Credit risk for major banks in australia report examples

Business, Management

2. Outline the regulation from APRA in regards to credit risk for the large major banks and contrast to the regulations for smaller bank re credit risk.

The Australian Prudential Regulation Authority has established an internal rating based mechanisms to be used when approaching the bank credit risks. The regulations approaches the credit risks differently when it comes to dealing with the large major banks and the considerably smaller banks in regards to capital base. The smaller banks, which are generally less complex in terms of their operations and organization, are the pioneer implementers of the more standardized Australian Prudential Regulation Authority credit risk approaches. In order to meet standards for the approval by the IRB these banks have to meet both the qualitative thresholds and quantitative thresholds. The Australian Prudential Regulation Authority requires both the larger major banks and the smaller banks to ensure they meet the equivalent high requirement levels.

The goal of credit risk management is to maximize a bank's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters (Şafakli, 2007). The major banking groups account for up to 75% of the total Australian banking assets. This n number comprises of the four major banking groups namely Australia and New Zealand Banking Group Limited, the Commonwealth Bank of Australia and the National Australia Bank. The regulations provided by the Australian Prudential Regulation Authority require the ultimate maintenance of a higher value of risk graders. This tends to favor the larger banks as compared to the relatively smaller banks.

The major banks, due to their capital base and number of clients have a propensity of having greater numbers of consumer risk graders as compared to those of the smaller banks.

This is based on the evaluation based on the financial system assets as provided by the IRB. The evaluation is usually based on the cost to benefit analysis of the banks. The analysis as provided by the Australian Prudential Regulation Authority is more inclined to the major banks advantage.

The larger banks as compared to the smaller banks possess a more complicated and complex credit risk portfolios as provided by the Australian Prudential Regulation Authority. The larger banks in general have a considerably higher number of customers who have a wide and varied continuum of risks. The regulations of the Australian Prudential Regulation Authority require the larger banks to have greater upgraded and efficient credit risk portfolio analysis techniques that consider credit ratios as additional inputs. The regulations put in place by the Australian Prudential Regulation Authority make it easier for the larger banks to achieve a better position in resources acquisition. They are also more able to establish and sustain more systems for granular ratings. A granular rating ensures predominance of default data through industrial pooling. Rating tools, which have been developed externally, are also further availed for the larger banks as compared to the case for the smaller banks.

The major bulk of bank assets are normally accounted for by the home loans. The returns gained from these assets are achieved through the analysis of the leverage held by the assets and the cumulative cost of funds by the asset in similar scenarios.

In the past years and decades, the issue of Credit risk rating in the banks of

Australia has been very critical for the management systems of credit risks. Since the early 1980s and 1990s when there were problems with the asset qualities, most banks and financial institutions have invested in strengthening their practices in the credit management field. Australian Prudential Regulation Authority is behind the introduction and encouragement of several systems that perform and enable credit rating. Downgrades on credit ratings have been brushed aside as well by the key banks of Australia. They claim the ratings greatly inflate funding costs in the event of their implementation. They claim the ratings also down play the banking prospects and capitalization. The funding costs for the four main banks in Australia will be highly affected by a downgrade on the capital ratings in the country as reported by the Commonwealth Bank of Australia. The major banks in Australia as favored by the Australian Prudential Regulation Authority enjoy up to 2. 4 times greater home loan advantage as compared to the smaller banks.

3. Graph 3 ratios of credit risk of the 4 major banks and contrast to a major commercial bank in the United Kingdom (from 2006 ? 2012). Note that all 5 banks should be graphed onto one graph for the 7 years. Note each student must produce this and students found copying from students will be penalized.

The table below shows the credit risks values for the Australian banks and Barclays bank Corporation.

4. Interpret the credit risk of the 5 major banks.

There has been a considerable and notable increase in the credit quality and amount recorded by the Australian banks over the last few years. This increase has been largely due to the previously experienced global financial crisis. The crisis led to the regulations and marketing to change the views on satisfactory and agreeable capital forms and levels. In the analysis of this paper, four Australian banks and one United Kingdom bank was used. The following banks were used to represent the major big banks in Australia: - Australia and New Zealand Banking Group Limited, the Commonwealth Bank of Australia and the National Australia Bank. For the United Kingdom based bank, the study used Barclays Bank. The data collected was collected on the various banks financial reports for the past 7 years, 2006 to 2012.

For the Australia based banks, the Gross loans have been increasing by a 1% increase from 2006 until 2009 where there is a notable reduction in the amount of gross loans issued by the banks in that year by 2 %. There is an afterwards 1 % increment in the amount of loans given out by the banks. The Australia and New Zealand Banking Group Limited had a gross loan value at 341, 476 million dollars in 2006 which increased by 1% to 366, 525 million dollars in 2007. The 1% increase is recorded annually until in 2009 where there is a decline, -2%, in the amount of gross loan recorded by the bank up from 406, 456 million dollars to 399, 809 million dollars. This decline in the amounts of gross loans is due to the global financial crisis experienced at during that year. The gross loans also included the figures from advances by to customers from the retails. After 2009, the Australia and New Zealand Banking Group Limited recorded a further consistent increase in the gross amount of loans it gives out. The increases are because of the growths experienced by the banks from the home loans.

The Barclays bank also records a similar effect on the amount of gross loans it dishes out from 2006 to 2012. The bank records a consistent increase in the amount of credit risk in its annual financial reports. Though the bank operates on several other countries, it equally experiences and records a 2. 5% increase in the amount of loans it issues in the year 2012, up from 421056 million dollars to 431934 million dollars. The bank records a similar increase in amount of loans recorded in the annual financial records. It is only in 2010 where there is a decline in amount of loans issued out. The figure is recorded as 396, 526 million dollars down from 431, 256 million dollars making a -1% decline in amount loans issued by the bank. The other years records increases in the amounts of gross loans and consequently the credit risks as 2011, 6% increase, 2009, 4. 6% increase, 2008, 1% increase and 2007 with a 1% increase in the amount of credit risk.

The Australian banking system has significantly increased its capital buffer against potential losses in recent years (Gorajek & Turner, 2010). From both the cases of the Australian banks and the Barclays bank, there is a notable similarity in their financial records with both of the scenarios indicating a consistent increase in the credit risks by the banks for the past seven years. In their financial records all the banks record that they have experienced a gradual increase in the credit risks. The only difference between the United Kingdom based Barclays bank and the Australian banks are on the rates of increase.

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