2013

BASEL III PILLAR 3 DISCLOSURE

QUARTER ENDED 30 June 2013

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) ADI Prudential Standard (APS) 330: Public Disclosure.

This disclosure was prepared as at 30th June 2013. 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 3 Capital adequacy - Capital ratios and Risk Weighted Assets [1]

	Basel III		Basel II
	Jun 13	**Mar 13**	**Dec 12**
Risk weighted assets (RWA)	$M	$M	$M
Subject to Advanced Internal Rating Based (IRB) approach			
Corporate	123,753	114,700	113,027
Sovereign	4,638	4,382	4,615
Bank	17,584	15,838	11,079
Residential Mortgage	46,249	44,597	43,664
Qualifying Revolving Retail	7,260	7,234	7,028
Other Retail	23,742	23,200	22,511
Credit risk weighted assets subject to Advanced IRB approach	**223,226**	**209,951**	**201,924**
Credit risk Specialised Lending exposures subject to slotting approach	**27,436**	**27,842**	**27,286**
Subject to Standardised approach			
Corporate	18,175	17,157	17,339
Residential Mortgage	1,831	1,827	1,863
Qualifying Revolving Retail	1,886	2,068	2,112
Other Retail	1,005	1,248	1,354
Credit risk weighted assets subject to Standardised approach	**22,897**	**22,300**	**22,668**
Credit Valuation Adjustment[2] and Qualifying Central Counterparties[3]	**9,506**	**8,949**	**n/a**
Credit risk weighted assets relating to securitisation exposures	2,883	2,549	1,132
Credit risk weighted assets relating to equity exposures	n/a	n/a	918
Other assets	3,537	3,387	3,729
Total credit risk weighted assets	**289,485**	**274,978**	**257,657**
Market risk weighted assets	5,101	6,850	6,193
Operational risk weighted assets	28,875	28,125	28,124
Interest rate risk in the banking book (IRRBB) risk weighted assets	17,323	12,629	11,634
Total risk weighted assets	**340,784**	**322,582**	**303,608**
Capital ratios (%)			
Level 2 Common Equity Tier 1 capital ratio	**8.0%**	**8.2%**	**n/a**
Level 2 Tier 1 capital ratio	**9.5%**	**9.8%**	**10.9%**
Level 2 Total capital ratio	**11.4%**	**11.7%**	**12.1%**

Credit Risk Weighted Assets (CRWA)
Total CRWA movement increased $14.5 billion (5.3%) from March 2013 to $289.5 billion at June 2013, including a $10.6 billion increase due to foreign currency movements. Significant Basel Asset Class movements include a $9.0 billion (7.9%) increase in AIRB Corporate driven mainly by growth in the Institutional portfolio and foreign currency impacts, an increase of $1.7 billion (11%) in AIRB Bank driven by growth in Australia and Asia and foreign currency movements, and an increase of $1.7 billion (3.7%) in AIRB Residential Mortgages driven mainly by growth in Australian portfolio and foreign currency movements.

Market Risk, Operational Risk and IRRBB Risk Weighted Assets (RWA)
The increase in IRRBB RWA was primarily due to greater repricing and yield curve risk primarily due to lengthening of Capital.

Market Risk RWA decreased $1.7 billion during the quarter as portfolio diversification increased from lower levels observed during first half 2013 under the Basel 2.5 Stressed VaR calculation.

[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.

[2] Basel III capital reforms have introduced a Credit Value Adjustment (CVA) capital charge on over the counter (OTC) derivative assets.

[3] Basel III capital reforms, exposures to Qualifying Central Counterparties (QCCP's) arising from over the counter (OTC) derivatives, exchange-traded derivatives and securities financing transactions are subject to refined capital requirements.

Table 4 Credit risk exposures

Table 4(a) part (i): Period end and average Exposure at Default [4 5 6]

	Jun 13				
Advanced IRB approach	Basel III 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	123,753	225,561	216,624	52	88
Sovereign	4,638	83,102	80,550	5	-
Bank	17,584	121,287	111,830	-	-
Residential Mortgage	46,249	267,421	263,487	14	32
Qualifying Revolving Retail	7,260	21,056	21,004	62	80
Other Retail	23,742	35,987	35,587	87	89
Total Advanced IRB approach	**223,226**	**754,414**	**729,082**	**220**	**289**
Specialised Lending	**27,436**	**31,545**	**31,933**	**-**	**30**
Standardised approach					
Corporate	18,175	17,968	17,479	12	8
Residential Mortgage	1,831	4,923	4,565	1	3
Qualifying Revolving Retail	1,886	1,879	1,971	(4)	2
Other Retail	1,005	999	1,121	9	20
Total Standardised approach	**22,897**	**25,769**	**25,136**	**18**	**33**
Credit Valuation Adjustment and Qualifying Central Counterparties	**9,506**	**4,766**	**3,141**	**-**	**-**
Total	**283,065**	**816,494**	**789,292**	**238**	**352**

[4] Exposure at Default in Table 4 includes Advanced IRB, Specialised Lending and Standardised exposures, however does not include Securitisation, Equities or Other Assets exposures. Exposure at Default in Table 4 is gross of credit risk mitigation such as guarantees, credit derivatives, netting and financial collateral.

[5] Average Exposure at Default for quarter is calculated as the simple average of the balances at the start and the end of each three month period.

[6] December 2012 Exposure at Default has been restated and is gross of credit risk mitigation such as guarantees, credit derivatives, netting and financial collateral.

	Mar 13				
Advanced IRB approach	Basel III 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	114,700	207,687	206,120	134	176
Sovereign	4,382	77,998	77,566	(2)	-
Bank	15,838	102,372	102,657	-	-
Residential Mortgage	44,597	259,553	257,381	24	16
Qualifying Revolving Retail	7,234	20,951	20,893	51	67
Other Retail	23,200	35,187	34,893	81	70
Total Advanced IRB approach	**209,951**	**703,748**	**699,510**	**288**	**329**
Specialised Lending	**27,842**	**32,321**	**31,994**	**(8)**	**85**
Standardised approach					
Corporate	17,157	16,989	17,058	13	17
Residential Mortgage	1,827	4,206	4,146	1	1
Qualifying Revolving Retail	2,068	2,062	2,084	(4)	6
Other Retail	1,248	1,242	1,290	8	13
Total Standardised approach	**22,300**	**24,499**	**24,578**	**18**	**37**
Credit Valuation Adjustment and Qualifying Central Counterparties	**8,949**	**1,516**	**1,516**	**-**	**-**
Total	**269,042**	**762,084**	**757,598**	**298**	**451**

	Dec 12				
Advanced IRB approach	Basel II 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	204,552	203,517	109	127
Sovereign	4,615	77,134	71,862	2	-
Bank	11,079	102,942	100,925	-	-
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**	**695,270**	**683,479**	**240**	**301**
Specialised Lending	**27,286**	**31,666**	**31,641**	**47**	**85**
Standardised approach					
Corporate	17,339	17,126	17,547	9	19
Residential Mortgage	1,863	4,086	3,931	-	-
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**	**24,654**	**24,783**	**10**	**27**
Total	**251,878**	**751,590**	**739,903**	**297**	**413**

Table 4(a) part (ii): Exposure at Default by portfolio type [7]

Portfolio Type	Jun 13 $M	Mar 13 $M	Dec 12 $M	Average for the quarter ended Jun 13 $M
Cash and liquid assets	47,762	47,433	43,656	47,598
Contingents liabilities, commitments, and other off-balance sheet exposures	133,304	127,206	125,808	130,255
Derivatives	103,492	80,648	84,243	92,070
Due from other financial institutions	19,975	14,518	15,898	17,247
Investment securities	23,484	20,018	17,905	21,751
Loans, advances and acceptances	457,813	441,299	431,872	449,556
Other assets	4,128	2,788	5,069	3,458
Trading securities	26,536	28,174	27,139	27,355
Total exposures	**816,494**	**762,084**	**751,590**	**789,290**

[7] December 2012 Exposure at Default has been restated and is gross of credit risk mitigation such as guarantees, credit derivatives, netting and financial collateral.

Table 4(b): Impaired asset [8] [9], Past due loans [10], Provisions and Write-offs

	Jun 13					
	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	9	2,227	289	752	52	88
Sovereign	-	1	-	5	5	-
Bank	-	-	-	-	-	-
Residential Mortgage	-	427	989	144	14	32
Qualifying Revolving Retail	-	90	-	-	62	80
Other Retail	-	391	240	211	87	89
Total Advanced IRB approach	**9**	**3,136**	**1,518**	**1,112**	**220**	**289**
Specialised Lending	**66**	**937**	**103**	**157**	**-**	**30**
Portfolios subject to Standardised approach						
Corporate	2	281	37	161	12	8
Residential Mortgage	-	17	11	13	1	3
Qualifying Revolving Retail	-	67	-	48	(4)	2
Other Retail	-	51	4	28	9	20
Total Standardised approach	**2**	**416**	**52**	**250**	**18**	**33**
Total	**77**	**4,489**	**1,673**	**1,519**	**238**	**352**

[8] Impaired derivatives is net of credit valuation adjustment (CVA) of $110 million, being a market value based assessment of the credit risk of the relevant counterparties (March 2013: $111 million; December 2012: $117 million).

[9] Impaired loans / facilities include restructured items of $543 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 (March 2013: $524 million; December 2012: $524 million).

[10] Not well secured portfolio managed retail exposures have been reclassified from past due loans ≥ 90 days to impaired loans / facilities from June 2013.

	Mar 13					
	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	10	2,418	282	759	134	176
Sovereign	-	-	-	-	(2)	-
Bank	-	-	-	-	-	-
Residential Mortgage	-	463	907	159	24	16
Qualifying Revolving Retail	-	-	94	-	51	67
Other Retail	-	323	284	202	81	70
Total Advanced IRB approach	**10**	**3,204**	**1,567**	**1,120**	**288**	**329**
Specialised Lending	**71**	**1,055**	**72**	**183**	**(8)**	**85**
Portfolios subject to Standardised approach						
Corporate	2	237	39	150	13	17
Residential Mortgage	-	18	3	14	1	1
Qualifying Revolving Retail	-	63	1	46	(4)	6
Other Retail	-	25	14	30	8	13
Total Standardised approach	**2**	**343**	**57**	**240**	**18**	**37**
Total	**83**	**4,602**	**1,696**	**1,543**	**298**	**451**

	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**	**47**	**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**	**297**	**413**

Table 4(c): Specific Provision Balance and General Reserve for Credit Losses [11]

	Jun 13		
	Specific Provision Balance $M	General Reserve for Credit Losses $M	Total $M
Collective Provision	368	2,524	2,892
Individual Provision	1,519	-	1,519
Total Provision for Credit Impairment			**4,411**

	Mar 13		
	Specific Provision Balance $M	General Reserve for Credit Losses $M	Total $M
Collective Provision	341	2,428	2,769
Individual Provision	1,543	-	1,543
Total Provision for Credit Impairment			**4,312**

	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**

[11] 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 5 Securitisation

Table 5(a) part (i): Banking Book - Summary of current period's activity by underlying asset type and facility [12] [13]

Jun 13

	Original value securitised			
Securitisation activity by underlying asset type	ANZ Originated $M	ANZ Self Securitised $M	ANZ Sponsored $M	Recognised gain or loss on sale $M
Residential mortgage	-	557	-	-
Credit cards and other personal loans	-	-	-	-
Auto and equipment finance	-	-	-	-
Commercial loans	-	-	-	-
Other	-	-	-	-
Total	**-**	**557**	**-**	**-**

Securitisation activity by facility provided				Notional amount $M
Liquidity facilities	-	-	-	-
Funding facilities	-	-	-	(103)
Underwriting facilities	-	-	-	
Lending facilities	-	-	-	
Credit enhancements	-	-	-	
Holdings of securities (excluding trading book)	-	-	-	(30)
Other	-	-	-	596
Total	**-**	**-**	**-**	**463**

Mar 13

	Original value securitised			
Securitisation activity by underlying asset type	ANZ Originated $M	ANZ Self Securitised $M	ANZ Sponsored $M	Recognised gain or loss on sale $M
Residential mortgage	-	642	-	-
Credit cards and other personal loans	-	-	-	-
Auto and equipment finance	-	-	-	-
Commercial loans	-	-	-	-
Other	-	-	-	-
Total	**-**	**642**	**-**	**-**

Securitisation activity by facility provided				Notional amount $M
Liquidity facilities	-	-	-	-
Funding facilities	-	-	-	190
Underwriting facilities	-	-	-	-
Lending facilities	-	-	-	-
Credit enhancements	-	-	-	-
Holdings of securities (excluding trading book)	-	-	-	444
Other	-	-	-	-
Total	**-**	**-**	**-**	**634**

[12] Activity represents net movement in outstandings.

[13] Table represents ANZ self securitised programs only.

	Dec 12			
	Original value securitised			
Securitisation activity by underlying asset type	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**

Table 5(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 5(b) part (i): Banking Book – Exposure at Default by exposure type

Securitisation exposure type - On balance sheet	Jun13 $M	Mar13 $M	Dec12 $M
Liquidity facilities	-	-	-
Funding facilities	5,124	5,232	5,384
Underwriting facilities	-	-	-
Lending facilities	-	-	-
Credit enhancements	-	-	-
Holdings of securities (excluding trading book)	2,859	2,889	2,309
Protection provided	-	-	-
Other	596	-	-
Total	**8,579**	**8,121**	**7,693**

Securitisation exposure type - Off balance sheet	Jun13 $M	Mar13 $M	Dec12 $M
Liquidity facilities	119	121	234
Funding facilities	-	-	6
Underwriting facilities	-	-	-
Lending facilities	-	-	-
Credit enhancements	-	-	-
Holdings of securities (excluding trading book)	-	-	-
Protection provided	-	-	-
Other	-	-	-
Total	**119**	**121**	**240**

Total Securitisation exposure type	Jun13 $M	Mar13 $M	Dec12 $M
Liquidity facilities	119	121	234
Funding facilities	5,124	5,232	5,390
Underwriting facilities	-	-	-
Lending facilities	-	-	-
Credit enhancements	-	-	-
Holdings of securities (excluding trading book)	2,859	2,889	2,309
Protection provided	-	-	-
Other	596	-	-
Total	**8,698**	**8,242**	**7,933**

Table 5(b) part (ii): Trading Book - Exposure at Default by exposure type

Securitisation exposure type - On balance sheet	Jun13 $M	Mar13 $M	Dec12 $M
Liquidity facilities	-	-	-
Funding facilities	-	-	-
Underwriting facilities	-	-	-
Lending facilities	-	-	-
Credit enhancements	-	-	-
Holdings of securities	2	17	26
Protection provided	-	-	-
Other	-	-	-
Total	**2**	**17**	**26**

Securitisation exposure type - Off balance sheet	Jun13 $M	Mar13 $M	Dec12 $M
Liquidity facilities	-	-	-
Funding facilities	-	-	-
Underwriting facilities	-	-	-
Lending facilities	-	-	-
Credit enhancements	-	-	-
Holdings of securities	-	-	-
Protection provided	-	-	-
Other	-	-	-
Total	**-**	**-**	**-**

Total Securitisation exposure type	Jun13 $M	Mar13 $M	Dec12 $M
Liquidity facilities	-	-	-
Funding facilities	-	-	-
Underwriting facilities	-	-	-
Lending facilities	-	-	-
Credit enhancements	-	-	-
Holdings of securities	2	17	26
Protection provided	-	-	-
Other	-	-	-
Total	**2**	**17**	**26**

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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