

2010

BASEL II PILLAR 3 DISCLOSURE



IN ACCORDANCE WITH APS 330

QUARTER ENDED 31 DECEMBER 2010



Important notice

This document has been prepared by Australia and New Zealand Banking Group Ltd (ANZ, or the Group) to meet its 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 2010. 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 – Capital ratios and Risk Weighted Assets ¹

	Dec-10 \$M	Sep-10 \$M	Mar-10 \$M
Subject to Advanced Internal Rating Based (IRB) approach			
Corporate	99,984	101,940	100,945
Sovereign	2,827	2,720	2,470
Bank	5,838	6,135	5,108
Residential Mortgage	39,558	38,708	37,423
Qualifying Revolving Retail	7,229	7,205	7,238
Other Retail	18,220	17,899	17,942
Credit risk weighted assets subject to Advanced IRB approach	173,656	174,607	171,126
Credit Risk Specialised Lending exposures subject to slotting criteria	27,215	26,605	24,965
Subject to Standardised approach			
Corporate	20,650	21,281	16,330
Sovereign	-	-	-
Bank	-	-	-
Residential Mortgage	570	567	399
Qualifying Revolving Retail	1,826	1,841	4
Other Retail	1,773	1,113	560
Credit risk weighted assets subject to Standardised approach	24,819	24,802	17,293
Credit risk weighted assets relating to securitisation exposures	1,846	2,091	1,975
Credit risk weighted assets relating to equity exposures	1,622	1,577	1,639
Other assets	3,906	3,835	3,377
Total credit risk weighted assets	233,064	233,517	220,375
Market risk weighted assets	3,260	5,652	3,969
Operational risk weighted assets	17,265	17,383	16,481
Interest rate risk in the banking book (IRRBB) risk weighted assets	8,509	7,690	8,136
TOTAL RISK WEIGHTED ASSETS	262,098	264,242	248,961
Capital ratios (%)			
Level 2 Total capital ratio	11.9%	11.9%	13.0%
Level 2 Tier 1 capital ratio	10.3%	10.1%	10.7%

Risk Weighted Assets (RWA)

Total RWA decreased by \$2.1 billion (0.8%) in the December 2010 quarter, mainly due to a decrease in Market Risk RWA of \$2.4 billion.

Credit Risk Weighted Assets

The key drivers for the small movement in Credit RWA were portfolio growth in Specialised Lending and Advanced IRB Residential Mortgages, offset by a decrease in the Advanced IRB Corporate due to exchange rate impacts and some improvement in credit quality.

Market Risk, Operational Risk and IRRBB Risk Weighted Assets

Market Risk RWA peaked in September 2010 due to an increase in the risk held over that quarter relative to other periods. During this period the most significant market risk exposure was to Australian short term interest rates. This risk has mostly been reduced since September and the RWA for December was back to the long run average. It is expected that such short term increases in market risk will occasionally occur over 2011. Whilst Operational Risk RWA remained relatively stable over the quarter, the increase in IRRBB was due to an increase in repricing and yield curve 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, project finance and object finance.

Table 17: Credit risk exposures ^{2 3 4}**Table 17(a) (i): Regulatory credit exposures by asset class**

	Dec-10 \$M	Sep-10 \$M	Mar-10 \$M	Average for the quarter ended Dec-10 \$M
Advanced IRB				
Corporate	156,771	158,224	155,116	157,498
Sovereign	38,911	35,099	34,786	37,005
Bank	32,413	32,681	27,952	32,547
Residential Mortgage	225,618	220,055	208,508	222,836
Qualifying Revolving Retail	20,917	20,764	20,396	20,841
Other Retail	28,570	28,282	28,250	28,426
Total Advanced IRB	503,200	495,105	475,008	499,153
Specialised Lending (subject to slotting criteria)	29,374	27,835	26,862	28,605
Standardised				
Corporate	20,654	21,282	16,331	20,968
Sovereign	-	-	-	-
Bank	-	-	-	-
Residential Mortgage	1,381	1,479	1,135	1,430
Qualifying Revolving Retail	1,826	1,841	4	1,834
Other Retail	1,772	1,112	560	1,442
Total Standardised	25,633	25,714	18,030	25,674
Total Exposure	558,207	548,654	519,900	553,431

Table 17(a) (ii): Regulatory credit exposure by facility type ⁵

Facility Type	Dec-10 \$M	Sep-10 \$M	Mar-10 \$M	Average for the quarter ended Dec-10 \$M
Acceptances	624	11,495	12,510	6,060
Cash and liquid assets	14,802	11,353	13,521	13,078
Contingents, commitments, other off balance sheet	110,510	110,437	103,868	110,473
Creditors and other liabilities	57	96	41	77
Derivatives	21,880	21,929	14,151	21,904
Due from other financial institutions	7,406	4,806	6,353	6,106
Investment securities	17,831	19,501	16,381	18,666
Loans and advances	368,087	346,177	330,963	357,131
Other assets	1,330	1,485	582	1,408
Total deposits and other borrowings	1	55	234	28
Trading securities	15,679	21,320	21,296	18,500
Total Exposures	558,207	548,654	519,900	553,431

² In accordance with APS 330, regulatory credit exposure in Table 17(a)(i) and (ii) includes Advanced IRB, Specialised Lending and Standardised exposures, however does not include Securitisation, Equities or Other Assets exposures.

³ Regulatory credit exposure in Table 17(a)(i) and (ii) is net of credit risk mitigation such as guarantees, credit derivatives, netting and financial collateral.

⁴ The period averages in Table 17(a)(i) and (ii) are calculated as the simple average of the last two quarters' closing balance.

⁵ The reduction in Acceptances and in Trading securities reflects ANZ's decision to move away from re-discounting Commercial Bills. Such exposures are now recorded within Loans and advances, as they are no longer held for trading purposes.

Table 17(b): Impaired assets, Past due loans, Provisions and Write-offs by Industry sector ^{6 7 8 9}

	Impaired Derivatives \$M			Impaired Loans / Facilities \$M			Past due loans ≥ 90 days \$M			Individual provision balance \$M			Individual provision charge \$M			Write-offs \$M		
	Dec-10	Sep-10	Mar-10	Dec-10	Sep-10	Mar-10	Dec-10	Sep-10	Mar-10	Dec-10	Sep-10	Mar-10	Three months ending Dec-10	Six months ending Sep-10	Six months ending Mar-10	Three months ending Dec-10	Six months ending Sep-10	Six months ending Mar-10
Portfolios subject to Advanced IRB approach																		
Corporate	13	33	47	3,162	3,331	3,524	220	233	258	649	751	797	98	227	474	191	197	440
Specialised Lending	17	18	20	1,511	1,509	1,801	108	65	80	265	214	219	57	155	151	2	144	136
Sovereign	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Bank	-	-	-	86	97	123	-	-	-	19	28	33	(7)	(5)	(18)	-	-	8
Residential Mortgage	-	-	-	544	574	511	973	881	849	198	215	234	10	65	97	22	65	52
Qualifying Revolving Retail	-	-	-	-	-	-	81	84	78	-	-	-	58	109	107	68	134	128
Other Retail	-	-	-	344	362	344	143	139	141	209	225	202	61	140	162	63	156	174
Total Advanced IRB approach	30	51	67	5,647	5,873	6,303	1,525	1,402	1,406	1,340	1,433	1,485	277	691	973	346	695	938
Portfolios subject to Standardised approach																		
Corporate	-	-	-	353	298	144	99	97	94	174	156	77	6	14	28	-	1	1
Sovereign	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Bank	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Residential Mortgage	-	-	-	21	21	17	1	3	4	7	6	5	1	4	2	-	-	-
Qualifying Revolving Retail	-	-	-	103	106	-	13	13	-	103	106	-	1	(3)	-	3	7	-
Other Retail	-	-	-	198	212	30	40	40	19	169	174	26	9	38	23	13	27	24
Total Standardised approach	-	-	-	675	637	191	153	153	117	453	442	108	17	53	53	16	35	25
Total	30	51	67	6,322	6,510	6,494	1,678	1,555	1,523	1,793	1,875	1,593	294	744	1,026	362	730	963

⁶ Impaired derivatives include a Credit Valuation Adjustment (CVA) of \$85 million, being a market value based assessment of the credit risk of the relevant counterparties (September 2010: \$77 million; March 2010: \$61 million).

⁷ Impaired loans / facilities include restructured items of \$697 million for customer facilities in which the original terms have been modified to provide for concessions of interest, or principal, or other payments due, or for an extension in maturity for a non-commercial period for reasons related to the financial difficulties of a customer (September 2010: \$141 million; March 2010: \$560 million).

⁸ Past due loans ≥ 90 days includes \$1,581 million well secured loans (September 2010: \$1,416 million; March 2010: \$1,370 million).

⁹ The Individual provision charge relates to Loans and advances, and does not include impairment on Available-For-Sale assets (December 2010: Nil; September 2010: \$1 million; March 2010: \$20 million).

Table 17(c): Specific Provision balance and General Reserve for Credit Losses ¹⁰

	Dec-10 \$M			Sep-10 \$M			Mar-10 \$M		
	Specific Provision balance	General Reserve for Credit Losses	Total	Specific Provision balance	General Reserve for Credit Losses	Total	Specific Provision balance	General Reserve for Credit Losses	Total
Collective Provision	234	2,902	3,136	233	2,920	3,153	260	2,777	3,037
Individual Provision	1,793	-	1,793	1,875	-	1,875	1,593	-	1,593
Total Provision for Credit Impairment			4,929			5,028			4,630

¹⁰ Due to definitional differences, there is a difference 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.

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