

# 2011

## BASEL II PILLAR 3 DISCLOSURE

A light blue map of the ANZ region, including Australia, New Zealand, and parts of Southeast Asia, is visible in the background. A white chevron arrow points to the right, located in the top right corner of the text box.

QUARTER ENDED 31 DECEMBER 2011

APS 330: CAPITAL ADEQUACY &  
RISK MANAGEMENT IN 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) APS 330 Capital Adequacy: Public Disclosure of Prudential Information.

This disclosure was prepared as at 31 December 2011. 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<sup>1 2</sup>**

| <b>Risk weighted assets</b>   | <b>Dec 11<br/>\$M</b> | <b>Sep 11<br/>\$M</b> | <b>Jun 11<br/>\$M</b> |
|---|-----------------------|-----------------------|-----------------------|
| <b>Subject to Advanced Internal Rating Based (IRB) approach</b>               |                       |                       |                       |
| Corporate   | 102,726               | 106,120               | 99,938                |
| Sovereign   | 4,843                 | 4,365                 | 3,756                 |
| Bank  | 10,049                | 9,456                 | 7,938                 |
| Residential Mortgage  | 41,798                | 41,041                | 41,271                |
| Qualifying Revolving Retail   | 7,612                 | 7,468                 | 7,525                 |
| Other Retail  | 19,455                | 19,240                | 18,799                |
| <b>Credit risk weighted assets subject to Advanced IRB approach</b>           | <b>186,483</b>        | <b>187,690</b>        | <b>179,227</b>        |
| <b>Credit risk Specialised Lending exposures subject to slotting approach</b> | <b>28,545</b>         | <b>27,757</b>         | <b>27,740</b>         |
| <b>Subject to Standardised approach</b>                                       |                       |                       |                       |
| Corporate   | 25,513                | 22,832                | 20,097                |
| Residential Mortgage  | 1,380                 | 1,457                 | 1,283                 |
| Qualifying Revolving Retail   | 1,968                 | 2,111                 | 1,986                 |
| Other Retail  | 1,170                 | 923                   | 766                   |
| <b>Credit risk weighted assets subject to Standardised approach</b>           | <b>30,031</b>         | <b>27,323</b>         | <b>24,132</b>         |
| Credit risk weighted assets relating to securitisation exposures              | 1,156                 | 1,136                 | 1,247                 |
| Credit risk weighted assets relating to equity exposures                      | 1,259                 | 1,399                 | 1,218                 |
| Other assets  | 3,740                 | 3,523                 | 4,100                 |
| <b>Total credit risk weighted assets</b>                                      | <b>251,214</b>        | <b>248,828</b>        | <b>237,664</b>        |
| Market risk weighted assets   | 2,800                 | 3,046                 | 3,291                 |
| Operational risk weighted assets  | 19,415                | 19,651                | 18,448                |
| Interest rate risk in the banking book (IRRBB) risk weighted assets           | 9,597                 | 8,439                 | 9,027                 |
| <b>Total risk weighted assets</b>   | <b>283,026</b>        | <b>279,964</b>        | <b>268,430</b>        |
| <b>Capital ratios (%)</b>   |                       |                       |                       |
| Level 2 Total capital ratio   | <b>12.0%</b>          | <b>12.1%</b>          | <b>11.8%</b>          |
| Level 2 Tier 1 capital ratio  | <b>11.0%</b>          | <b>10.9%</b>          | <b>10.6%</b>          |

### Credit Risk Weighted Assets (CRWA)

Total CRWA increased by \$2.4 billion (1.0%) from September 2011 to \$251.2 billion. The key impacts on CRWA were an increase of \$2.7 billion (9.9%) in Standardised assets driven by growth in Asian assets, and an increase of \$0.8 billion (1.8%) in IRB Residential Mortgages driven by growth in the Australian business. Offsetting these increases was a decrease of \$3.4 billion (3.2%) in IRB Corporate due to exchange rate impacts, methodology and credit risk changes.

### Market Risk, Operational Risk and IRRBB Risk Weighted Assets (RWA)

The first quarter Market RWA was down 8.1% to \$2.8 billion. This was driven by a decrease in VaR and a decrease in commodity standard model risk. IRRBB RWA increased over the quarter to \$9.6 billion due to greater repricing and yield curve risk.

<sup>1</sup> 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.

<sup>2</sup> Some prior period comparatives have been restated to reflect reclassification between asset classes.

**Table 17 Credit risk exposures****Table 17(a): Period end and average Exposure at Default<sup>3 4 5</sup>**

|                                    | Dec 11                      |                            |   |   |                                    |
|------------------------------------|-----------------------------|----------------------------|---|---|------------------------------------|
|                                    | Risk Weighted Assets<br>\$M | Exposure at Default<br>\$M | Average Exposure at Default for three months<br>\$M | Individual provision charge for three months<br>\$M | Write-offs for three months<br>\$M |
| <b>Advanced IRB approach</b>       |                             |                            |   |   |                                    |
| Corporate                          | 102,726                     | 175,039                    | 174,142   | 101   | 126                                |
| Sovereign                          | 4,843                       | 57,014                     | 54,777  | -   | -                                  |
| Bank                               | 10,049                      | 42,845                     | 42,577  | -   | -                                  |
| Residential Mortgage               | 41,798                      | 237,562                    | 236,222   | 18  | 23                                 |
| Qualifying Revolving Retail        | 7,612                       | 21,314                     | 21,267  | 62  | 74                                 |
| Other Retail                       | 19,455                      | 29,486                     | 29,525  | 50  | 84                                 |
| <b>Total Advanced IRB approach</b> | <b>186,483</b>              | <b>563,260</b>             | <b>558,510</b>                                      | <b>231</b>  | <b>307</b>                         |
| <b>Specialised Lending</b>         | <b>28,545</b>               | <b>31,456</b>              | <b>31,189</b>                                       | <b>77</b>   | <b>35</b>                          |
| <b>Standardised approach</b>       |                             |                            |   |   |                                    |
| Corporate                          | 25,513                      | 24,850                     | 23,847  | (9)   | 2                                  |
| Residential Mortgage               | 1,380                       | 2,945                      | 2,850   | 1   | -                                  |
| Qualifying Revolving Retail        | 1,968                       | 1,958                      | 2,030   | 14  | 18                                 |
| Other Retail                       | 1,170                       | 1,146                      | 1,021   | (21)  | 7                                  |
| <b>Total Standardised approach</b> | <b>30,031</b>               | <b>30,899</b>              | <b>29,748</b>                                       | <b>(15)</b>   | <b>27</b>                          |
| <b>Total</b>                       | <b>245,059</b>              | <b>625,615</b>             | <b>619,447</b>                                      | <b>293</b>  | <b>369</b>                         |

<sup>3</sup> 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.

<sup>4</sup> 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.

<sup>5</sup> Some prior period comparatives have been restated to reflect reclassification between asset classes.

| <b>Sep 11</b>                      |                                   |                               |  |  |  |
|------------------------------------|-----------------------------------|-------------------------------|--|--|--|
|                                    | Risk<br>Weighted<br>Assets<br>\$M | Exposure<br>at Default<br>\$M | Average<br>Exposure<br>at Default for<br>three months<br>\$M | Individual<br>provision<br>charge for<br>three months<br>\$M | Write-offs<br>for three<br>months<br>\$M |
| <b>Advanced IRB approach</b>       |                                   |                               |  |  |  |
| Corporate                          | 106,120                           | 173,245                       | 167,277  | 59   | 100                                      |
| Sovereign                          | 4,365                             | 52,540                        | 48,962   | -  | -  |
| Bank                               | 9,456                             | 42,308                        | 40,161   | 19   | -  |
| Residential Mortgage               | 41,041                            | 234,882                       | 232,919  | 20   | 28                                       |
| Qualifying Revolving Retail        | 7,468                             | 21,219                        | 21,158   | 63   | 78                                       |
| Other Retail                       | 19,240                            | 29,563                        | 29,281   | 66   | 97                                       |
| <b>Total Advanced IRB approach</b> | <b>187,690</b>                    | <b>553,757</b>                | <b>539,758</b>   | <b>227</b>   | <b>303</b>                               |
| <b>Specialised Lending</b>         | <b>27,757</b>                     | <b>30,921</b>                 | <b>30,914</b>  | <b>42</b>  | <b>45</b>                                |
| <b>Standardised approach</b>       |                                   |                               |  |  |  |
| Corporate                          | 22,832                            | 22,844                        | 21,474   | (8)  | 13                                       |
| Residential Mortgage               | 1,457                             | 2,754                         | 2,459  | 4  | 5  |
| Qualifying Revolving Retail        | 2,111                             | 2,101                         | 2,044  | 14   | 23                                       |
| Other Retail                       | 923                               | 895                           | 816  | (3)  | 14                                       |
| <b>Total Standardised approach</b> | <b>27,323</b>                     | <b>28,594</b>                 | <b>26,793</b>  | <b>7</b>   | <b>55</b>                                |
| <b>Total</b>                       | <b>242,770</b>                    | <b>613,272</b>                | <b>597,465</b>   | <b>276</b>   | <b>403</b>                               |

| <b>Jun 11</b>                      |                                   |                               |  |  |  |
|------------------------------------|-----------------------------------|-------------------------------|--|--|--|
|                                    | Risk<br>Weighted<br>Assets<br>\$M | Exposure<br>at Default<br>\$M | Average<br>Exposure<br>at Default for<br>three months<br>\$M | Individual<br>provision<br>charge for<br>three months<br>\$M | Write-offs<br>for three<br>months<br>\$M |
| <b>Advanced IRB approach</b>       |                                   |                               |  |  |  |
| Corporate                          | 99,938                            | 161,308                       | 160,110  | 91   | 51                                       |
| Sovereign                          | 3,756                             | 45,384                        | 41,180   | -  | -  |
| Bank                               | 7,938                             | 38,013                        | 36,494   | 13   | -  |
| Residential Mortgage               | 41,271                            | 230,956                       | 228,807  | 21   | 16                                       |
| Qualifying Revolving Retail        | 7,525                             | 21,096                        | 21,058   | 67   | 76                                       |
| Other Retail                       | 18,799                            | 28,999                        | 28,769   | 84   | 76                                       |
| <b>Total Advanced IRB approach</b> | <b>179,227</b>                    | <b>525,756</b>                | <b>516,418</b>   | <b>276</b>   | <b>219</b>                               |
| <b>Specialised Lending</b>         | <b>27,740</b>                     | <b>30,907</b>                 | <b>30,057</b>  | <b>43</b>  | <b>69</b>                                |
| <b>Standardised approach</b>       |                                   |                               |  |  |  |
| Corporate                          | 20,097                            | 20,103                        | 20,626   | 14   | 3  |
| Residential Mortgage               | 1,283                             | 2,164                         | 2,054  | 3  | 1  |
| Qualifying Revolving Retail        | 1,986                             | 1,986                         | 1,995  | 13   | 18                                       |
| Other Retail                       | 766                               | 737                           | 657  | (5)  | 5  |
| <b>Total Standardised approach</b> | <b>24,132</b>                     | <b>24,990</b>                 | <b>25,332</b>  | <b>25</b>  | <b>27</b>                                |
| <b>Total</b>                       | <b>231,099</b>                    | <b>581,653</b>                | <b>571,807</b>   | <b>344</b>   | <b>315</b>                               |

Table 17(b): Impaired assets, Past due loans, Provisions and Write-offs<sup>6 7 8 9</sup>

|  | Dec 11                      |                                      |                                    |  |   |  |
|--|-----------------------------|--------------------------------------|------------------------------------|--|---|--|
|  | Impaired derivatives<br>\$M | Impaired loans/<br>facilities<br>\$M | Past due loans ≥<br>90 days<br>\$M | Individual provision<br>balance<br>\$M | Individual provision<br>charge for<br>three months<br>\$M | Write-offs<br>for three<br>months<br>\$M |
| <b>Portfolios subject to Advanced IRB approach</b> |                             |                                      |                                    |  |   |  |
| Corporate  | 67                          | 2,924                                | 252                                | 553                                    | 101   | 126                                      |
| Sovereign  | -                           | -                                    | -                                  | -                                      | -   | -  |
| Bank   | -                           | 80                                   | -                                  | 51                                     | -   | -  |
| Residential Mortgage                               | -                           | 540                                  | 1,068                              | 175                                    | 18  | 23                                       |
| Qualifying Revolving Retail                        | -                           | -                                    | 84                                 | -                                      | 62  | 74                                       |
| Other Retail                                       | -                           | 304                                  | 140                                | 187                                    | 50  | 84                                       |
| <b>Total Advanced IRB approach</b>                 | <b>67</b>                   | <b>3,848</b>                         | <b>1,544</b>                       | <b>966</b>                             | <b>231</b>  | <b>307</b>                               |
| <b>Specialised Lending</b>                         | <b>11</b>                   | <b>976</b>                           | <b>61</b>                          | <b>256</b>                             | <b>77</b>   | <b>35</b>                                |
| <b>Portfolios subject to Standardised approach</b> |                             |                                      |                                    |  |   |  |
| Corporate  | -                           | 387                                  | 120                                | 178                                    | (9)   | 2  |
| Residential Mortgage                               | -                           | 23                                   | 4                                  | 15                                     | 1   | -  |
| Qualifying Revolving Retail                        | -                           | 84                                   | 25                                 | 83                                     | 14  | 18                                       |
| Other Retail                                       | -                           | 120                                  | 14                                 | 85                                     | (21)  | 7  |
| <b>Total Standardised approach</b>                 | <b>-</b>                    | <b>614</b>                           | <b>163</b>                         | <b>361</b>                             | <b>(15)</b>   | <b>27</b>                                |
| <b>Total</b>                                       | <b>78</b>                   | <b>5,438</b>                         | <b>1,768</b>                       | <b>1,583</b>                           | <b>293</b>  | <b>369</b>                               |

<sup>6</sup> Impaired derivatives include a credit valuation adjustment (CVA) of \$47 million, being a market value based assessment of the credit risk of the relevant counterparties (September 2011: \$68 million; June 2011: \$72 million).

<sup>7</sup> Impaired loans / facilities include restructured items of \$884 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 2011: \$700 million; June 2011: \$659 million).

<sup>8</sup> Past due loans ≥ 90 days includes \$1,533 million well secured loans (September 2011: \$1,593 million; June 2011: \$1,971 million).

<sup>9</sup> Some prior period comparatives have been restated to reflect reclassification between asset classes.

| Sep 11   |                                |   |                                       |   |  |  |
|--|--------------------------------|---|---------------------------------------|---|--|--|
|  | Impaired<br>derivatives<br>\$M | Impaired<br>loans/<br>facilities<br>\$M | Past due<br>loans ≥<br>90 days<br>\$M | Individual<br>provision<br>balance<br>\$M | Individual<br>provision<br>charge for<br>three months<br>\$M | Write-offs<br>for three<br>months<br>\$M |
| <b>Portfolios subject to Advanced IRB approach</b> |                                |   |                                       |   |  |  |
| Corporate  | 25                             | 2,767                                   | 206                                   | 611                                       | 59   | 100                                      |
| Sovereign  | -                              | -                                       | -                                     | -   | -  | -  |
| Bank   | -                              | 83                                      | -                                     | 53  | 19   | -  |
| Residential Mortgage                               | -                              | 599                                     | 1,150                                 | 189                                       | 20   | 28                                       |
| Qualifying Revolving Retail                        | -                              | -                                       | 86                                    | -   | 63   | 78                                       |
| Other Retail                                       | -                              | 341                                     | 153                                   | 210                                       | 66   | 97                                       |
| <b>Total Advanced IRB approach</b>                 | <b>25</b>                      | <b>3,790</b>                            | <b>1,595</b>                          | <b>1,063</b>                              | <b>227</b>   | <b>303</b>                               |
| <b>Specialised Lending</b>                         | <b>13</b>                      | <b>1,106</b>                            | <b>75</b>                             | <b>225</b>                                | <b>42</b>  | <b>45</b>                                |
| <b>Portfolios subject to Standardised approach</b> |                                |   |                                       |   |  |  |
| Corporate  | -                              | 401                                     | 120                                   | 191                                       | (8)  | 13                                       |
| Residential Mortgage                               | -                              | 20                                      | 4                                     | 14  | 4  | 5  |
| Qualifying Revolving Retail                        | -                              | 91                                      | 27                                    | 91  | 14   | 23                                       |
| Other Retail                                       | -                              | 135                                     | 13                                    | 113                                       | (3)  | 14                                       |
| <b>Total Standardised approach</b>                 | <b>-</b>                       | <b>647</b>                              | <b>164</b>                            | <b>409</b>                                | <b>7</b>   | <b>55</b>                                |
| <b>Total</b>                                       | <b>38</b>                      | <b>5,543</b>                            | <b>1,834</b>                          | <b>1,697</b>                              | <b>276</b>   | <b>403</b>                               |

| Jun 11   |                                |   |                                       |   |  |  |
|--|--------------------------------|---|---------------------------------------|---|--|--|
|  | Impaired<br>derivatives<br>\$M | Impaired<br>loans/<br>facilities<br>\$M | Past due<br>loans ≥<br>90 days<br>\$M | Individual<br>provision<br>balance<br>\$M | Individual<br>provision<br>charge for<br>three months<br>\$M | Write-offs<br>for three<br>months<br>\$M |
| <b>Portfolios subject to Advanced IRB approach</b> |                                |   |                                       |   |  |  |
| Corporate  | 25                             | 2,907                                   | 243                                   | 615                                       | 91   | 51                                       |
| Sovereign  | -                              | -                                       | -                                     | -   | -  | -  |
| Bank   | -                              | 76                                      | -                                     | 29  | 13   | -  |
| Residential Mortgage                               | -                              | 594                                     | 1,312                                 | 190                                       | 21   | 16                                       |
| Qualifying Revolving Retail                        | -                              | -                                       | 102                                   | -   | 67   | 76                                       |
| Other Retail                                       | -                              | 372                                     | 173                                   | 239                                       | 84   | 76                                       |
| <b>Total Advanced IRB approach</b>                 | <b>25</b>                      | <b>3,949</b>                            | <b>1,830</b>                          | <b>1,073</b>                              | <b>276</b>   | <b>219</b>                               |
| <b>Specialised Lending</b>                         | <b>18</b>                      | <b>1,303</b>                            | <b>100</b>                            | <b>229</b>                                | <b>43</b>  | <b>69</b>                                |
| <b>Portfolios subject to Standardised approach</b> |                                |   |                                       |   |  |  |
| Corporate  | -                              | 414                                     | 153                                   | 204                                       | 14   | 3  |
| Residential Mortgage                               | -                              | 20                                      | 4                                     | 10  | 3  | 1  |
| Qualifying Revolving Retail                        | -                              | 90                                      | 25                                    | 90  | 13   | 18                                       |
| Other Retail                                       | -                              | 142                                     | 16                                    | 116                                       | (5)  | 5  |
| <b>Total Standardised approach</b>                 | <b>-</b>                       | <b>666</b>                              | <b>198</b>                            | <b>420</b>                                | <b>25</b>  | <b>27</b>                                |
| <b>Total</b>                                       | <b>43</b>                      | <b>5,918</b>                            | <b>2,128</b>                          | <b>1,722</b>                              | <b>344</b>   | <b>315</b>                               |

Table 17(c): Specific Provision Balance and General Reserve for Credit Losses<sup>10</sup>

|  | Dec 11                               |   | Total<br>\$M |
|--|--------------------------------------|---|--------------|
|  | Specific Provision<br>Balance<br>\$M | General Reserve<br>for Credit Losses<br>\$M |              |
| Collective Provision                         | 365                                  | 2,716                                       | 3,081        |
| Individual Provision                         | 1,583                                | -   | 1,583        |
| <b>Total Provision for Credit Impairment</b> |                                      |   | <b>4,664</b> |

  

|  | Sep 11                               |   | Total<br>\$M |
|--|--------------------------------------|---|--------------|
|  | Specific Provision<br>Balance<br>\$M | General Reserve<br>for Credit Losses<br>\$M |              |
| Collective Provision                         | 375                                  | 2,801                                       | 3,176        |
| Individual Provision                         | 1,697                                | -   | 1,697        |
| <b>Total Provision for Credit Impairment</b> |                                      |   | <b>4,873</b> |

  

|  | Jun 11                               |   | Total<br>\$M |
|--|--------------------------------------|---|--------------|
|  | Specific Provision<br>Balance<br>\$M | General Reserve<br>for Credit Losses<br>\$M |              |
| Collective Provision                         | 347                                  | 2,837                                       | 3,184        |
| Individual Provision                         | 1,722                                | -   | 1,722        |
| <b>Total Provision for Credit Impairment</b> |                                      |   | <b>4,906</b> |

<sup>10</sup> 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.



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