	-	-	-	-
Auto and equipment finance	-	-	-	-
Commercial loans	-	-	-	-
Other	-	-	-	-
Total	**-**	**566**	**-**	**-**

Securitisation activity by facility provided				Notional amount $M
Liquidity facilities	-	-	-	-
Funding facilities	-	-	-	450
Underwriting facilities	-	-	-	-
Lending facilities	-	-	-	-
Credit enhancements	-	-	-	-
Holdings of securities (excluding trading book)	-	-	-	201
Other	-	-	-	-
Total	**-**	**-**	**-**	**651**

Sep 12

Securitisation activity by underlying asset type	Original value securitised ANZ Originated $M	ANZ Self Securitised $M	ANZ Sponsored $M	Recognised gain or loss on sale $M
Residential mortgage	-	11,640	-	-
Credit cards and other personal loans	-	-	-	-
Auto and equipment finance	-	-	-	-
Commercial loans	-	-	-	-
Other	-	-	-	-
Total	**-**	**11,640**	**-**	**-**

Securitisation activity by facility provided				Notional amount $M
Liquidity facilities	-	-	-	-
Funding facilities	-	-	-	396
Underwriting facilities	-	-	-	-
Lending facilities	-	-	-	-
Credit enhancements	-	-	-	-
Holdings of securities (excluding trading book)	-	-	-	264
Other	-	-	-	-
Total	**-**	**-**	**-**	**660**

[10] Activity represents net movement in outstandings.

Securitisation activity by underlying asset type	Jun 12 Original value securitised ANZ Originated $M	ANZ Self Securitised $M	ANZ Sponsored $M	Recognised gain or loss on sale $M
Residential mortgage	-	617	-	-
Credit cards and other personal loans	-	-	-	-
Auto and equipment finance	-	-	-	-
Commercial loans	-	-	-	-
Other	-	-	-	-
Total	**-**	**617**	**-**	**-**

Securitisation activity by facility provided				Notional amount $M
Liquidity facilities	-	-	-	-
Funding facilities	-	-	-	-
Underwriting facilities	-	-	-	-
Lending facilities	-	-	-	-
Credit enhancements	-	-	-	-
Holdings of securities (excluding trading book)	-	-	-	363
Other	-	-	-	-
Total	**-**	**-**	**-**	**363**

Table 18(a) part (ii): Trading Book - Summary of current period's activity by underlying asset type and facility

No assets from ANZ's Trading Book were securitised during the reporting period.

Securitisation activities:

ANZ’s key securitisation activities are:

• Securitisation of ANZ originated assets (including self-securitisation) – use of securitisation as a funding, liquidity and capital management tool which may or may not involve the transfer of credit risk i.e. may or may not provide regulatory capital relief.

• Securitisation of third-party originated assets.

• Provision of facilities and services to securitisations or resecuritisations (where the underlying assets may be ANZ or third-party originated) e.g. liquidity, funding derivatives and/or credit support, structuring and arranging services, conduit management and (via ANZ Capel Court Limited) trust management services.

• Investment in securities - ANZ may purchase notes issued by securitisation programmes.

Table 18(b) part (i): Banking Book – Exposure at Default by exposure type

Securitisation exposure type - On balance sheet	Dec 12 $M	Sep 12 $M	Jun 12 $M
Liquidity facilities	-	128	1,758
Funding facilities	5,384	5,007	3,198
Underwriting facilities	-	-	-
Lending facilities	-	-	-
Credit enhancements	-	-	-
Holdings of securities (excluding trading book)	2,309	2,925	2,873
Protection provided	-	-	-
Other	-	-	-
Total	**7,693**	**8,060**	**7,829**

Securitisation exposure type - Off balance sheet	Dec 12 $M	Sep 12 $M	Jun 12 $M
Liquidity facilities	234	233	344
Funding facilities	6	60	-
Underwriting facilities	-	-	-
Lending facilities	-	-	-
Credit enhancements	-	-	-
Holdings of securities (excluding trading book)	-	-	-
Protection provided	-	-	-
Other	-	-	-
Total	**240**	**293**	**344**

Total Securitisation exposure type	Dec 12 $M	Sep 12 $M	Jun 12 $M
Liquidity facilities	234	361	2,102
Funding facilities	5,390	5,067	3,198
Underwriting facilities	-	-	-
Lending facilities	-	-	-
Credit enhancements	-	-	-
Holdings of securities (excluding trading book)	2,309	2,925	2,873
Protection provided	-	-	-
Other	-	-	-
Total	**7,933**	**8,353**	**8,173**

Table 18(b) part (ii): Trading Book - Exposure at Default by exposure type

Securitisation exposure type - On balance sheet	Dec 12 $M	Sep 12 $M	Jun 12 $M
Liquidity facilities	-	-	-
Funding facilities	-	-	-
Underwriting facilities	-	-	-
Lending facilities	-	-	-
Credit enhancements	-	-	-
Holdings of securities	26	10	24
Protection provided	-	-	-
Other	-	-	-
Total	**26**	**10**	**24**

Securitisation exposure type - Off balance sheet	Dec 12 $M	Sep 12 $M	Jun 12 $M
Liquidity facilities	-	-	-
Funding facilities	-	-	-
Underwriting facilities	-	-	-
Lending facilities	-	-	-
Credit enhancements	-	-	-
Holdings of securities	-	-	-
Protection provided	-	-	-
Other	-	-	-
Total	-	-	-

Total Securitisation exposure type	Dec 12 $M	Sep 12 $M	Jun 12 $M
Liquidity facilities	-	-	-
Funding facilities	-	-	-
Underwriting facilities	-	-	-
Lending facilities	-	-	-
Credit enhancements	-	-	-
Holdings of securities	26	10	24
Protection provided	-	-	-
Other	-	-	-
Total	**26**	**10**	**24**

Glossary

Collective provision (CP)	Collective provision is the provision for credit losses that are inherent in the portfolio but not able to be individually identified. A collective provision may only be recognised when a loss event has already occurred. Losses expected as a result of future events, no matter how likely, are not recognised.
Credit exposure	The aggregate of all claims, commitments and contingent liabilities arising from on- and off-balance sheet transactions (in the banking book and trading book) with the counterparty or group of related counterparties.
Credit risk	The risk of financial loss resulting from the failure of ANZ's customers and counterparties to honour or perform fully the terms of a loan or contract.
Credit Valuation Adjustment (CVA)	Over the life of a derivative instrument, ANZ uses a CVA model to adjust fair value to take into account the impact of counterparty credit quality. The methodology calculates the present value of expected losses over the life of the financial instrument as a function of probability of default, loss given default, expected credit risk exposure and an asset correlation factor. Impaired derivatives are also subject to a CVA.
Days past due	The number of days a credit obligation is overdue, commencing on the date that the arrears or excess occurs and accruing for each completed calendar day thereafter.
Exposure at Default (EAD)	Exposure At Default is defined as the expected facility exposure at the date of default.
Impaired assets (IA)	Facilities are classified as impaired when there is doubt as to whether the contractual amounts due, including interest and other payments, will be met in a timely manner. Impaired assets include impaired facilities, and impaired derivatives. Impaired derivatives have a credit valuation adjustment (CVA), which is a market assessment of the credit risk of the relevant counterparties.
Impaired loans (IL)	Impaired loans comprise of drawn facilities where the customer's status is defined as impaired.
Individual provision charge (IPC)	Impaired provision charge is the amount of expected credit losses on financial instruments assessed for impairment on an individual basis (as opposed to on a collective basis). It takes into account expected cash flows over the lives of those financial instruments.
Individual provisions (IP)	Individual provisions are assessed on a case-by-case basis for all individually managed impaired assets taking into consideration factors such as the realisable value of security (or other credit mitigants), the likely return available upon liquidation or bankruptcy, legal uncertainties, estimated costs involved in recovery, the market price of the exposure in secondary markets and the amount and timing of expected receipts and recoveries.

Market risk	The risk to ANZ's earnings arising from changes in interest rates, currency exchange rates and credit spreads, or from fluctuations in bond, commodity or equity prices. ANZ has grouped market risk into two broad categories to facilitate the measurement, reporting and control of market risk: Traded market risk - the risk of loss from changes in the value of financial instruments due to movements in price factors for physical and derivative trading positions. Trading positions arise from transactions where ANZ acts as principal with clients or with the market. Non-traded market risk (or balance sheet risk) - comprises interest rate risk in the banking book and the risk to the AUD denominated value of ANZ's capital and earnings due to foreign exchange rate movements.
Operational risk	The risk of loss resulting from inadequate or failed internal controls or from external events, including legal risk but excluding reputation risk.
Past due facilities	Facilities where a contractual payment has not been met or the customer is outside of contractual arrangements are deemed past due. Past due facilities include those operating in excess of approved arrangements or where scheduled repayments are outstanding but do not include impaired assets.
Recoveries	Payments received and taken to profit for the current period for the amounts written off in prior financial periods.
Restructured items	Restructured items comprise facilities in which the original contractual terms have been modified for reasons related to the financial difficulties of the customer. Restructuring may consist of reduction of interest, principal or other payments legally due, or an extension in maturity materially beyond those typically offered to new facilities with similar risk.
Risk Weighted Assets (RWA)	Assets which are weighted for credit risk according to a set formula (APS 112/113).
Securitisation risk	The risk of credit related losses greater than expected due to a securitisation failing to operate as anticipated, or of the values and risks accepted or transferred, not emerging as expected.
Write-Offs	Facilities are written off against the related provision for impairment when they are assessed as partially or fully uncollectable, and after proceeds from the realisation of any collateral have been received. Where individual provisions recognised in previous periods have subsequently decreased or are no longer required, such impairment losses are reversed in the current period income statement.

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