

2010

BASEL II PILLAR 3 DISCLOSURE



IN ACCORDANCE WITH APS 330

QUARTER ENDED 30 JUNE 2010



Important Notice

This document has been prepared by Australia & 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 30 June 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: Risk Weighted Assets and capital ratios ^{1 2}

	June 2010 \$M	March 2010 \$M	December 2009 \$M
Subject to Advanced Internal Ratings Based Approach			
Corporate	102,971	100,945	112,301
Sovereign	2,961	2,470	2,142
Bank	5,396	5,108	5,722
Residential Mortgage	38,792	37,423	36,789
Qualifying Revolving Retail	7,266	7,238	6,894
Other Retail	18,115	17,942	17,462
Credit risk weighted assets subject to Advanced IRB approach	175,501	171,126	181,310
Credit risk Specialised Lending exposures subject to slotting criteria	25,404	24,965	25,225
Subject to Standardised approach			
Corporate	21,318	16,486	13,707
Sovereign	-	-	-
Bank	-	1	13
Residential Mortgage	604	400	431
Qualifying Revolving Retail	2,062	-	-
Other Retail	1,227	406	406
Credit risk weighted assets subject to Standardised approach	25,211	17,293	14,557
Credit risk weighted assets relating to securitisation exposures	2,355	1,975	3,507
Credit risk weighted assets relating to equity exposures	1,647	1,639	1,694
Other assets	3,906	3,377	3,410
Total credit risk weighted assets	234,024	220,375	229,703
Market risk weighted assets	4,620	3,969	3,712
Operational risk weighted assets	16,808	16,481	16,166
Interest rate risk in the banking book weighted assets	6,802	8,136	4,379
Total Risk Weighted Assets	262,254	248,961	253,960
Capital ratios (%)			
Level 2 Total capital ratio	12.6%	13.0%	13.4%
Level 2 Tier 1 capital ratio	10.3%	10.7%	10.5%

Risk Weighted Assets (RWA)

Total RWA increased by \$13.3 billion (5.3%) in the June 2010 quarter, mainly due to an increase in Credit RWA of \$13.6 billion (6.2%).

Credit Risk Weighted Assets

The key drivers of the increase in Credit RWA were (i) an increase in Standardised RWA of \$7.9 billion (45.8%) due to the acquisition of certain Royal Bank of Scotland (RBS) assets in Asia as well as growth in our existing Asian businesses, (ii) an increase in AIRB Corporate RWA of \$2.0 billion (2.0%) due to increasing exposures and exchange rate impacts and (iii) an increase in AIRB Residential Mortgages RWA of \$1.4 billion (3.7%) due to increased exposures, predominately in Australia.

Market Risk, Operating Risk and IRRBB Risk Weighted Assets

Market Risk and Operational Risk RWA remained relatively stable over the quarter. The reduction of \$1.3 billion (-16.4%) in IRRBB was due to a reduction in repricing and yield curve risk. This was a result of decreased exposure to the volatility between swap rates and government yields.

¹ Specialised Lending subject to slotting approach exposures 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.

² December 2009 and March 2010 comparatives throughout this disclosure restated to reflect some reclassification of exposures between asset classes.

Table 17 Credit risk exposures ^{3 4}**Table 17(a) (i): Period end and average credit exposure by Basel Asset Class**

	June 2010 \$M	March 2010 \$M	December 2009 \$M	Average for the quarter ended 30 June 2010 \$M
Advanced Internal Rating Based				
Corporate	159,455	155,116	159,381	157,285
Sovereign	44,028	34,786	36,755	39,407
Bank	27,255	27,952	29,223	27,604
Residential Mortgage	216,917	208,508	204,767	212,712
Qualifying Revolving Retail	20,538	20,396	20,040	20,467
Other Retail	28,653	28,250	28,515	28,452
Total Advanced IRB	496,846	475,008	478,681	485,927
Specialised Lending (subject to slotting criteria)				
	27,554	26,862	26,951	27,208
Standardised				
Corporate	21,318	16,486	13,707	18,902
Sovereign	-	-	-	-
Bank	-	3	16	2
Residential Mortgage	1,569	1,135	1,185	1,352
Qualifying Revolving Retail	2,062	-	-	1,031
Other Retail	1,227	406	406	816
Total Standardised	26,176	18,030	15,314	22,103
Total Exposure	550,576	519,900	520,946	535,238

Table 17(a) (ii): Period end and average credit exposure by facility type

	June 2010 \$M	March 2010 \$M	December 2009 \$M	Average for the quarter ended 30 June 2010 \$M
Acceptance	11,612	12,510	11,772	12,061
Cash and liquid assets	16,000	13,521	16,929	14,761
Contingents, commitments, other off balance sheet	110,758	103,868	104,640	107,313
Creditors & Other Liabilities	72	41	42	56
Derivatives	16,557	14,151	13,843	15,354
Due from other financial Institutions	5,358	6,353	7,508	5,856
Investment Securities	19,964	16,381	17,434	18,173
Loans & Advances	346,742	330,963	327,391	338,852
Other assets	1,732	582	627	1,157
Total deposits & other borrowings	1	234	240	117
Trading Securities	21,780	21,296	20,520	21,538
Total Exposures	550,576	519,900	520,946	535,238

³ In accordance with APS 330, regulatory credit exposure in Table 17(a) does not include Equities, Other Assets or Securitisation exposures.

⁴ The period averages are calculated as the simple average of the last two quarters closing balances.

Table 17(b): Impaired assets, Past due loans, Provisions and Write-offs^{5 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	
	June 2010	March 2010	December 2009	June 2010	March 2010	December 2009	June 2010	March 2010	December 2009	June 2010	March 2010	December 2009	Three months ended June 2010	Three months ended March 2010	Three months ended June 2010	Three months ended March 2010
Portfolios subject to IRB approach																
Corporate	102	67	69	5,288	5,321	4,625	380	378	491	1,102	1,027	981	182	316	103	228
Sovereign	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Bank	-	-	-	113	123	47	-	-	-	30	33	29	(3)	5	-	-
Residential Mortgage	-	-	-	555	504	479	887	848	779	229	216	210	20	39	12	22
Qualifying revolving retail	-	-	-	-	-	-	81	78	72	-	-	-	56	50	69	61
Other retail	-	-	-	367	353	342	143	140	133	219	210	207	89	90	88	94
Total IRB approach	102	67	69	6,323	6,301	5,493	1,491	1,444	1,475	1,580	1,486	1,427	344	500	272	405
Portfolios subject to Standardised approach																
Corporate	-	-	-	279	146	79	87	56	29	141	76	35	(1)	1	-	2
Sovereign	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Bank	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Residential Mortgage	-	-	-	18	17	17	2	4	9	7	5	4	2	1	-	-
Qualifying Revolving Retail	-	-	-	132	-	-	23	-	-	132	-	-	4	-	-	-
Other Retail	-	-	-	31	30	13	35	19	31	26	26	28	12	11	13	12
Total Standardised approach	-	-	-	460	193	109	147	79	69	306	107	67	17	13	13	14
Total	102	67	69	6,783	6,494	5,602	1,638	1,523	1,544	1,886	1,593	1,494	361	513	285	419

⁵ The increase in impaired assets, past due loans and provisions in portfolios subject to Standardised approach was mainly due to assets acquired from RBS during the period. The provisions associated with the RBS acquisitions are under review as part of the post acquisition assessment of fair valuation adjustments.

⁶ Impaired derivatives include a credit valuation adjustment (CVA) of \$81 million, being a market assessment of the credit risk of the relevant counterparties (March 2010: \$61 million; December 2009: \$62 million).

⁷ Impaired loans / facilities include restructured items of \$389 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. Includes both on and off balance sheet exposures (March 2010: \$560 million; December 2009: \$662 million).

⁸ Past due loans ≥ 90 days includes \$1,499 million well secured loans (March 2010: \$1,370 million; December 2009: \$1,414 million).

⁹ The Individual Provision charge relates to loans and advances, and does not include impairment on Available-For-Sale assets (June 2010: Nil; March 2010: \$20 million).

Table 17(c): General Reserve for Credit Losses^{10 11}

	June 2010 \$M			March 2010 \$M			December 2009 \$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	255	3,160	3,415	260	2,777	3,037	195	2,846	3,041
Individual Provision	1,886	-	1,886	1,593	-	1,593	1,494	-	1,494
Total Provision for Credit Impairment			5,301			4,630			4,535

¹⁰ There is a difference in the split between ANZ's Individual Provision and Collective Provision for accounting purposes and Specific Provision and General Reserve for Credit Losses (GRCL) for regulatory purposes, due to definitional differences. This difference does not impact total provisions, and essentially relates to the classification of collectively assessed provisions on defaulted accounts. The disclosures in Table 17(b) are based on Individual Provision and Collective Provision, for ease of comparison with ANZ's other published results.

¹¹ The increase in the accounting Collective Provision and the regulatory GRCL during the period was mainly due to RBS assets acquired during the period. The provisions associated with the RBS acquisitions are under review as part of the post acquisition assessment of fair valuation adjustments.

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