2021

BASEL III PILLAR 3 DISCLOSURE

AS AT 30 SEPTEMBER 2021

APS 330: PUBLIC DISCLOSURE

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.

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[1] Each table reference adopted in this document aligns to those required by APS 330 to be disclosed at full year.

Chapter 1 - Introduction

Purpose of this document

This document has been prepared in accordance with the Australian Prudential Regulation Authority (APRA) ADI Prudential Standard (APS) 330: Public Disclosure.

APS 330 mandates the release to the investment community and general public of information relating to capital adequacy and risk management practices. APS 330 was established to implement Pillar 3 of the Basel Committee on Banking Supervision's framework for bank capital adequacy[2]. In simple terms, the Basel framework consists of three mutually reinforcing 'Pillars':

Pillar 1 Minimum capital requirement	**Pillar 2** Supervisory review process	**Pillar 3** Market discipline
Minimum capital requirements for Credit Risk, Operational Risk, Market Risk and Interest Rate Risk in the Banking Book	Firm-wide risk oversight, Internal Capital Adequacy Assessment Process (ICAAP), consideration of additional risks, capital buffers and targets and risk concentrations, etc.	Regular disclosure to the market of qualitative and quantitative aspects of risk management, capital adequacy and underlying risk metrics

APS 330 requires the publication of various levels of information on a quarterly, semi-annual and annual basis. This document is the annual disclosure.

Basel in ANZ

ANZ has received accreditation for the most advanced approaches permitted under Basel for credit risk and operational risk, complementing its accreditation for market risk. Effective January 2013, ANZ adopted APRA requirements for Basel III with respect to the measurement and monitoring of regulatory capital.

Verification of disclosures

These Pillar 3 disclosures have been verified in accordance with Board approved policy, including ensuring consistency with information contained in ANZ's Financial Report and in Pillar 1 returns provided to APRA. In addition, ANZ's external auditor has performed an agreed upon procedure engagement with respect to these disclosures.

Comparison to ANZ's Financial Reporting

These disclosures have been produced in accordance with regulatory capital adequacy concepts and rules, rather than with accounting policies adopted in ANZ's financial reports. As such, there are different areas of focus and measures in some common areas of disclosures. These differences are most pronounced in the credit risk disclosures, for instance:

- The principal method for measuring the amount at risk is Exposure at Default (EAD), which is the estimated amount of exposure likely to be owed on a credit obligation at the time of default. Under the Advanced Internal Ratings Based (AIRB) approach in APS 113 Capital Adequacy: Internal Ratings-based Approach to Credit Risk, banks are accredited to provide their own estimates of EAD for all exposures (drawn, commitments or contingents) reflecting the current balance as well as the likelihood of additional drawings prior to default.
- Loss Given Default (LGD) is an estimate of the amount of losses expected in the event of default. LGD is essentially calculated as the amount at risk (EAD) less expected net recoveries from realisation of collateral as well as any post default repayments of principal and interest.
- Most credit risk disclosures split ANZ's portfolio into regulatory asset classes, which span different areas of ANZ's internal divisional and business unit organisational structure.

Unless otherwise stated, all amounts are rounded to AUD millions.

[2] Basel Committee on Banking Supervision, International Convergence of Capital Measurement and Capital Standards: A Revised Framework, 2004.

Chapter 2 – Risk appetite and governance

Risk types: ANZ is exposed to a broad range of inter-related business risks.

- **Capital Adequacy risk** is the risk of loss arising from ANZ failing to maintain the level of capital required by prudential regulators and other key stakeholders (shareholders, debt investors, depositors, rating agencies etc.) to support ANZ's consolidated operations and risk appetite. Losses include those arising from diminished reputation, a reduction in investor/counter-party confidence, regulatory non-compliance (e.g. fines and banking licence restrictions) and an inability for ANZ to continue to do business. ANZ pursues an active approach to capital management, which is designed to protect the interests of depositors, creditors and shareholders.

- **Compliance risk** is the risk of failure to act in accordance with laws, regulations, industry standards and codes, internal policies and procedures and principles of good governance as applicable to ANZ's businesses.

- **Conduct Risk** is the risk of loss or damage arising from the failure of ANZ, its employees or agents to appropriately consider the interests of customers, the integrity of the financial markets and the expectations of the community in conducting its business activities.

- **Credit risk** is the risk of financial loss resulting from a counterparty failing to fulfil its obligations or from a decrease in credit quality of a counterparty resulting in a loss of value.

- **Market risk** stems from ANZ's trading and balance sheet activities and is the risk to ANZ's earnings arising from changes in interest rates, foreign exchange rates, credit spreads, volatility, correlations or from fluctuations in bond, commodity or equity prices.

- **Liquidity and Funding risk** is the risk that the Group is unable to meet its payment obligations as they fall due, including repaying depositors or maturing wholesale debt, or that the Group has insufficient capacity to fund increases in assets.

- **Operational risk** is the risk of loss and/or non-compliance with laws resulting from inadequate or failed internal processes, people and/or systems, or from external events. This definition includes legal risk, and the risk of reputation loss, or damage arising from inadequate or failed internal processes, people and systems, but excludes strategic risk.

- **Strategic risk** is risks that affect or are created by an organisation's business strategy and strategic objectives. A possible source of loss might arise from the pursuit of an unsuccessful business plan. For example, strategic risk might arise from making poor strategic business decisions, from the substandard execution of decisions, from inadequate resource allocation, or from a failure to respond well to changes in the business environment.

- **Technology risk** covers the risk of loss and/or non-compliance with laws from inadequate or failed internal processes, people and systems or systems that deliver Technology assets and services to customers and staff. The risk includes Technology assets and services delivered or managed by third parties, and external events. An Information Technology (IT) asset is any instance of software or hardware (includes cloud computing) that is either owned by ANZ, or licensed to ANZ by an external entity and used in the delivery of services to customers and staff. The risk specifically includes Information Security and Cyber Security and how information held by ANZ needs to be protected from inappropriate modification, loss, disclosure and unavailability. The compromise of confidentiality, integrity or availability of information assets could severely impact ANZ customers, constitute a breach of the law and regulations, lead to financial loss or additional remediation costs, and negatively impact our reputation. The scope of this risk includes IT assets that are managed and/or supported by a dedicated technology function within ANZ, IT assets managed outside of the dedicated technology function by business divisions and third party service providers used by ANZ to deliver technology services or products.

Risk Appetite Framework

ANZ's Board is ultimately responsible for ANZ's risk management framework, which includes the Group Risk Appetite Statement (RAS). The Group RAS is the document which sets out the Board's expectations regarding the degree of risk that ANZ is prepared to accept in pursuit of its strategic objectives and plans.

The articulation of risk appetite and risk tolerances is central to the risk appetite statement. ANZ's Group RAS conveys the following:

- The degree of risk (risk appetite) that ANZ is prepared to accept in pursuit of its strategic objectives and plans with considering its shareholders', depositors' and customers' interests.
- For each key material risk, ANZ sets the maximum level of risk that it is willing to operate within, expressed as a risk tolerance, where appropriate. Risk tolerances translate risk appetite into operational limits for the day-to-day management of material risks, where possible;
- The approach for setting risk tolerances at an appropriate level;
- The process for monitoring compliance with each risk tolerance and for taking appropriate action in the event that it is breached;
- The timing and process for reviewing of the risk appetite and risk tolerances; and
- The cascading and application of Group RAS to Divisions and Business Units.

Risk Management Governance

The Board is principally responsible for overseeing the establishment by Management of a sound risk management culture with an operational structure and the necessary resources to facilitate effective risk management throughout ANZ, and which in turn supports the ability of ANZ to operate consistently within its risk appetite and approves the risk appetite within which management is expected to operate and including ANZ's risk appetite statement and risk management strategy. The following lists the Board Committees, in accordance with ANZ Accountability Map under Banking Executive Accountability Regime (BEAR). From time to time, other ad hoc committees of the Board may be formed.

ANZ Board - is responsible for:

- Charting and monitoring the long-term implementation of ANZ's strategies, financial objectives and organisational and risk cultural direction (including ANZ's purpose, values and expected behaviours);
- Monitoring compliance with regulatory requirements, ethical standards and external commitments, and the implementation of related policies;
- Approving the operating plan for ANZ and endorsing ANZ's strategic direction; Approving the operating plan; the remuneration policy; significant changes to organisational structure; the acquisition, establishment, disposal or cessation of any significant business of ANZ;
- Appointing and reviewing the performance (including remuneration and incentives) and succession of, the ANZ CEO and certain senior executive appointees of the Board (Board Appointees);
- Approving any matters in excess of any discretions that it may have delegated from time to time to the CEO and senior management, including in relation to credit transactions, market risk limits and expenditure;
- Overseeing and assessing management's performance in achieving any strategies and budgets approved by the Board and in monitoring and managing risk;
- Approving where practicable, the substance of any announcements to the Australian Securities Exchange in relation to matters that have been the subject of a decision by the Board or any public statements which reflect significant issues of ANZ policy or strategy;
- Fulfilling its function and duties under ANZ's Fit and Proper Policy;
- Overseeing the effectiveness of workplace health and safety in the Group;
- Meeting with APRA on request;
- Reviewing reports from management on progress in relation to actions in ANZ's Self-Assessment roadmap;
- Reviewing ANZ's approach to the management of key customer matters, including customer remediation and customer complaints; and
- Approving and overseeing management's performance in establishing ANZ's organisational and risk cultural direction, including ANZ's purpose, values and expected behaviours

Risk Committee - assists the Board of Directors in:

- Effective discharge of its responsibilities for business, market, credit, equity and other investment (not including strategic investments), financial, operational, compliance, liquidity and reputational risk management and for the management of the Group's compliance obligations;
- Providing an objective non-executive oversight of the implementation by management of ANZ's risk management framework and its related operation and by enabling an institution-wide view of ANZ's current and future risk position relative to its risk appetite and capital strength;
- Advising the Board on ANZ's overall current and future risk appetite and risk management strategy;
- Overseeing management's implementation of the risk management strategy and ongoing effectiveness in seeking to ensure that ANZ remains appropriately within its risk appetite;
- Reviewing reports from management concerning the Group's risk management and compliance frameworks, principles and policies, strategies, processes and controls including the discretions conferred on executive management and executive management committees, in order to oversee the effectiveness of them and, if thought fit, approve or vary them;

- Reviewing reports from management concerning key material risks (including credit, market, operational risk and compliance) in order to oversee these risks, assess their effect on capital levels and, in all material respects, attest to the adherence to APRA Prudential Standard CPS220 Risk Management;
- Reviewing reports from management concerning credit transactions, equity and other investments beyond the approval discretion of the CRO and other executive management, in order to consider and, if thought fit, approve them;
- Overseeing risk associated with individual high risk and non-accrual accounts (and associated provisioning);
- Reviewing reports from management concerning changes anticipated for the economic, business and regulatory environment and other factors considered relevant to future strategy and capital requirements, in order to monitor them in the context of ANZ's projected business performance and capital adequacy;
- Reviewing reports from management concerning the risk implications of new and emerging risks, legislative or regulatory initiatives and changes, organisational change and major initiatives, in order to monitor them;
- Constructively challenging management's proposals and decisions on all aspects of risk management arising from ANZ's activities;
- Reviewing the performance and setting the objectives of ANZ's CRO and seeking to ensure the CRO has unfettered access to the Board and the Risk Committee;
- Reviewing reports from management concerning resolution of significant risk exposures and risk events (including significant breaches), in order to monitor them and, if thought fit, approve them;
- Overseeing compliance by ANZ with applicable external obligations and significant internal polices relating to the operation of its business;
- Reviewing reports from management concerning the Group's insurance strategy, including the coverage and limits of the insurance policies managed at a Group level, in order to monitor them and, if thought fit, approve or vary them;
- Reviewing reports from management concerning Anti Money Laundering/Counter Terrorism Financing and Sanction external obligations and internal policies, in order to monitor them and, if thought fit, approve them;
- Reviewing reports from management concerning ANZ's approach to risk and governance culture in order to oversee scope and expected impact on organisational behaviour;
- Overseeing APRA risk reporting requirements (as appropriate); and
- Meeting with APRA on request.

Audit Committee - assists the Board of Directors in:

- Overseeing and reviewing ANZ's financial reporting principles and policies, controls and procedures;
- Overseeing and reviewing the effectiveness of ANZ's internal control and risk management framework;
- Overseeing and reviewing the work of Internal Audit which reports directly and solely to the Chairman of the Audit Committee. The internal management reporting line for the Group General Manager, Internal Audit is to the CEO;
- Overseeing and reviewing the integrity of ANZ's financial statements and the independent audit thereof, and ANZ's compliance with legal and regulatory requirements in relation thereto;
- Overseeing and reviewing any due diligence procedures;
- Overseeing and reviewing prudential supervision procedures and other regulatory requirements to the extent relating to financial reporting; and
- With respect to the external auditors:
    - the appointment, annual evaluation and oversight of the external auditors;
    - annual review of the independence, fitness and propriety, and qualifications of the external auditors;
    - compensation of the external auditors; and
    - where deemed appropriate, replacement of the external auditors.

Digital Business and Technology Committee – assists the Board of Directors in:

- Monitoring and providing guidance as appropriate on matters relating to ANZ's digital transformation, technology, technology-related innovation and information/cyber security strategies;
- Monitoring the delivery of the key programs that form part of ANZ's digital transformation, technology, technology-related innovation and information/cyber security strategies;
- Recommending to the Board and monitoring the delivery of material digital transformation and technology investments; and
- Reviewing health and relevance of ANZ's technology suite, to seek to ensure secure, stable and reliable services.

Human Resource Committee - assists the Board of Directors in:

- Reviewing and making recommendations to the Board, where appropriate on remuneration (including variable remuneration arrangements) for ANZ Board Appointees and individual ANZ Material Risk Takers;
- Reviewing and making recommendations to the Board, where appropriate, in respect of the design and funding of the ANZ Incentive Plan, and remuneration structures for senior executives and others specifically covered by the ANZBGL Remuneration Policy and ANZ New Zealand (NZ) Remuneration Policy;
- Reviewing and making recommendations to the Board, where appropriate, for amending the ANZBGL Remuneration Policy and the ANZ NZ Remuneration Policy;
- Considering and approving appointments and terminations for all ANZ Board Appointees, and reviewing succession plans for enterprise business critical roles, and making recommendations to the Board on such matters relating to the CEO;

- Obtaining external advice, either independently or via management, as appropriate, on remuneration, risk and any other related matter to supplement members' knowledge and expertise; and
- Obtaining all information necessary to enable the committee to perform its function.

Ethics, Environment, Social and Governance Committee - assists the Board of Directors in:
- Reviewing and approving the proposed corporate sustainability objectives for ANZ, and reviewing progress in achieving them;
- Reviewing and approving the disclosures relating to ANZ's Sustainability Framework, objectives and related performance as set out in the suite of annual reporting documents;
- Discussing, questioning and providing advice to management on past, current and emerging ethical, environmental, social and governance risks and opportunities relevant to the bank's ability to operate as a fair, responsible and sustainable business;
- Receiving reports on past, current and emerging ethical, environmental, social and governance matters;
- Providing oversight of ANZ's Ethics and Responsible Business Committee, including receiving the minutes of that body and discussing material matters referred to the committee from that body;
- Referring to the Board the resolution of any significant ethical or environmental, social and governance matters where applicable;
- Reviewing the development of and approving applicable corporate governance policies and principles;
- Reviewing ANZ's Corporate Governance Statement; and
- In relation to whistleblowing:
  - Reviewing the effectiveness of management's process for informing employees of the existence of the Whistleblower Policy and ANZ Code of Conduct and Ethics;
  - Seeking to ensure procedures for the receipt, retention and treatment of information submitted confidentially by employees and third parties under such policies are established and maintained by management;
  - Receiving reports from management regarding any material incidents reported under the Whistleblower Policy; and
  - Referring any relevant matters to the Audit Committee.

Nomination and Board Operations Committee - supports the Board of Directors in:
- All matters to do with reviewing Board composition;
- Reviewing and approving the processes in place for evaluating the performance of (i) the Board, (ii) each Standing Committees and (iii) each Director including the Chairman of the Board but excluding ANZ CEO; and
- All other matters to do with the effective and efficient operation of the Board and its Standing Committees.

The above Committees are exclusively comprised of Non-Executive directors. Members, including the Chair of each committee, are appointed by the Board and serve at the discretion of the Board and for such term or terms as the Board determines. Under ANZ's BEAR arrangements, the chair and members of each committee are accountable persons with prescribed responsibility for oversight of the ANZ, as a member of the Board.

Processes and procedures relating to the operation of each of the board committees are documented in the committee charters and in the Board Committees' Standing Rules which are on the ANZ corporate governance website: http://shareholder.anz.com/our-company/corporate-governance.

Executive Management Committees are responsible for co-ordination of risk matters for each of the areas of risk management. The following lists ANZ's key management committees and states their primary purpose, in accordance with ANZ's accountability map under BEAR, and related sub-committees:

Group Executive Committee (ExCo) - headed by the CEO is ANZ's leadership team whose role is to support the CEO in delivering ANZ's purpose, to shape a world where people and communities thrive. It does this by focusing on:

- All Key stakeholders;
- ANZ's Culture and Capabilities; and
- Prioritising efforts and allocating resources in line with ANZ's strategic pillars.

Group Performance and Execution Committee (GPEC) - is charged with the oversight of the Group's overall operational performance and position and the execution of the operating plan.

Enterprise Accountability Group – reports to Board Human Resources Committee and is responsible for:

- overseeing the ongoing effectiveness of an enterprise-wide accountability and consequence management framework and being cognisant of its impact on the culture of ANZ;
- reviewing and approving the release of, or exercise of the downward adjustment or further deferral discretions in relation to, deferred remuneration; and
- reviewing and monitoring the consequences applied to staff who are considered either directly or indirectly accountable for material risk (financial or non-financial) and compliance events and/ or material internal audit issues.

Group Asset and Liability Committee (GALCO) - is responsible for the oversight and strategic management of the Group's balance sheet activities including balance sheet structure, liquidity, funding, capital management, non-traded interest rate risk and non-traded FX risk. The committee is accountable to the Board Risk Committee in the effective discharge of its responsibilities.

Credit and Market Risk Committee (CMRC) - is the senior executive management forum responsible for the oversight and control of credit, market, insurance and other material financial risks across the ANZ Group. The Committee is accountable to the Board Risk Committee in the effective discharge of its responsibilities.

Operational Risk Executive Committee (OREC)- is the primary senior executive management forum responsible for oversight of Operational Risk and Compliance Risk, expected and unexpected risk profile and the related Control Environment. The purpose of OREC is to assist the Board Risk Committee in the effective discharge of its responsibilities for Operational Risk Management and the management of the compliance obligations of ANZ and its controlled entities.

Ethics and Responsible Business Committee (ERBC) - is a leadership and decision making body that exists to advance ANZ's purpose, namely to shape a world where people and communities thrive.

In doing so, the Committee seeks to ensure ANZ operates responsibly and achieves fair and balanced customer outcomes. The committee considers the social and environmental impacts of the industries, customers and communities that ANZ serves. It also considers ANZ's products and services and how they are provided, as well as stakeholder and community expectations. The Committee is also accountable to the Board's Ethics, Environment, Social and Governance Committee in the effective discharge of its responsibilities.

Credit Ratings System Oversight Committee (CRSOC) - is a sub-committee of CMRC responsible for the oversight and control of the Internal Ratings System for credit risk including credit model approvals and performance monitoring.

Capital and Stress Testing Oversight Committee (CSTOC) - is a sub-committee of GALCO, with responsibility for the oversight and control of the Group's stress testing framework, modelling, processes and outcomes; economic profit methodology and framework; operational risk capital measurement framework, modelling, processes and outcomes; capital allocation framework and other capital management (apart from Group ICAAP) and portfolio measurement related recommendations.

Investment Committee - is responsible to carry out the responsibilities delegated by the ANZ CEO, regarding the funding and delivery of value from ANZ's investments in change initiatives. The committee acts as the governance, oversight and advisory board for funding provided to the Divisions and enterprise priorities.

Risk Governance Oversight Committee (RGOC) - is a leadership and decision making body that exists to oversee ANZ's response to the self-assessment of governance, culture and accountability, provided to the APRA in November 2018.

Chapter 3 – Capital reporting and measurement

Capital reporting and measurement

To ensure that an Authorised Deposit-taking Institution (ADI) is adequately capitalised on both a standalone and group basis, APRA adopts a tiered approach to the measurement of an ADI's capital adequacy by assessing the ADI's financial strength at three levels:

- Level 1 - being the ADI i.e. Australia and New Zealand Banking Group Limited, consolidated with APRA approved subsidiaries, to form the ADI's Extended Licensed Entity (ELE).

- Level 2 - being the consolidated group for financial reporting purposes adjusted to exclude associates' activities and certain subsidiaries referenced under APS 001: Definitions that undertake the following business activities:

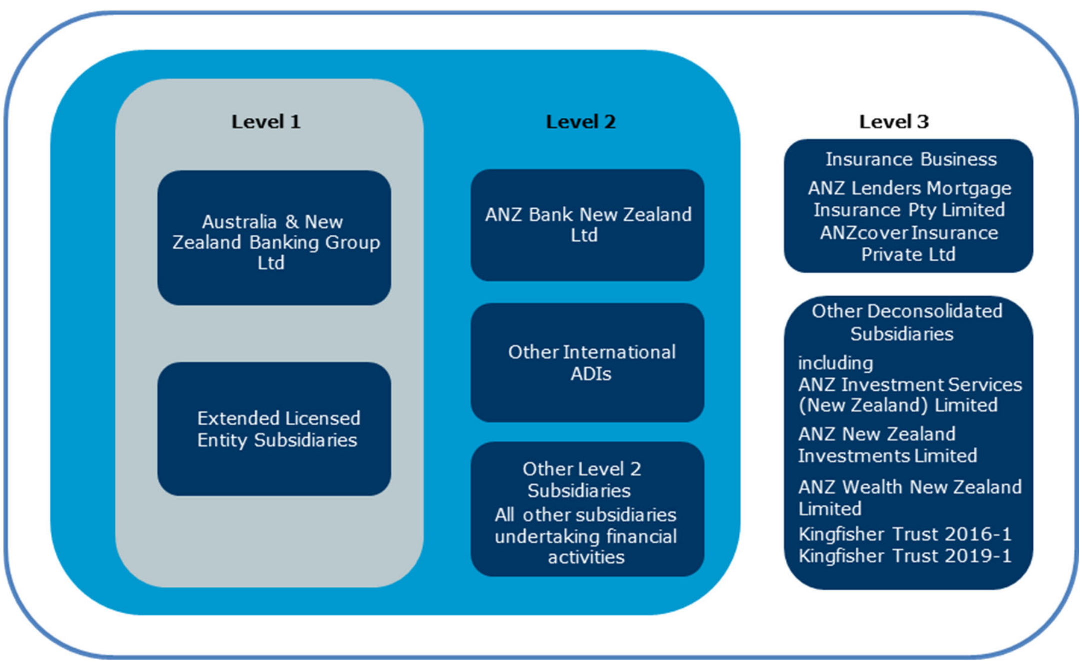
  - Insurance businesses (including friendly societies and health funds).
  - Acting as manager, responsible entity, approved trustee, trustee or similar role in relation to funds management.
  - Non-financial (commercial) operations.
  - Securitisation special purpose vehicles to which assets have been transferred in accordance with APRA's requirements as set out in APS 120: Securitisation.

- Level 3 – the consolidated group for financial reporting purposes.

ANZ measures capital adequacy monthly and reports for prudential purposes on a Level 1 and Level 2 basis and is not yet required to maintain capital on a Level 3 basis; APRA have yet to advise required timing for Level 3 reporting.

This Pillar 3 report is based on the Level 2 prudential structure.

Refer to Note 25 Controlled Entities of ANZ's 2021 Annual Report for a list of all material subsidiaries and a brief description of their key activities.



Chapter 4 – Capital and Capital Adequacy

Table 1 Capital Disclosure template

The head of the Level 2 Group to which this prudential standard applies is Australia and New Zealand Banking Group Limited.

Table 1 of this chapter consists of a Common Disclosure template that assists users in understanding the differences between the application of the Basel III reforms in Australia and those rules as detailed in the document Basel III: A global regulatory framework for more resilient banks and banking systems, issued by the Bank for International Settlements. The capital disclosure template in this chapter is the post January 2018 version as ANZ is fully applying the Basel III regulatory adjustments, as implemented by APRA. Note that the capital conservation and countercyclical buffers referred to in rows 64 to 67 have been effective since 1 January 2016 and the phase out period for capital instruments began on 1 January 2013.

The information in the lines of the template has been mapped to ANZ's Level 2 balance sheet, which adjusts for non-consolidated subsidiaries as required under APS 001: Definitions. Where this information cannot be mapped on a one to one basis, it is provided in an explanatory table. ANZ's material non-consolidated subsidiaries are also listed in this chapter.

Restrictions on Transfers of Capital within ANZ

ANZ operates branches and locally incorporated subsidiaries in many countries. These operations are capitalised at an appropriate level to cover the risks in the business and to meet local prudential requirements. This level of capitalisation may be enhanced to meet local taxation and operational requirements. Any repatriation of capital from subsidiaries or branches is subject to meeting the requirements of the local prudential regulator and/or the local central bank. Apart from ANZ's operations in New Zealand, local country capital requirements do not impose any material call on ANZ's capital base.

ANZ undertakes banking activities in New Zealand principally through its wholly owned subsidiary, ANZ Bank New Zealand Limited (ANZ New Zealand), which is subject to minimum capital requirements as set by the Reserve Bank of New Zealand (RBNZ). ANZ New Zealand maintains a buffer above the minimum capital base required by the RBNZ. This capital buffer has been calculated via the ICAAP undertaken for ANZ New Zealand, to ensure ANZ New Zealand is appropriately capitalised under stressed economic scenarios.

In March 2021, the RBNZ announced that the restrictions on dividends and redemption of non-CET1 capital instruments put in place in April 2020 will be eased. The updated restrictions will allow ANZ New Zealand, a New Zealand subsidiary of ANZBGL to pay up to 50% of their earnings as dividends to shareholders. This restriction will remain in place until 1 July 2022, at which point the RBNZ intends to remove the restrictions completely, subject to prevailing economic conditions. Additionally, as part of the March 2021 update, the RBNZ announced that it will remove the restrictions on redemption of non-CET1 capital instruments.

Table 1 Capital disclosure template

		Sep-21 $M	Reconciliation Table Reference
	Common Equity Tier 1 Capital: instruments and reserves		
1	Directly issued qualifying ordinary shares (and equivalent for mutually-owned entities) capital	25,626	Table A
2	Retained earnings	36,323	
3	Accumulated other comprehensive income (and other reserves)	1,372	Table B
4	Directly issued capital subject to phase out from CET1 (only applicable to mutually-owned companies)	n/a	
5	Ordinary share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	2	Table C
6	Common Equity Tier 1 capital before regulatory adjustments	63,323	
	Common Equity Tier 1 capital : regulatory adjustments		
7	Prudential valuation adjustments	-	
8	Goodwill (net of related tax liability)	3,089	
9	Other intangibles other than mortgage servicing rights (net of related tax liability)	1,036	Table D
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	Table H
11	Cash-flow hedge reserve	393	
12	Shortfall of provisions to expected losses	36	Table E
13	Securitisation gain on sale	-	
14	Gains and losses due to changes in own credit risk on fair valued liabilities	6	
15	Defined benefit superannuation fund net assets	163	Table F
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	-	
17	Reciprocal cross-holdings in common equity	-	
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the ADI does not own more than 10% of the issued share capital (amount above 10% threshold)	-	
19	Significant investments in the ordinary shares of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	-	Table G
20	Mortgage service rights (amount above 10% threshold)	-	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	
22	Amount exceeding the 15% threshold	-	
23	of which: significant investments in the ordinary shares of financial entities	-	
24	of which: mortgage servicing rights	-	
25	of which: deferred tax assets arising from temporary differences	-	
26	National specific regulatory adjustments (sum of rows 26a - 26j)	7,241	
26a	of which: treasury shares	-	
26b	of which: offset to dividends declared under a dividend reinvestment plan (DRP), to the extent to that the dividends are used to purchase new ordinary shares issued by the ADI	-	
26c	of which: deferred fee income	(356)	
26d	of which: equity investment in financial institutions not reported in rows 18, 19 and 23	3,700	Table G
26e	of which: deferred tax assets not reported in rows 10, 21 and 25	2,357	Table H
26f	of which: capitalised expenses	1,495	Table I
26g	of which: investments in commercial (non-financial) entities that are deducted under APRA rules	34	Table J
26h	of which: covered bonds in excess of asset cover in pools	-	
26i	of which: undercapitalisation of a non-consolidated subsidiary	-	
26j	of which: other national specific regulatory adjustments not reported in rows 26a to 26i	11	
27	Regulatory adjustments applied to CET1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-	
28	Total regulatory adjustments to CET1	11,964	
29	Common Equity Tier 1 capital (CET1)	51,359	

Table 1 Capital disclosure template

		Sep-21 $M	Reconciliation Table Reference
	Additional Tier 1 Capital: instruments		
30	Directly issued qualifying Additional Tier 1 instruments	8,022	Table K
31	of which: classified as equity under applicable accounting standards	-	
32	of which: classified as liabilities under applicable accounting standards	8,022	Table K
33	Directly issued capital instruments subject to phase out from Additional Tier 1	-	
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	274	Table K
35	of which: instruments issued by subsidiaries subject to phase out	n/a	
36	**Additional Tier 1 capital before regulatory adjustments**	**8,296**	
	Additional Tier 1 Capital: regulatory adjustments		
37	Investments in own Additional Tier 1 instruments	-	
38	Reciprocal cross-holdings in Additional Tier 1 instruments	-	
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the ADI does not own more than 10% of the issued share capital (amount above 10% threshold)	-	
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, (net of eligible short positions)	155	Table K
41	National specific regulatory adjustments (sum of rows 41a - 41c)	27	
41a	of which: holdings of capital instruments in group members by other group members on behalf of third parties		
41b	of which: investments in the capital of financial institutions that are outside the scope of regulatory consolidations not reported in rows 39 and 40	27	Table K
41c	of which: other national specific regulatory adjustments not reported in rows 41a and 41b	-	Table K
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 cover deductions	-	
43	Total regulatory adjustments to Additional Tier 1 capital	**182**	
44	Additional Tier 1 capital (AT1)	**8,114**	
45	Tier 1 Capital (T1=CET1+AT1)	**59,473**	
	Tier 2 Capital: instruments and provisions		
46	Directly issued qualifying Tier 2 instruments	15,417	
47	Directly issued capital instruments subject to phase out from Tier 2	417	Table L
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group T2)	57	Table L
49	of which: instruments issued by subsidiaries subject to phase out	-	Table L
50	Provisions	1,412	
51	Tier 2 capital before regulatory adjustments	**17,303**	
	Tier 2 Capital: regulatory adjustments		
52	Investments in own Tier 2 instruments	50	Table L
53	Reciprocal cross-holdings in Tier 2 instruments	-	
54	Investments in the Tier 2 capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the ADI does not own more than 10% of the issued share capital (amount above 10%	-	
55	Significant investments in the Tier 2 capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions	85	Table L
56	National specific regulatory adjustments (sums of rows 56a - 56c)	43	
56a	of which: holdings of capital instruments in group members by other group members on behalf of third parties	-	
56b	of which: investments in the capital of financial institutions that are outside the scope of regulatory consolidation not reported in rows 54 and 55	43	Table L
56c	of which: other national specific regulatory adjustments not reported in rows 56a and 56b	-	
57	Total regulatory adjustment to Tier 2 capital	**178**	
58	Tier 2 capital (T2)	**17,125**	
59	Total capital (TC=T1+T2)	**76,598**	
60	Total risk-weighted assets based on APRA standards	**416,086**	

Table 1 Capital disclosure template

			Reconciliation Table Reference
	Capital ratios and buffers		
61	Common Equity Tier 1 (as a percentage of risk-weighted assets)	12.3%	
62	Tier 1 (as a percentage of risk-weighted assets)	14.3%	
63	Total capital (as a percentage of risk-weighted assets)	18.4%	
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIBs buffer requirement, expressed as a percentage of risk-weighted assets)	8.014%	
65	of which: capital conservation buffer requirement[3]	3.5%	
66	of which: ADI-specific countercyclical buffer requirements	0.014%	
67	of which: G-SIB buffer requirement (not applicable)	n/a	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk-weighted assets)	7.8%	
	National minima (if different from Basel III)		
69	National Common Equity Tier 1 minimum ratio (if different from Basel III minimum)	n/a	
70	National Tier 1 minimum ratio (if different from Basel III minimum)	n/a	
71	National total capital minimum ratio (if different from Basel III minimum)	n/a	
	Amount below thresholds for deductions (not risk-weighted)		
72	Non-significant investments in the capital of other financial entities	408	
73	Significant investments in the ordinary shares of financial entities	3,361	Table G
74	Mortgage servicing rights (net of related tax liability)	n/a	
75	Deferred tax assets arising from temporary differences (net of related tax liability)	2,357	Table H
	Applicable caps on the inclusion of provisions in Tier 2		
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	172	
77	Cap on inclusion of provisions in Tier 2 under standardised approach	203	
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	1,241	
79	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	1,958	
	Capital instruments subject to phase-out arrangements (only application between 1 January 2018 to 1 January 2022)		
80	Current cap on CET1 instruments subject to phase out arrangements	n/a	
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	n/a	
82	Current cap on AT1 instruments subject to phase out arrangements	n/a	
83	Amount excluded from AT1 instruments due to cap (excess over cap after redemptions and maturities)	-	
84	Current cap on T2 instruments subject to phase out arrangements	n/a	
85	Amount excluded from T2 due to cap (excess over cap after redemption and maturities)	-	

Counter Cyclical Capital Buffer

Geographic breakdown of Private Sector Credit Exposures	Hong Kong $M	Luxembourg $M	Norway $M	Other $M	Total $M
RWA for all private sector credit exposures	$3,929	$140	$313	$312,664	$317,046
Jurisdictional buffer set by national authorities	1.00%	0.50%	1.00%	-	-
Countercyclical buffer requirement	0.0124%	0.0002%	0.0010%	-	0.0136%

[3] Includes 1.0% buffer applied by APRA to ADIs deemed as domestic systemically important.

The following table shows ANZ's consolidated balance sheet and the adjustments required to derive the Level 2 Balance Sheet. The adjustments remove the external assets and liabilities of the entities deconsolidated for prudential purposes and reinstate any intragroup assets and liabilities, treating them as external to the Level 2 Group.

Assets	Balance Sheet as in published financial statements $M	Adjustments $M	Balance sheet under scope of regulatory consolidation $M	Template and Reconciliation Table Reference
Cash and Cash Equivalents	151,260	(62)	151,198	
Settlement Balances owed to ANZ	7,530	-	7,530	
Collateral Paid	9,166	-	9,166	
Trading securities	44,688	-	44,688	
of which: Financial Institutions capital instruments			85	Table L
Derivative financial instruments	38,736	-	38,736	
Investment Securities	83,126	(469)	82,657	
of which: significant investment in financial institutions equity instruments			990	Table G
of which: non-significant investment in financial institutions equity instruments			339	Table G
of which: Other entities equity investments			31	Table J
of which: collectively assessed provision			(31)	Table E
Net loans and advances	629,719	(1,396)	628,323	
of which: deferred fee income			356	Row 26c
of which: collectively assessed provision			(3,379)	Table E
of which: individual provisions			(666)	Table E
of which: capitalised brokerage & Loan/Lease origination fees			1,434	Table I
of which: CET1 margin lending adjustment			13	
of which: AT1 margin lending adjustment			-	
Regulatory deposits	671	-	671	
Due from controlled entities	-	1,382	1,382	
of which: Significant investments in the Tier 2 "capital of banking, financial and insurance entities" that are outside the scope of regulatory consolidation			85	Table L
Shares in controlled entities		630	630	
of which: Investment in deconsolidated financial subsidiaries			475	Table G
of which: AT1 significant investment in banking, financial and insurance entities that are outside the scope of regulatory consolidation			155	Table K
Investments in associates	1,972	-	1,972	
of which: Financial Institutions			1,969	Table G
of which: Other Entities			3	Table J
Current tax assets	57	(1)	56	
Deferred tax assets	2,339	(1)	2,338	Table H
Goodwill and other intangible assets	4,124	(72)	4,052	
of which: Goodwill			3,089	
of which: Software			960	Table D
Premises and equipment	2,734	-	2,734	
Other assets	2,735	(131)	2,604	
of which: Defined benefit superannuation fund net assets			213	Table F
Total Assets	**978,857**	**(120)**	**978,737**	

Liabilities	Balance Sheet as in published financial statements $M	Adjustments $M	Balance sheet under scope of regulatory consolidation $M	Template and Reconciliation Table Reference
Settlement Balances owed by ANZ	17,427	-	17,427	
Collateral Received	5,657	-	5,657	
Deposits and other borrowings	743,056	(40)	743,016	
Derivative financial instruments	36,035	-	36,035	
Due to controlled entities	-	2,102	2,102	
Current tax liabilities	419	(33)	386	
Deferred tax liabilities	70	-	70	Table H
of which: related to intangible assets			0	Table D
of which: related to capitalised expenses			19	Table I
of which: related to defined benefit super assets			50	Table F
Payables and other liabilities	8,647	(312)	8,335	
Employee Entitlements	602	-	602	
Provisions	2,214	(113)	2,101	
of which: individually assessed provision			785	Table E
of which: collectively assessed provision			21	Table E
Debt Issuances	101,054	(1,454)	99,600	
of which: Directly issued qualifying Additional Tier 1 instruments			8,029	Table K
of which: Additional Tier 1 Instruments			477	Table K
of which: Directly issued capital instruments subject to phase out from Tier 2			417	Table L
of which: Directly issued qualifying Tier 2 instruments			15,380	Table L
Total Liabilities	**915,181**	**150**	**915,331**	
Net Assets	**63,676**	**(270)**	**63,406**	

Shareholders' equity	Balance Sheet as in published financial statements $M	Adjustments $M	Balance sheet under scope of regulatory consolidation $M	Template and Reconciliation Table Reference
Ordinary Share Capital	25,984	(132)	25,852	Table A
of which: Share reserve			226	Tables A & B
Reserves	1,228	(8)	1,220	Table B
of which: Cash flow hedging reserves			393	Row 11
Retained earnings	36,453	(130)	36,323	Row 2
Share capital and reserves attributable to shareholders of the company	**63,665**	**(270)**	**63,395**	
Non-controlling interests	11	-	11	Table C
Total Shareholders' Equity	**63,676**	**(270)**	**63,406**	

The following reconciliation tables provide additional information on the difference between Table 1 Capital Disclosure Template and the Level 2 Balance Sheet.

Table A		Sep 21 $M	Table 1 Reference
	Issued capital	25,852	
Less	Reclassification to Reserves	(226)	Table B
	Regulatory Directly Issued qualifying ordinary shares	**25,626**	**Row 1**

Table B		Sep 21 $M	Table 1 Reference
	Reserves	1,220	
Add	Reclassification from Issued Capital	226	Table A
Less	Non qualifying reserves	(74)	
	Reserves for Regulatory capital purposes (amount allowed in group CET1)	**1,372**	Row 3

Table C		Sep 21 $M	Table 1 Reference
	Non-controlling interests	11	
Less	Surplus capital attributable to minority shareholders	(9)	
	Ordinary share capital issued by subsidiaries and held by third parties	**2**	**Row 5**

Table D		Sep 21 $M	Table 1 Reference
	Software	960	
Add	Other intangible assets	3	
Less	Associated deferred tax liabilities	-	
Add	Regulatory reclassification from significant investments in the ordinary shares of banking, financial and insurance entities outside the scope of regulatory consolidation	73	Table G
	Other intangibles other than mortgage servicing rights (net of related tax liability)	**1,036**	**Row 9**

Table E		Sep 21 $M	Table 1 Reference
	Qualifying collective provision		
	Collectively assessed provision on Loans and advances	(3,379)	
	Collectively assessed provision on Investment Securities	(31)	
	Collectively assessed provision on Undrawn commitments	(785)	
Less	Non-qualifying collectively assessed provision	436	
Less	Standardised collectively assessed provision	172	Row 76
Less	Non-defaulted expected loss	2,346	
	Non-Defaulted: Expected Loss - Eligible Provision Shortfall	-	
	Qualifying individual provision		
	Individually assessed provision on Loans and advances	(666)	
	Individually assessed provision on Undrawn and contingent facilities	(21)	
Add	Additional individually assessed provision for partial write offs	(204)	
Less	Standardised individually assessed provision	51	
Add	Collectively assessed provision on advanced defaulted	(396)	
Less	Defaulted expected loss	1,272	
	Defaulted: Expected Loss - Eligible Provision Shortfall	36	
	Gross deduction	**36**	**Row 12**

Table F		Sep 21 $M	Table 1 Reference
	Defined benefit superannuation fund net assets	213	
Less	Associated deferred tax liabilities	(50)	
	Defined benefit superannuation fund net assets	**163**	**Row 15**

Table G		Sep 21 $M	Table 1 Reference
	Investment in deconsolidated financial subsidiaries	475	
Less	Regulatory reclassification to Retained Earnings and Other Intangible Assets	(73)	Table D
Add	Investment in financial associates	1,969	
Add	Investment in financial institutions Investment Securities	990	
Less	Amount below 10% threshold of CET1	(3,361)	Row 73
	Significant investments in the ordinary shares of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	-	Row 19
Add	Deduction amount below the 10% threshold of CET 1	3,361	Row 73
Add	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the ADI does not own more than 10% of the issued share capital - Investment Securities	339	
	Equity investment in financial institutions not reported in rows 18, 19 and 23	3,700	Row 26d
	Deduction for equity holdings in financial institutions - APRA regulations	**3,700**	

Table H		Sep 21 $M	Table 1 Reference
	Deferred tax assets	2,338	
Add	Deferred tax liabilities	(70)	
	Deferred tax asset less deferred tax liabilities	2,268	
Less	Deferred tax assets that rely on future profitability	-	Row 10
Add	Deferred tax liabilities on intangible assets, capitalised expenses and defined benefit super assets	69	
Add	Impact of calculating the deduction on a jurisdictional basis	20	
	Deferred tax assets not reported in rows 10, 21 and 25 of the Common Disclosure Template	**2,357**	**Row 26e**

Table I		Sep 21 $M	Table 1 Reference
	Capitalised brokerage & loan/lease origination fees	1,434	
	Capitalised debt and capital issuance expenses	77	
	Other Capitalised Expenses	3	
Less	Associated deferred tax liabilities	(19)	
	Capitalised expenses	**1,495**	**Row 26f**

Table J		Sep 21 $M	Table 1 Reference
	Investments in non-financial Investment Securities equities	31	
	Investments in non-financial associates	3	
	Non-financial equity exposures (loans)	-	
	Equity exposures to non-financial entities	**34**	**Row 26g**

Table K		Sep 21 $M	Table 1 Reference
	Directly issued qualifying Additional Tier 1 Capital Instruments classified as liabilities	8,029	
Add	Issue costs	34	
Add	Fair value adjustment	(41)	
	Directly issued qualifying Additional Tier 1 Capital Instruments classified as liabilities	8,022	Row 30
	Additional Tier 1 instruments issued by subsidiaries held by third parties	477	
Add	Issue costs	-	
Less	Surplus capital attributable to third party holders	(203)	
Add	AT1 Instruments issued by subsidiaries and held by third parties (amounts allowed in Group AT1)	274	Row 34
	Additional Tier 1 capital before regulatory adjustments	**8,296**	**Row 36**
Less	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation	(155)	Row 40
Less	Investments in the capital of financial institutions that are outside the scope of regulatory consolidations not reported in rows 39 and 40	(27)	Row 41b
Less	Other national specific regulatory adjustments not reported	-	Row 41c
	Additional Tier 1 capital	**8,114**	**Row 44**

Table L		Sep 21 $M	Table 1 Reference
	Directly issued capital instruments subject to phase out from Tier 2	417	
Less	Amortisation of Tier 2 Capital Instruments subject to Phase out	-	
Less	Fair value adjustment	-	
	Directly issued capital instruments subject to phase out from Tier 2	417	Row 47
Add	Surplus capital attributable to third party holders	57	Row 48
Add	Directly issued qualifying Tier 2 instruments	15,380	
Add	Issue costs	26	
Add	Fair value adjustment	11	
Add	Provisions	1,412	
	Tier 2 capital before regulatory adjustments	**17,303**	**Row 51**
Less	Investments in own Tier 2 instruments (trading limit)	(50)	Row 52
Less	Significant investments in the Tier 2 capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions	(85)	Row 55
Less	Investments in the capital of financial institutions that are outside the scope of regulatory consolidation not reported in rows 54 and 55	(43)	Row 56b
	Tier 2 capital	**17,125**	**Row 58**

The following table provides details of entities included within the accounting scope of consolidation but excluded from regulatory consolidation.

Entity	Activity	Total Assets $M	Total Liabilities $M
ACN 008 647 185 Pty Ltd	Holding Company	-	-
ANZ ILP Pty Ltd	Incorporated Legal Practice	2	-
ANZ Investment Services (New Zealand) Limited	Funds Management	38	8
ANZ Lenders Mortgage Insurance Pty. Limited	Mortgage insurance	1,022	491
ANZ Pensions (UK) Limited	Trustee/Nominee	-	-
ANZ New Zealand Investments Limited	Funds Management	117	39
ANZ New Zealand Investments Nominees Limited	Nominee	-	-
ANZ Wealth New Zealand Limited	Holding Company	124	-
ANZcover Insurance Private Ltd	Captive-Insurance	221	119
Kingfisher Trust 2016-1	Securitisation Trust	603	603
Kingfisher Trust 2019-1	Securitisation Trust	827	827
Shout for Good Pty. Ltd.	Corporate	-	-

Table 2 Main features of capital instruments

As the main features of ANZ's capital instruments are updated on an ongoing basis, ANZ has provided this information separately in the Regulatory Disclosures section of its website.

Table 3 Capital adequacy, Table 4 Credit risk, Table 5 Securitisation

The above tables are produced at the quarters ending 30 June and 31 December.

Table 6 Capital adequacy

Capital management

ANZ pursues an active approach to capital management, which is designed to protect the interests of depositors, creditors and shareholders. This involves the on-going review and Board approval of the level and composition of ANZ's capital base, assessed against the following key policy objectives:

- Regulatory compliance such that capital levels exceed APRA's, ANZ's primary prudential supervisor, minimum Prudential Capital Ratios (PCRs) both at Level 1 (the Company and specified subsidiaries) and Level 2 (ANZ consolidated under Australian prudential standards), along with US Federal Reserve's minimum Level 2 requirements under ANZ's Foreign Holding Company Licence in the United States of America;

- Capital levels are aligned with the risks in the business and to meet strategic and business development; and

- An appropriate balance between maximising shareholder returns and prudent capital management principles.

ANZ achieves these objectives through an Internal Capital Adequacy Assessment Process (ICAAP) whereby ANZ conducts detailed strategic and capital planning over a medium term time horizon. The Capital Plan is maintained and updated through a monthly review of forecast financial performance, economic conditions and development of business initiatives and strategies. The Board and senior management are provided with monthly updates of ANZ's capital position. Any actions required to ensure ongoing prudent capital management are submitted to the Board for approval. ANZ annually conducts a detailed strategic planning process over a three-year time horizon, the outcomes of which are embodied in the Strategic Plan. This process involves forecasting key economic variables which Divisions use to determine key financial data for their existing business. New strategic initiatives to be undertaken over the planning period and their financial impact are then determined. These processes are used for the following:

- Review capital ratios, targets, and levels of different classes of capital against ANZ's risk profile and risk appetite outlined in the Strategic Plan. ANZ's capital targets reflect the key policy objectives above, and the desire that under specific stressed economic scenarios that capital levels have sufficient capital to remain above PCR requirements;

- Stress tests are performed under different economic conditions to provide a comprehensive review of ANZ's capital position both before and after mitigating actions. The stress tests determine the level of additional capital (i.e. the 'stress capital buffer') needed to absorb losses that may be experienced during an economic downturn; and

- Stress testing is integral to strengthening the predictive approach to risk management and is a key component in managing risks, asset writing strategies and business strategies. It creates greater understanding of the impacts on financial performance through modelling relationships and sensitivities between geographic, industry and Divisional exposures under a range of macro-economic scenarios. ANZ has a dedicated stress testing team within Risk that models and reports to management and the Board Risk Committee on a range of scenarios and stress tests.

Results are subsequently used to:

- Recalibrate ANZ's management targets for minimum and operating ranges for its respective classes of capital such that ANZ will have sufficient capital to remain above regulatory requirements; and

- Identify the level of organic capital generation and hence determine current and future capital issuance requirements for Level 1 and Level 2.

From these processes, a Capital Plan is developed and approved by the Board which identifies the capital issuance requirements, capital securities maturity profile, and options around capital products, timing and markets to execute the Capital Plan under differing market and economic conditions.

The Capital Plan is maintained and updated through a monthly review of forecast financial performance, economic conditions and development of business initiatives and strategies. The Board and senior management are provided with monthly updates of ANZ's capital position. Any actions required to ensure ongoing prudent capital management are submitted to the Board for approval.

Regulatory environment

ANZ's regulatory capital calculation is governed by APRA's Prudential Standards which adopt a risk-based capital assessment framework based on the Basel III capital measurement standards. This risk-based approach requires eligible capital to be divided by total risk weighted assets (RWA), with the resultant ratio being used as a measure of an Authorised Deposit-taking Institution's (ADIs) capital adequacy. APRA determines PCRs for Common Equity Tier 1 (CET1), Tier 1 and Total Capital, with capital as the numerator and RWAs as the denominator.

Regulatory capital is divided into Tier 1, carrying the highest capital elements, and Tier 2, which has lower capital elements, but still adds to the overall strength of the ADI.

Tier 1 capital is comprised of Common Equity Tier 1 capital less deductions and Additional Tier 1 capital instruments. Common Equity Tier 1 capital comprises shareholders' equity adjusted for items which APRA does not allow as regulatory capital or classifies as lower forms of regulatory capital. Common Equity Tier 1 capital includes the following significant adjustments:

- Reserves exclude the hedging reserve and reserves of insurance and funds management subsidiaries;
- Retained and current year earnings excluding those of insurance and funds management subsidiaries, but includes capitalised deferred fees forming part of loan yields that meet the criteria set out in the prudential standard;

Additional Tier 1 capital instruments are high quality components of capital that provide a permanent and unrestricted commitment of funds, are available to absorb losses, are subordinated to the claims of depositors and senior creditors in the event of the winding up of the issuer and provide for fully discretionary capital distributions.

Deductions from the capital base comprise mainly deductions to the Common Equity Tier 1 component. These deductions are largely intangible assets, investments in insurance entities and associates, capitalised expenses (including loan and origination fees), and net deferred tax assets.

Tier 2 capital mainly comprises perpetual subordinated debt instruments and dated subordinated debt instruments which have a minimum term of five years at issue date.

Total Capital is the sum of Tier 1 capital and Tier 2 capital.

In addition to the prudential capital oversight that APRA conducts over the Company and the Group, the Company's branch operations and major banking subsidiary operations are overseen by local regulators such as the Reserve Bank of New Zealand, the US Federal Reserve, the UK Prudential Regulation Authority, the Monetary Authority of Singapore, the Hong Kong Monetary Authority and the China Banking and Insurance Regulatory Commission who may impose minimum capitalisation rates on those operations.

Throughout the financial year, the Company and the Group maintained compliance with the minimum Common Equity Tier 1, Tier 1 and Total Capital ratios set by APRA and the US Federal Reserve (as applicable) as well as applicable capitalisation rates set by regulators in countries where the Company operates branches and subsidiaries.

Regulatory developments

There are a number of matters currently outstanding that may have an impact on ANZ's regulatory capital in the future. Details of these matters are available in ANZ's 2021 Full Year Results Announcement Group Results section, pages 50 and 51, available on ANZ's website: shareholder.anz.com/pages/results-announcement.

Table 6 Capital adequacy - Capital Ratio and Risk Weighted Assets

The following table provides the composition of capital used for regulatory purposes and capital adequacy ratios.

Risk weighted assets	Sep 21 $M	Mar 21 $M	Sep 20 $M
Subject to Advanced Internal Rating Based (IRB) approach			
Corporate	136,298	135,713	139,415
Sovereign	9,893	7,750	7,545
Bank	9,118	10,092	12,734
Residential Mortgage	110,622	110,206	110,353
Qualifying Revolving Retail	3,723	3,678	4,337
Other Retail	19,660	20,693	21,794
Credit risk weighted assets subject to Advanced IRB approach	**289,314**	**288,132**	**296,178**
Credit risk Specialised Lending exposures subject to slotting approach[4]	**36,977**	**36,476**	**39,001**
Subject to Standardised approach			
Corporate	6,632	6,388	10,185
Sovereign	27	76	220
Residential Mortgage	203	203	210
Other Retail	17	23	33
Credit risk weighted assets subject to Standardised approach	**6,879**	**6,690**	**10,648**
Credit Valuation Adjustment and Qualifying Central Counterparties	**3,270**	**4,281**	**7,710**
Credit risk weighted assets relating to securitisation exposures	2,056	2,220	2,125
Other assets	4,002	4,063	4,375
Total credit risk weighted assets	**342,498**	**341,862**	**360,037**
Market risk weighted assets	7,127	8,955	8,237
Operational risk weighted assets	48,425	47,199	47,563
Interest rate risk in the banking book (IRRBB) risk weighted assets	18,036	10,150	13,547
Total risk weighted assets	**416,086**	**408,166**	**429,384**
Capital ratios (%)[5]			
Level 2 Common Equity Tier 1 capital ratio	**12.3%**	**12.4%**	**11.3%**
Level 2 Tier 1 capital ratio	**14.3%**	**14.3%**	**13.2%**
Level 2 Total capital ratio	**18.4%**	**18.3%**	**16.4%**
Level 1: Extended licensed Common Equity Tier 1 capital ratio	**12.0%**	**12.2%**	**11.2%**
Level 1: Extended licensed entity Tier 1 capital ratio	**14.1%**	**14.2%**	**13.2%**
Level 1: Extended licensed entity Total capital ratio	**18.6%**	**18.6%**	**16.7%**
Other significant Authorised Deposit-taking Institution (ADI) or overseas bank subsidiary:			
ANZ Bank New Zealand Limited – Common Equity Tier 1 capital ratio	**13.4%**	**13.1%**	**11.7%**
ANZ Bank New Zealand Limited - Tier 1 capital ratio	**16.2%**	**15.9%**	**14.4%**
ANZ Bank New Zealand Limited - Total capital ratio	**16.9%**	**15.9%**	**14.4%**

Basel III APRA level 2 CET1	Sep 21	Mar 21	Sep 20
Common Equity Tier 1 Capital	51,359	50,786	48,702
Total Risk Weighted Assets	416,086	408,166	429,384
Common Equity Tier 1 capital ratio	**12.3%**	**12.4%**	**11.3%**

Basel III APRA level 1 Extended licensed entity CET1	Sep 21	Mar 21	Sep 20
Common Equity Tier 1 Capital	45,555	45,854	43,904
Total Risk Weighted Assets	379,387	374,939	391,939
Common Equity Tier 1 capital ratio	**12.0%**	**12.2%**	**11.2%**

[4] Specialised Lending exposures subject to 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.

[5] ANZ Bank New Zealand Limited's capital ratios have been calculated in accordance with Reserve Bank of New Zealand prudential standards.

Credit Risk Weighted Assets (CRWA)

Total Credit RWA marginally increased by $0.6 billion from March 2021 to $342.5 billion at September 2021. Foreign exchange movement increases ($5.0 billion) were predominantly offset by reductions in Australia Retail and Commercial ($2.1 billion) and New Zealand ($1.5 billion), combined with a reduction in derivative exposure reducing CVA RWA and Credit RWA ($0.9 billion).

Market Risk, Operational Risk and IRRBB RWA

IRRBB RWA increased $7.9 billion due to a deterioration in Embedded Gains combined with an increase in Repricing and Yield Curve Risk. Traded Market Risk RWA decreased $1.9 billion due to reduction in 10d VaR.

Chapter 5 – Credit risk

Table 7 Credit risk – General disclosures

Definition of credit risk

Credit risk is the risk of financial loss resulting from a counterparty failing to fulfil its obligations or a decrease in credit quality of a counterparty resulting in a financial loss.

Regulatory approval to use the Advanced Internal Ratings-based approach

ANZ has been given approval by APRA to use the Advanced Internal Ratings (AIRB) based approach to credit risk, under APS 113 Capital Adequacy: Internal Ratings-based Approach to Credit Risk. As an AIRB bank, ANZ's internal models generate the inputs into regulatory capital adequacy to determine the risk weighted exposure calculations for both on and off-balance sheet exposures, including undrawn portions of credit facilities, committed and contingent exposures and expected loss (EL) calculations.

ANZ's internal models are used to generate three key risk components that serve as inputs to the IRB approach to credit risk:

- Probability of Default (PD) is an estimate of the level of the risk of borrower default
- Exposure at Default (EAD) is defined as the expected facility exposure at the date of default
- Loss Given Default (LGD) is an estimate of the potential economic loss on a credit exposure, incurred as a consequence of obligor default and expressed as a percentage of the facility's EAD

Where ANZ is not accredited to use the AIRB based approach to credit risk, ANZ applies the Standardised approach to credit risk, under APS 112 Capital Adequacy: Standardised Approach to Credit Risk.

Credit risk management framework and policies

ANZ has a comprehensive framework to manage Credit Risk. The framework is top down, being defined by credit principles and policies. Credit policies, requirements and procedures cover all aspects of the credit life cycle such as transaction structuring, risk grading, initial approval, ongoing management and problem debt management, as well as specialist policy topics.

The effectiveness of the credit risk management framework is assessed through various compliance and monitoring processes. These, together with portfolio selection and risk appetite setting, define and guide the credit process, organisation and staff.

Organisation

The Credit and Market Risk Committee (CMRC) is a senior executive level committee responsible for the oversight and control of credit, market, insurance and material financial risks across the ANZ Group. The Credit Rating System Oversight Committee (CRSOC) supports the CMRC, by providing oversight and control of the internal ratings system for credit risk in the wholesale and retail sectors, including credit model approvals and performance monitoring.

The primary responsibility for prudent and profitable management of credit risk assets and customer relationships rests with the business units. An independent credit risk management function is staffed by risk specialists. Independence is achieved by having all credit risk staff ultimately report to the Chief Risk Officer (CRO), even where they are embedded in business units. Risk provides independent credit assessment and approval on lending decisions and performs key roles in portfolio management such as development and validation of credit risk measurement systems, loan asset quality reporting, and development of the overall governance framework including credit policies and requirements, and adherence to regulations.

The authority to make credit decisions is delegated by the Board to the CEO who in turn delegates authority to the CRO. The CRO in turn delegates some of their credit discretion to individuals as part of a 'cascade' of authority from senior to the most junior credit officers via the Credit Approval Discretion (CAD) Framework. Within ANZ's wholesale business, credit approval for material judgemental lending is made on a 'dual approval' basis, jointly by the business writer in the business unit and the respective independent credit risk officer. Individuals must be suitably skilled and accredited in order to be granted and retain credit discretion. Credit discretions are reviewed on an annual basis, and may be varied based on the holder's performance.

Programmed credit assessment typically covers retail and some small business lending, and refers to the automated assessment of credit applications using a combination of scoring (application and behavioural), policy rules and external credit reporting information. Where an application does not meet the automated assessment criteria it will be referred out for manual assessment

Portfolio direction and performance

The credit risk management framework contains several portfolio direction and performance tools which enable Risk to play a fundamental role in monitoring the direction and performance of the portfolio. These include:

- Group and divisional level risk appetite strategies, business writing strategies and Sector and Product Transaction Guidelines which are prepared by the businesses and set out appetite, planned portfolio growth, capital usage and risk/return profile, and also identify areas that may require attention to mitigate and improve risk management;
- Regular portfolio reviews; and
- Exposure concentration limits, covering single customers, and customer groups with economic interdependence, industries and cross border risk, to maintain a diversified portfolio.

ANZ uses portfolio monitoring and analysis tools, technologies and techniques to assist with portfolio risk assessment and management. These assist in:

- Monitoring, analysing and reporting ANZ's credit risk profile and progress in meeting portfolio objectives;
- Calculating and reporting ANZ's collective provision, economic capital, economic loss, regulatory risk weighted assets (RWA) and regulatory expected loss;
- Assessing impact of emerging issues, and conducting ad-hoc investigations and analysis;
- Validating rating/scoring tools and credit estimates; and
- Ongoing review and refinement of ANZ's credit risk measurement and policy framework.

Credit Risk Reporting

Credit risk management information systems, reporting and analysis are managed centrally and at the divisional and business unit level.

Periodic reporting provides confirmation of the effectiveness of processes, highlights emerging issues and allows monitoring of portfolio trends by all levels of management and the Board.

Examples of reports include EAD, portfolio mix, risk grade profiles and migrations, RWAs, large exposure reporting, credit watch and control lists, impaired assets and provisions.

Exposure at default

EAD is defined as the expected facility exposure at the date of default. Unless otherwise stated, throughout this disclosure EAD represents credit exposure net of offsets for credit risk mitigation such as guarantees, credit derivatives, netting and financial collateral.

Past due facilities

Facilities where a contractual payment has not been met or the customer is outside of contractual arrangements for a material length of time 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.

Impaired assets[6]

A facility for which there is doubt about timely payment of principal, interest and fees being achieved and / or a material credit obligation is 90 days or more past due and is not well secured. It includes all problem assets, off-balance sheet exposures (including derivatives) and assets brought to ANZ's balance sheet through the enforcement of security. Impaired derivatives have a credit valuation adjustment, which is a market assessment of the credit risk of the relevant counterparties.

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.

[6] The definition of Impaired Assets for accounting purposes is a default occurs when there are indicators that a debtor is unlikely to fully satisfy contractual credit obligations to the Group, or the exposure is 90 days past due. Financial assets, including those that are well secured, are considered credit impaired for financial reporting purposes when they are in default.

Collectively Assessed Provisions for Credit Impairment

Collectively assessed provisions for credit impairment represent the Expected Credit Loss (ECL) calculated in accordance with AASB 9 Financial Instruments (AASB 9) which commenced 1 October 2018. These incorporate forward looking information and do not require an actual loss event to have occurred for an impairment provision to be recognised.

Under AASB 9, ECL is either measured over 12 months or the expected lifetime of the financial asset, depending on the credit deterioration since origination, according to the following three-stage approach:

- Stage 1: At the origination of a financial asset, and where there has not been a significant increase in credit risk since origination, a provision equivalent to 12 months ECL is recognised. For instruments with a remaining maturity of less than 12 months, a provision calculated on the remaining term of the maturity is recognised.

- Stage 2: Where there has been a significant increase in credit risk (SICR) since origination, a provision equivalent to lifetime ECL is recognised.

- Stage 3: Where there is objective evidence of default or impairment, a provision equivalent to lifetime ECL is recognised.

In determining what constitutes a SICR, ANZ considers both qualitative and quantitative information, including CCR at origination and at the reporting date.

ECL is calculated as the product of PD, LGD and EAD at a facility level, discounted for incorporating the effect of time value of money. These credit risk factors are adjusted for current and forward looking information through the use of macro-economic variables in the model.

To determine ECL under IFRS 9, a range of plausible scenarios are considered which are probability weighted. ANZ's economic scenario and probability weighting framework considers 4 economic scenarios: Base Case, Downside, Upside, and Stress to determine a probability weighted ECL outcome. Probability weightings are determined via an expert judgement process that considers:

- ANZ Research's Base Case;
- ANZ Base Case comparisons to historical trends and consensus range; and
- Risks or uncertainties to the Base Case.

Individually Assessed Provisions for Credit Impairment

Individually assessed provisions for credit impairment are calculated in accordance with AASB 9. They 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.

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 individually assessed provisions recognised in previous periods have subsequently decreased or are no longer required, such impairment losses are reversed in the current period income statement.

Definition of default

ANZ uses the following definition of default:

- ANZ considers that the customer is unlikely to pay its credit obligations in full, without recourse to actions such as realising security, or

- the customer is greater than or equal to 90 days past due on a credit obligation, or

- the customer's overdraft or other revolving facility(ies) have been continuously outside approved limits for 90 or more consecutive days.

Specific Provision and General Reserve for Credit Losses

Due to definitional differences, there is a difference in the split between ANZ's individually assessed provision and collectively assessed 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.

APRA has flagged that the adoption of the forward looking ECL approach means that a GRCL will no longer be required. This is likely to take effect at the commencement of the revised APS 220 prudential standard expected January 2022.

Exposure at Default in Table 7 represents credit exposure net of offsets for credit risk mitigation such as guarantees, credit derivatives, netting and financial collateral. It includes Advanced IRB, Specialised Lending and Standardised exposures, and excludes Securitisation, Equities or Other Assets exposures.

Table 7(b) part (i): Period end and average Exposure at Default [7]

	Sep 21				
Advanced IRB approach	**Risk Weighted Assets $M**	**Exposure at Default $M**	**Average Exposure at Default for half year $M**	**Individual provision charge for half year $M**	**Write-offs for half year $M**
Corporate	136,298	287,932	279,341	(14)	79
Sovereign	9,893	247,455	237,640	-	-
Bank	9,118	32,035	33,718	-	-
Residential Mortgage	110,622	410,249	407,901	(3)	21
Qualifying Revolving Retail	3,723	13,769	13,947	34	60
Other Retail	19,660	30,096	30,492	52	123
Total Advanced IRB approach	**289,314**	**1,021,536**	**1,003,039**	**69**	**283**
				-	-
Specialised Lending	**36,977**	**45,039**	**44,271**	**(5)**	**-**
				-	-
Standardised approach				-	-
Corporate	6,632	6,649	6,547	4	2
Sovereign	27	27	48	-	-
Residential Mortgage	203	431	427	1	1
Other Retail	17	16	19	-	-
Total Standardised approach	**6,879**	**7,123**	**7,041**	**5**	**3**
Credit Valuation Adjustment and Qualifying Central Counterparties	**3,270**	**6,420**	**8,306**	**-**	**-**
Total	**336,440**	**1,080,118**	**1,062,657**	**69**	**286**

[7] Average Exposure at Default for half year is calculated as the simple average of the balances at the start and the end of each six month period.

Table 7(b) part (i): Period end and average Exposure at Default (continued)

	Mar 21				
Advanced IRB approach	**Risk Weighted Assets $M**	**Exposure at Default $M**	**Average Exposure at Default for half year $M**	**Individual provision charge for half year $M**	**Write-offs for half year $M**
Corporate	135,713	270,749	272,582	49	68
Sovereign	7,750	227,824	207,215	-	-
Bank	10,092	35,401	38,786	-	-
Residential Mortgage	110,206	405,552	398,931	46	71
Qualifying Revolving Retail	3,678	14,125	14,486	33	61
Other Retail	20,693	30,888	31,410	59	126
Total Advanced IRB approach	**288,132**	**984,539**	**963,410**	**187**	**326**
Specialised Lending	**36,476**	**43,502**	**44,966**	**-**	**1**
Standardised approach					
Corporate	6,388	6,445	8,894	(2)	11
Sovereign	76	69	141	-	-
Residential Mortgage	203	422	429	-	2
Other Retail	23	22	28	2	-
Total Standardised approach	**6,690**	**6,958**	**9,492**	**-**	**13**
Credit Valuation Adjustment and Qualifying Central Counterparties	**4,281**	**10,192**	**9,938**	-	-
Total	**335,579**	**1,045,191**	**1,027,806**	**187**	**340**

	Sep 20				
Advanced IRB approach	**Risk Weighted Assets $M**	**Exposure at Default $M**	**Average Exposure at Default for half year $M**	**Individual provision charge for half year $M**	**Write-offs for half year $M**
Corporate	139,415	274,414	291,198	126	340
Sovereign	7,545	186,605	191,941	-	-
Bank	12,734	42,171	52,910	-	-
Residential Mortgage	110,353	392,312	386,197	39	32
Qualifying Revolving Retail	4,337	14,846	15,487	79	107
Other Retail	21,794	31,931	33,474	133	131
Total Advanced IRB approach	**296,178**	**942,279**	**971,207**	**377**	**610**
Specialised Lending	**39,001**	**46,430**	**47,433**	**3**	**2**
Standardised approach					
Corporate	10,185	11,344	13,657	12	18
Sovereign	220	212	106	-	-
Residential Mortgage	210	435	453	2	2
Other Retail	33	33	40	1	8
Total Standardised approach	**10,648**	**12,024**	**14,256**	**15**	**28**
Credit Valuation Adjustment and Qualifying Central Counterparties	**7,710**	**9,684**	**9,845**	-	-
Total	**353,537**	**1,010,417**	**1,042,741**	**395**	**640**

Table 7(b) part (ii): Exposure at Default by portfolio type[8]

Portfolio Type	Sep 21 $M	Mar 21 $M	Sep 20 $M	Average for half year Sep 21 $M
Cash	133,269	107,422	71,926	120,346
Contingents liabilities, commitments, and other off-balance sheet exposures	175,410	170,731	171,397	173,071
Derivatives	40,937	46,614	50,963	43,776
Settlement Balances	138	61	133	100
Investment Securities	79,346	88,206	89,977	83,776
Net Loans, Advances & Acceptances	617,951	600,397	593,904	609,174
Other assets	8,390	7,846	8,728	8,118
Trading Securities	24,677	23,914	23,389	24,296
Total exposures	**1,080,118**	**1,045,191**	**1,010,417**	**1,062,657**

[8] Average for half year is calculated as the simple average of the balances at the start and the end of each six month period.

Table 7(c): Geographic distribution of Exposure at Default

	Sep 21			
Portfolio Type	**Australia $M**	**New Zealand $M**	**Asia Pacific, Europe and Americas $M**	**Total $M**
Corporate	153,827	41,731	99,023	**294,581**
Sovereign	124,794	25,985	96,703	**247,482**
Bank	13,252	2,588	16,195	**32,035**
Residential Mortgage	309,444	100,805	431	**410,680**
Qualifying Revolving Retail	13,769	-	-	**13,769**
Other Retail	21,227	8,869	16	**30,112**
Qualifying Central Counterparties	1,055	685	4,680	**6,420**
Specialised Lending	32,227	12,687	125	**45,039**
Total exposures	**669,595**	**193,350**	**217,173**	**1,080,118**

	Mar 21			
Portfolio Type	**Australia $M**	**New Zealand $M**	**Asia Pacific, Europe and Americas $M**	**Total $M**
Corporate	150,050	40,340	86,804	**277,194**
Sovereign	111,651	23,482	92,760	**227,893**
Bank	13,367	2,781	19,253	**35,401**
Residential Mortgage	312,231	93,322	421	**405,974**
Qualifying Revolving Retail	14,125	-	-	**14,125**
Other Retail	22,111	8,777	22	**30,910**
Qualifying Central Counterparties	3,394	1,526	5,272	**10,192**
Specialised Lending	31,269	12,111	122	**43,502**
Total exposures	**658,198**	**182,339**	**204,654**	**1,045,191**

	Sep 20			
Portfolio Type	**Australia $M**	**New Zealand $M**	**Asia Pacific, Europe and Americas $M**	**Total $M**
Corporate	154,805	41,413	89,540	**285,758**
Sovereign	79,134	24,465	83,218	**186,817**
Bank	18,131	2,883	21,157	**42,171**
Residential Mortgage	303,867	88,445	435	**392,747**
Qualifying Revolving Retail	14,846	-	-	**14,846**
Other Retail	22,747	9,184	33	**31,964**
Qualifying Central Counterparties	4,053	2,175	3,456	**9,684**
Specialised Lending	33,460	12,698	272	**46,430**
Total exposures	**631,043**	**181,263**	**198,111**	**1,010,417**

Table 7(d): Industry distribution of Exposure at Default[9] [10]

	Sep 21														
Portfolio Type	**Agriculture, Forestry, Fishing & Mining $M**	**Business Services $M**	**Construction $M**	**Electricity, Gas & Water Supply $M**	**Entertainment, Leisure & Tourism $M**	**Financial, Investment & Insurance $M**	**Government and Official Institutions $M**	**Manufacturing $M**	**Personal $M**	**Property Services $M**	**Wholesale Trade $M**	**Retail Trade $M**	**Transport & Storage $M**	**Other $M**	**Total $M**
Corporate	42,791	11,131	5,083	12,002	14,601	70,555	30	39,995	297	24,735	21,691	12,991	16,701	21,978	**294,581**
Sovereign	470	-	15	576	-	164,252	78,885	1,219	-	1,632	20	-	234	179	**247,482**
Bank	1	1	-	-	-	32,020	-	2	-	-	-	6	-	5	**32,035**
Residential Mortgage	-	-	-	-	-	-	-	-	410,680	-	-	-	-	-	**410,680**
Qualifying Revolving Retail	-	-	-	-	-	-	-	-	13,769	-	-	-	-	-	**13,769**
Other Retail	2,076	2,280	3,103	73	1,728	538	12	1,424	8,338	933	1,036	3,073	1,170	4,328	**30,112**
Qualifying Central Counterparties	-	-	-	-	-	6,419	-	-	-	-	-	-	-	1	**6,420**
Specialised Lending	1,492	7	352	1,825	318	1	-	116	-	39,565	24	2	896	441	**45,039**
Total exposures	**46,830**	**13,419**	**8,553**	**14,476**	**16,647**	**273,785**	**78,927**	**42,756**	**433,084**	**66,865**	**22,771**	**16,072**	**19,001**	**26,932**	**1,080,118**
% of Total	*4.3%*	*1.2%*	*0.8%*	*1.3%*	*1.5%*	*25.4%*	*7.3%*	*4.0%*	*40.1%*	*6.2%*	*2.1%*	*1.5%*	*1.8%*	*2.5%*	*100.0%*

[9] Property Services includes Commercial property operators, Residential property operators, Retirement village operators/developers, Real estate agents, Non-financial asset investors and Machinery and equipment hiring and leasing.

[10] Other industry includes Health & Community Services, Education, Communication Services and Personal & Other Services.

Table 7(d): Industry distribution of Exposure at Default (continued)

Mar 21

Portfolio Type	Agriculture, Forestry, Fishing & Mining $M	Business Services $M	Construction $M	Electricity, Gas & Water Supply $M	Entertainment, Leisure & Tourism $M	Financial, Investment & Insurance $M	Government and Official Institutions $M	Manufacturing $M	Personal $M	Property Services $M	Wholesale Trade $M	Retail Trade $M	Transport & Storage $M	Other $M	Total $M
Corporate	43,390	10,418	5,377	12,152	14,526	57,138	36	37,632	421	23,898	20,484	12,582	17,773	21,367	**277,194**
Sovereign	454	-	14	539	-	137,971	85,974	1,256	-	1,518	22	-	125	20	**227,893**
Bank	-	4	-	23	2	35,351	-	3	-	4	2	7	-	5	**35,401**
Residential Mortgage	-	-	-	-	-	-	-	-	405,974	-	-	-	-	-	**405,974**
Qualifying Revolving Retail	-	-	-	-	-	-	-	-	14,125	-	-	-	-	-	**14,125**
Other Retail	2,148	2,360	3,188	77	1,834	545	12	1,394	8,629	966	1,043	3,194	1,030	4,490	**30,910**
Qualifying Central Counterparties	-	-	-	-	-	10,192	-	-	-	-	-	-	-	-	**10,192**
Specialised Lending	1,476	8	346	1,816	306	1	-	-	-	38,161	24	-	917	447	**43,502**
Total exposures	**47,468**	**12,790**	**8,925**	**14,607**	**16,668**	**241,198**	**86,022**	**40,285**	**429,149**	**64,547**	**21,575**	**15,783**	**19,845**	**26,329**	**1,045,191**
% of Total	*4.5%*	*1.2%*	*0.9%*	*1.4%*	*1.6%*	*23.1%*	*8.2%*	*3.9%*	*41.1%*	*6.2%*	*2.1%*	*1.5%*	*1.9%*	*2.5%*	*100.0%*

Sep 20

Portfolio Type	Agriculture, Forestry, Fishing & Mining $M	Business Services $M	Construction $M	Electricity, Gas & Water Supply $M	Entertainment, Leisure & Tourism $M	Financial, Investment & Insurance $M	Government and Official Institutions $M	Manufacturing $M	Personal $M	Property Services $M	Wholesale Trade $M	Retail Trade $M	Transport & Storage $M	Other $M	Total $M
Corporate	45,440	10,594	5,414	11,511	15,041	52,381	42	43,594	448	24,488	22,228	13,884	18,580	22,113	**285,758**
Sovereign	531	-	15	608	-	99,407	83,099	1,461	-	1,581	27	-	72	16	**186,817**
Bank	-	1	1	24	2	42,096	-	2	1	5	9	-	28	2	**42,171**
Residential Mortgage	-	-	-	-	-	-	-	-	392,747	-	-	-	-	-	**392,747**
Qualifying Revolving Retail	-	-	-	-	-	-	-	-	14,846	-	-	-	-	-	**14,846**
Other Retail	2,267	2,401	3,234	76	1,956	557	10	1,386	9,168	1,005	1,035	3,315	1,041	4,513	**31,964**
Qualifying Central Counterparties	-	-	-	-	-	9,684	-	-	-	-	-	-	-	-	**9,684**
Specialised Lending	1,964	10	362	2,016	423	1	-	2	-	40,004	26	-	1,166	456	**46,430**
Total exposures	**50,202**	**13,006**	**9,026**	**14,235**	**17,422**	**204,126**	**83,151**	**46,445**	**417,210**	**67,083**	**23,325**	**17,199**	**20,887**	**27,100**	**1,010,417**
% of Total	5.0%	1.3%	0.9%	1.4%	1.7%	20.2%	8.2%	4.6%	41.3%	6.6%	2.3%	1.7%	2.1%	2.7%	100.0%

Table 7(e): Residual contractual maturity of Exposure at Default[11]

Sep 21					
Portfolio Type	**≤12 mths $M**	**1 - 5 years $M**	**> 5 years $M**	**No Maturity Specified $M**	**Total $M**
Corporate	135,428	145,349	13,739	65	**294,581**
Sovereign	164,238	55,444	27,800	-	**247,482**
Bank	21,608	10,007	420	-	**32,035**
Residential Mortgage	230	1,040	385,276	24,134	**410,680**
Qualifying Revolving Retail	-	-	-	13,769	**13,769**
Other Retail	11,278	4,039	14,792	3	**30,112**
Qualifying Central Counterparties	4,408	881	663	468	**6,420**
Specialised Lending	17,994	25,471	1,557	17	**45,039**
Total exposures	**355,184**	**242,231**	**444,247**	**38,456**	**1,080,118**

Mar 21					
Portfolio Type	**≤12 mths $M**	**1 - 5 years $M**	**> 5 years $M**	**No Maturity Specified $M**	**Total $M**
Corporate	121,998	140,590	14,522	84	**277,194**
Sovereign	140,413	55,048	32,432	-	**227,893**
Bank	23,367	11,705	329	-	**35,401**
Residential Mortgage	229	974	380,081	24,690	**405,974**
Qualifying Revolving Retail	-	-	-	14,125	**14,125**
Other Retail	11,406	4,371	15,131	2	**30,910**
Qualifying Central Counterparties	7,345	1,374	938	535	**10,192**
Specialised Lending	18,816	22,885	1,777	24	**43,502**
Total exposures	**323,574**	**236,947**	**445,210**	**39,460**	**1,045,191**

Sep 20					
Portfolio Type	**≤12 mths $M**	**1 - 5 years $M**	**> 5 years $M**	**No Maturity Specified $M**	**Total $M**
Corporate	123,849	145,885	15,925	99	**285,758**
Sovereign	102,470	58,241	26,106	-	**186,817**
Bank	26,165	15,596	410	-	**42,171**
Residential Mortgage	272	925	366,032	25,518	**392,747**
Qualifying Revolving Retail	-	-	-	14,846	**14,846**
Other Retail	11,830	4,586	15,548	-	**31,964**
Qualifying Central Counterparties	7,025	1,199	906	554	**9,684**
Specialised Lending	19,568	24,824	2,008	30	**46,430**
Total exposures	**291,179**	**251,256**	**426,935**	**41,047**	**1,010,417**

[11] No Maturity Specified predominately includes credit cards and residential mortgage equity manager accounts.

Table 7(f) part (i): Impaired assets[12][13], Past due loans[14], Provisions and Write-offs by Industry sector

	Sep 21					
Industry Sector	**Impaired derivatives $M**	**Impaired loans/ facilities $M**	**Past due loans ≥ 90 days $M**	**Individual provision balance $M**	**Individual provision charge for half year $M**	**Write-offs for half year $M**
Agriculture, Forestry, Fishing & Mining	-	215	95	58	(9)	10
Business Services	-	59	55	33	(10)	12
Construction	-	77	68	41	8	15
Electricity, gas and water supply	-	9	1	9	-	-
Entertainment Leisure & Tourism	11	130	89	51	11	14
Financial, Investment & Insurance	-	55	68	31	4	3
Government & Official Institutions	-	-	1	-	-	-
Manufacturing	-	45	36	23	(6)	15
Personal	-	508	2,258	160	55	157
Property Services	-	97	63	24	(3)	5
Retail Trade	-	109	88	53	(23)	16
Transport & Storage	1	359	33	43	-	12
Wholesale Trade	-	293	31	123	38	8
Other	-	57	119	38	4	19
Total	**12**	**2,013**	**3,005**	**687**	**69**	**286**

[12] Impaired derivatives are net of credit value adjustment (CVA) of nil, being a market value based assessment of the credit risk of the relevant counterparties (March 2021: $1 million; September 2020: $2 million).

[13] Impaired loans / facilities include restructured items of $355 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 2021: $300 million; September 2020: $254 million).

[14] For regulatory reporting, not well secured portfolio managed retail exposures have been reclassified from past due loans ≥ 90 days to impaired loans / facilities.

Table 7(f) part (i): Impaired assets, Past due loans, Provisions and Write-offs by Industry sector (continued)

Mar 21						
Industry Sector	**Impaired derivatives $M**	**Impaired loans/ facilities $M**	**Past due loans ≥ 90 days $M**	**Individual provision balance $M**	**Individual provision charge for half year $M**	**Write-offs for half year $M**
Agriculture, Forestry, Fishing & Mining	-	366	96	73	(13)	37
Business Services	-	102	54	55	(3)	8
Construction	-	84	75	44	13	10
Electricity, gas and water supply	-	9	1	9	-	-
Entertainment Leisure & Tourism	-	100	71	52	2	19
Financial, Investment & Insurance	-	57	51	26	2	1
Government & Official Institutions	-	-	-	-	-	-
Manufacturing	-	96	46	41	25	20
Personal	-	604	2,463	203	77	192
Property Services	-	117	82	29	2	5
Retail Trade	2	262	92	91	7	23
Transport & Storage	1	359	31	51	3	6
Wholesale Trade	-	320	32	87	60	9
Other	-	62	128	48	12	10
Total	**3**	**2,538**	**3,222**	**809**	**187**	**340**

Sep 20						
Industry Sector	**Impaired derivatives $M**	**Impaired loans/ facilities $M**	**Past due loans ≥ 90 days $M**	**Individual provision balance $M**	**Individual provision charge for half year $M**	**Write-offs for half year $M**
Agriculture, Forestry, Fishing & Mining	-	601	101	104	30	30
Business Services	-	104	50	57	27	25
Construction	-	91	63	44	23	10
Electricity, gas and water supply	-	10	1	9	11	11
Entertainment Leisure & Tourism	-	118	59	63	21	8
Financial, Investment & Insurance	-	62	35	27	5	4
Government & Official Institutions	-	-	-	-	-	-
Manufacturing	-	77	28	35	11	13
Personal	-	777	3,107	312	189	232
Property Services	-	142	49	35	4	3
Retail Trade	-	304	80	90	16	24
Transport & Storage	1	113	26	46	18	6
Wholesale Trade	-	68	38	20	19	256
Other	-	75	123	49	21	18
Total	**1**	**2,542**	**3,760**	**891**	**395**	**640**

Table 7(f) part (ii): Impaired asset, Past due loans, Provisions and Write-offs

	Sep 21					
	Impaired derivatives $M	**Impaired loans/ facilities $M**	**Past due loans ≥ 90 days $M**	**Individual provision balance $M**	**Individual provision charge for half year $M**	**Write-offs for half year $M**
Portfolios subject to Advanced IRB approach						
Corporate	11	1,083	217	338	(14)	79
Sovereign	-	-	-	-	-	-
Bank	-	-	-	-	-	-
Residential Mortgage	-	363	2,214	93	(3)	21
Qualifying Revolving Retail	-	33	-	-	34	60
Other Retail	-	328	401	187	52	123
Total Advanced IRB approach	**11**	**1,807**	**2,832**	**618**	**69**	**283**
Specialised Lending	**-**	**66**	**35**	**13**	**(5)**	**-**
Portfolios subject to Standardised approach						
Corporate	1	119	94	46	4	2
Residential Mortgage	-	10	44	6	1	1
Other Retail	-	11	-	4	-	-
Total Standardised approach	**1**	**140**	**138**	**56**	**5**	**3**
Qualifying Central Counterparties	**-**	**-**	**-**	**-**	**-**	**-**
Total	**12**	**2,013**	**3,005**	**687**	**69**	**286**

Table 7(f) part (ii): Impaired asset, Past due loans, Provisions and Write-offs (continued)

Mar 21	Impaired derivatives $M	Impaired loans/ facilities $M	Past due loans ≥ 90 days $M	Individual provision balance $M	Individual provision charge for half year $M	Write-offs for half year $M
Portfolios subject to Advanced IRB approach						
Corporate	2	1,498	227	412	49	68
Sovereign	-	-	-	-	-	-
Bank	-	-	-	-	-	-
Residential Mortgage	-	434	2,446	113	46	71
Qualifying Revolving Retail	-	38	-	-	33	61
Other Retail	-	363	418	215	59	126
Total Advanced IRB approach	**2**	**2,333**	**3,091**	**740**	**187**	**326**
Specialised Lending	**-**	**75**	**39**	**18**	**-**	**1**
Portfolios subject to Standardised approach						
Corporate	1	112	63	43	(2)	11
Residential Mortgage	-	8	29	5	-	2
Other Retail	-	10	-	3	2	-
Total Standardised approach	**1**	**130**	**92**	**51**	**-**	**13**
Qualifying Central Counterparties	**-**	**-**	**-**	**-**	**-**	**-**
Total	**3**	**2,538**	**3,222**	**809**	**187**	**340**

Sep 20	Impaired derivatives $M	Impaired loans/ facilities $M	Past due loans ≥ 90 days $M	Individual provision balance $M	Individual provision charge for half year $M	Write-offs for half year $M
Portfolios subject to Advanced IRB approach						
Corporate	-	1,298	212	435	126	340
Sovereign	-	-	-	-	-	-
Bank	-	-	-	-	-	-
Residential Mortgage	-	549	3,004	136	39	32
Qualifying Revolving Retail	-	47	-	-	79	107
Other Retail	-	416	469	248	133	131
Total Advanced IRB approach	**-**	**2,310**	**3,685**	**819**	**377**	**610**
Specialised Lending	**-**	**79**	**31**	**14**	**3**	**2**
Portfolios subject to Standardised approach						
Corporate	1	135	28	56	12	18
Residential Mortgage	-	9	16	2	2	2
Other Retail	-	9	-	-	1	8
Total Standardised approach	**1**	**153**	**44**	**58**	**15**	**28**
Qualifying Central Counterparties	**-**	**-**	**-**	**-**	**-**	**-**
Total	**1**	**2,542**	**3,760**	**891**	**395**	**640**

Table 7(g): Impaired assets[15] [16], Past due loans[17] and Provisions[18] by Geography

			Sep 21		
Geographic region	**Impaired derivatives $M**	**Impaired loans/ facilities $M**	**Past due loans ≥ 90 days $M**	**Individual provision balance $M**	**Collective provision balance $M**
Australia	11	1,589	2,522	530	2,987
New Zealand	-	182	345	71	603
Asia Pacific, Europe and America	1	242	138	86	605
Total	**12**	**2,013**	**3,005**	**687**	**4,195**

			Mar 21		
Geographic region	**Impaired derivatives $M**	**Impaired loans/ facilities $M**	**Past due loans ≥ 90 days $M**	**Individual provision balance $M**	**Collective provision balance $M**
Australia	2	1,948	2,785	632	3,106
New Zealand	-	334	345	88	610
Asia Pacific, Europe and America	1	256	92	89	569
Total	**3**	**2,538**	**3,222**	**809**	**4,285**

			Sep 20		
Geographic region	**Impaired derivatives $M**	**Impaired loans/ facilities $M**	**Past due loans ≥ 90 days $M**	**Individual provision balance $M**	**Collective provision balance $M**
Australia	-	1,973	3,245	688	3,727
New Zealand	-	392	467	119	671
Asia Pacific, Europe and America	1	177	48	84	610
Total	**1**	**2,542**	**3,760**	**891**	**5,008**

[15] Impaired derivatives are net of credit value adjustment (CVA) of nil, being a market value based assessment of the credit risk of the relevant counterparties (March 2021: $1 million; September 2020: $2 million).

[16] Impaired loans / facilities include restructured items of $355 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 2021: $300 million; September 2020: $254 million).

[17] For regulatory reporting, not well secured portfolio managed retail exposures have been reclassified from past due loans ≥ 90 days to impaired loans / facilities.

[18] 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 7(h): Provision for Credit Impairment

Collectively Assessed Provision	Half year Sep 21 $M	Half year Mar 21 $M	Half year Sep 20 $M
Balance at start of period	4,285	5,008	4,501
Charge/(Release) to Income Statement	(145)	(678)	669
Adjustment for exchange rate fluctuations and transfers	55	(45)	(114)
UDC Divestment	-	-	(48)
Total Collectively Assessed Provision	**4195**	**4,285**	**5,008**
Individually Assessed Provision			
Balance at start of period	809	891	1,093
New and increased provisions	369	455	675
Write-backs	(206)	(180)	(165)
Adjustment for exchange rate fluctuations and transfers	11	(6)	(38)
Discount unwind	(10)	(11)	(12)
Bad debts written off	(286)	(340)	(640)
UDC Divestment	-	-	(22)
Total Individually Assessed Provision	**687**	**809**	**891**
Total Provisions for Credit Impairment	**4,882**	**5,094**	**5,899**

Table 7(j): Specific Provision Balance and General Reserve for Credit Losses[19]

Sep 21	Specific Provision Balance $M	General Reserve for Credit Losses $M	Total $M
Collectively Assessed Provision	436	3,759	4,195
Individually Assessed Provision	687	-	687
Total Provision for Credit Impairment	**1,123**	**3,759**	**4,882**

Mar 21	Specific Provision Balance $M	General Reserve for Credit Losses $M	Total $M
Collectively Assessed Provision	432	3,853	4,285
Individually Assessed Provision	809	-	809
Total Provision for Credit Impairment	**1,241**	**3,853**	**5,094**

Sep 20	Specific Provision Balance $M	General Reserve for Credit Losses $M	Total $M
Collectively Assessed Provision	484	4,524	5,008
Individually Assessed Provision	891	-	891
Total Provision for Credit Impairment	**1,375**	**4,524**	**5,899**

[19] 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 8 **Credit risk – Disclosures for portfolios subject to the Standardised approach and supervisory risk weights in the IRB approach**

Table 8(b): Exposure at Default by risk bucket[20]

Standardised approach exposures	Sep 21 $M	Mar 21 $M	Sep 20 $M
0%	-	-	-
20%	22	19	241
35%	200	189	195
50%	515	516	2,429
75%	-	-	-
100%	6,088	5,974	8,830
150%	296	259	329
>150%	2	1	-
Capital deductions	-	-	-
Total	**7,123**	**6,958**	**12,024**

Other Asset exposures	Sep 21 $M	Mar 21 $M	Sep 20 $M
0%	-	-	-
20%	748	745	708
35%	-	-	-
50%	-	-	-
75%	-	-	-
100%	3,785	3,860	4,234
150%	-	-	-
>150%	27	22	-
Capital deductions	-	-	-
Total	**4,560**	**4,627**	**4,942**

Specialised Lending exposures	Sep 21 $M	Mar 21 $M	Sep 20 $M
0%	109	151	158
70%	24,488	21,756	20,787
90%	17,830	18,219	22,235
115%	2,031	2,660	2,731
250%	581	716	519
Total	**45,039**	**43,502**	**46,430**

[20] Table 8(b) shows exposure at default after credit risk mitigation in each risk category.

Table 9 Credit risk – Disclosures for portfolios subject to Advanced IRB approaches

Portfolios subject to the Advanced IRB (AIRB) approach

The following table summarises the types of borrowers and the rating approach adopted within each of ANZ's AIRB portfolios:

IRB Asset Class	Borrower Type	Rating Approach
Corporate	Corporations, partnerships or proprietorships that do not fit into any other asset class	AIRB
Sovereign	Central governments Central banks Certain multilateral development banks	AIRB
Bank	Banks[21] In Australia only, other authorised deposit taking institutions (ADI) incorporated in Australia	AIRB
Residential Mortgages	Exposures secured by residential property	AIRB
Qualifying Revolving Retail	Australian consumer credit cards <$100,000 limit	AIRB
Other Retail	Small business lending Other lending to consumers	AIRB
Specialised Lending	Income Producing Real Estate[22] Project finance Object finance	AIRB – Supervisory Slotting[23]
Other Assets	All other assets not falling into the above classes e.g. margin lending, fixed assets	AIRB – fixed risk weights

In addition, Where ANZ is not accredited to use the AIRB based approach to credit risk. ANZ has applies the Standardised approach to credit risk where currently available data does not enable development of advanced internal models for PD, LGD and EAD estimates. Under the Standardised approach, exposures are mapped to several regulatory risk weights, mainly based on the type of counterparty and its external rating. For these counterparties, external ratings by Standard & Poor's and Moody's Investors Service are used as inputs into the RWA calculation. As described in the section on the ANZ rating system, ANZ has mapped its master scale to the grading of these two External Credit Assessment Institutions (ECAIs).

ANZ applies its full normal risk measurement and management framework to these segments for internal management purposes, such as for economic capital. Standardised segments will be migrated to AIRB if they reach a volume that generates sufficient data for development of advanced internal models.

ANZ has not applied the Foundation IRB approach to any portfolios.

The ANZ rating system

As an AIRB bank, ANZ's internal models generate the inputs into regulatory capital adequacy to determine the risk weighted exposure calculations for both on and off-balance sheet exposures, including undrawn portions of credit facilities, committed and contingent exposures and EL calculations. ANZ's internal models are used to generate the three key risk components that serve as inputs to the IRB approach to credit risk:

- PD is an estimate of the level of the risk of borrower default. Borrower ratings are derived by way of rating models used both at loan origination and for ongoing monitoring.
- EAD is defined as the expected facility exposure at the date of default.
- LGD is an estimate of the potential economic loss on a credit exposure, incurred as a consequence of obligor default and expressed as a percentage of the facility's EAD. ANZ's LGD also includes recognition of the different legal and insolvency regimes in different countries, where this has been shown to influence recovery outcomes.

[21] The IRB asset classification of investment banks is Corporate, rather than Bank.

[22] Since 2009, APRA has agreed that some large, well-diversified commercial property exposures may be treated as corporate exposures, in line with the original Basel Committee's definition of Specialised Lending.

[23] ANZ uses an internal assessment which is mapped to the appropriate Supervisory Slot.

Effective maturity is also calculated as an input to the risk weighted exposure calculation for bank, sovereign and corporate IRB asset classes.

ANZ's rating system has two separate and distinct dimensions that:

- Measure the PD, which is expressed by the Customer Credit Rating (CCR), reflecting the ability to service and repay debt.
- Measure the LGD as expressed by the Security Indicator (SI) ranging from A to G. The SI is calculated by reference to the percentage of a loan covered by security which can be realised in the event of default. This calculation uses standard ratios to adjust the current market value of collateral items to allow for historical realisation outcomes. The security-related SIs are supplemented with a range of other SIs which cover such factors as cash cover, mezzanine finance, intra-group guarantees and sovereign backing as ANZ's LGD research indicates that these transaction characteristics have different recovery outcomes. ANZ's LGD also includes recognition of the different legal and insolvency regimes in different countries, where this has been shown to influence recovery outcomes.

ANZ's corporate PD master scale is APRA approved, and is made up of 27 rating grades. Each level/grade is separately defined and has a range of default probabilities attached to it. The PD master scale enables ANZ's rating system to be mapped to the grading's of external rating agencies, using the PD as a common element after ensuring that default definitions and other key attributes are aligned.

The following table demonstrates this alignment (for one year PDs):

ANZ CCR	Moody's	Standard & Poor's	PD Range
0+ to 1-	Aaa to Aa3	AAA to AA-	0.0000 - 0.0346%
2+ to 3+	A1 to Baa1	A+ to BBB+	0.0347 - 0.1636%
3= to 4+	Baa2 to Baa3	BBB to > BB+	0.1637 - 0.4004%
4= to 6=	Ba1 to B1	BB+ to B+	0.4005 – 2.7550%
6- to 7=	B2 to B3	B to B-	2.7551 – 9.7980%
7- to 8+	Caa	CCC	9.7981 – 27.1109%
8=	Ca, C	CC, C	27.1110 – 99.9999%
8-, 9 and 10	Default	Default	100%

In the retail asset classes, most facilities utilise credit rating scores. The scores are calibrated to PDs, and used to allocate exposures to homogenous pools, along with LGD and EAD.

Use of internal estimates other than for regulatory capital purposes

ANZ's rating system is a fundamental part of credit management and plays a key role in:

- Lending discretions,
- Minimum origination standards,
- Concentration limits,
- Portfolio reporting,
- Customer profitability measurement,
- Collectively assessed provision measurement,
- Management of deteriorating customers (where certain CCR/SI combinations trigger increasing scrutiny), and
- Pricing decisions.

PD, LGD and EAD are used in the calculation of capital and in the collectively assessed provisioning process. Regulatory and economic capital are calculated from the same data sources and starting from the same basis, however there are some differences between the factors used because several aspects of ANZ's rating system are adjusted in accordance with APRA requirements for regulatory capital purposes. The most significant of these adjustments are the use for regulatory capital purposes of downturn LGDs; the imposition of a 20% LGD floor for exposures secured by Australian residential real estate and the mandatory use of the supervisory slotting approach for project finance and most commercial real estate exposures.

Controls surrounding the ratings system

ANZ's rating system and credit risk estimates are governed by the Board Risk Committee and several executive management committees, and are underpinned by a comprehensive framework of controls that operate throughout ANZ. All policies, methodologies, model designs, model reviews, validations, responsibilities, systems and processes supporting the ratings systems are documented, and subject to review by Internal Audit.

The design, build and implementation of credit rating models resides with a specialist Group-level team. Credit rating models are owned by central Risk teams. The use (including overrides) and performance of credit rating models is monitored by the relevant business and their counterparts in Risk, and validated regularly by a separate specialist Group-level function. This cycle of design, build, implementation, monitoring and validation is overseen by the CRSOC, and informs the need for new models or recalibration of existing models.

Internal Audit provides third line independent credit related assurance activities, including providing an independent assessment of both the asset quality in the portfolio and the quality of credit decision making. It also assesses management controls from a "top down" portfolio oversight perspective as well as credit risk processes from a "bottom up" perspective based on individual customer file reviews.

Risk grades are an integral part of reporting to the Board and executives.

In addition, the use of the rating system's outputs in key business unit performance measures in processes such as provisioning and the allocation of capital ensure that the rating system receives robust input from the business units, not just the specialist modelling teams.

Rating process by asset class

Building reliable and accurate rating tools requires balancing of many factors including data availability (external data may be used in some circumstances, where it is relevant), the size of the segment (the more customers within the segment, the more likely that statistically reliable models can be built), and the need to be able to validate the model. Rating tool approaches include:

Statistical models producing a PD or a LGD, which are developed from internal or external data on defaults.

Statistical models producing an internal rating, which involve calibrating ANZ's models to external rating data where data on defaults is insufficient for statistical purposes (such as banks).

Hybrid statistical and expert models producing an internal rating, which use a mixture of default data and expert input.

Expert models/processes that produce an internal rating, including external rating agency replication models.

Ongoing data collection and testing processes ensure enhanced or new models are introduced as required to maintain and improve the accuracy and reliability of rating processes.

Regardless of what credit risk rating tool is used, lending staff rating a customer are required to review the model-generated PD (or CCR) and take into account any out-of-model factors or policy overlays to decide whether or not to override the model rating. Overrides of a rating model to a better rating require approval from the independent credit risk function. The significance of the model for risk grading varies with the customer segment: models will dominate risk grading of homogenous, simple and data-rich segments such as in Retail, however for complex, specialised business segments expert knowledge and the highly customised nature of transactions will influence the rating outcome.

The following table summarises the types of internal rating approaches used in ANZ:

IRB Asset Class	Borrower type	Rating Approach
Corporate	Corporations, partnerships or proprietorships that do not fit into any other asset class	Mainly statistical models Some use of expert models and policy processes
Sovereign	Central governments Central banks Certain multilateral development banks Australian state governments	External rating and expert judgement
Bank	Banks In Australia only, other ADIs incorporated in Australia	Statistically-based models Review of all relevant and material information including external ratings
Residential Mortgages	Exposures secured by residential property	Statistical models
Qualifying Revolving Retail	Australian consumer credit cards <$100,000 limit	Statistical models
Other Retail	Small business lending Other lending to consumers	Statistical models
Specialised Lending	Income Producing Real Estate Project finance Object finance	Expert models/Supervisory Slotting[24]

Estimation of LGD and EAD

ANZ's LGD modelling takes into account data on secured recovery, unsecured recovery rates and debt seniority, geography and internal management costs from several major data sources. Internal data is used as the basis for LGD estimation in the retail asset class, and is supplemented by external data for the corporate asset class. Given the scarcity of internal data for Bank and Sovereign Basel asset classes, LGD modelling for these classes is primarily based on external data.

EAD represents the expected facility exposure at the date of default, including an estimate of additional drawings prior to default, as well as post-default drawings that were legally committed to prior to default.

[24] Specialised Lending exposures are rated with internal rating tools to produce a PD and LGD. These are used in internal processes, but not for regulatory capital purposes where the exposures are mapped to Supervisory Slots.

Table 9(d): Non Retail Exposure at Default subject to Advanced Internal Ratings Based (IRB) approach[25] [26] [27]

	Sep 21							
	AAA < A+ $M	**A+ < BBB $M**	**BBB < BB+ $M**	**BB+ < B+ $M**	**B+ < CCC $M**	**CCC $M**	**Default $M**	**Total $M**
Exposure at Default								
Corporate	32,022	94,109	94,734	51,223	12,191	1,681	1,972	**287,932**
Sovereign	216,732	23,550	3,242	1,436	2,349	146	-	**247,455**
Bank	7,782	19,924	3,617	657	53	2	-	**32,035**
Total	**256,536**	**137,583**	**101,593**	**53,316**	**14,593**	**1,829**	**1,972**	**567,422**
% of Total	45.3%	24.2%	17.9%	9.4%	2.6%	0.3%	0.3%	100.0%
Undrawn commitments (included in above)								
Corporate	9,341	32,520	29,271	8,573	1,510	172	61	**81,448**
Sovereign	1,307	392	436	28	62	19	-	**2,244**
Bank	1	409	25	-	-	-	-	**435**
Total	**10,649**	**33,321**	**29,732**	**8,601**	**1,572**	**191**	**61**	**84,127**
Average Exposure at Default								
Corporate	18.091	6.980	2.159	0.835	0.312	0.372	0.914	**1.726**
Sovereign	256.184	158.057	27.709	14.960	19.907	7.693	-	**183.572**
Bank	3.421	3.983	2.799	4.641	1.911	0.110	-	**3.636**
Exposure-weighted average Loss Given Default (%)								
Corporate	59.8%	57.1%	45.8%	33.3%	32.2%	38.7%	37.7%	**48.1%**
Sovereign	6.0%	18.3%	33.1%	40.7%	53.2%	39.7%	-	**8.2%**
Bank	57.3%	58.5%	67.5%	69.2%	72.1%	72.4%	-	**59.5%**
Exposure-weighted average risk weight (%)								
Corporate	18.7%	32.8%	53.6%	62.3%	90.0%	202.8%	121.6%	**47.3%**
Sovereign	1.1%	5.2%	32.4%	81.6%	162.8%	199.7%	-	**4.0%**
Bank	14.7%	22.9%	69.6%	118.4%	210.2%	356.1%	-	**28.5%**

[25] In accordance with APS 330, EAD in Table 9(d) includes Advanced IRB exposures and excludes Specialised Lending, Standardised, Securitisation, Equities or Other Assets exposures. Specialised Lending is excluded from Table 9(d) as it follows the Supervisory Slotting treatment, and a breakdown of risk weightings is provided in Table 8(b).

[26] Average EAD is calculated as total EAD post risk mitigants divided by the total number of credit risk generating exposures.

[27] Exposure-weighted average risk weight (%) is calculated as CRWA divided by EAD.

Table 9(d): Non Retail Exposure at Default subject to Advanced Internal Ratings Based (IRB) approach (continued)

Mar 21	AAA < A+ $M	A+ < BBB $M	BBB < BB+ $M	BB+ < B+ $M	B+ < CCC $M	CCC $M	Default $M	Total $M
Exposure at Default								
Corporate	25,619	85,110	89,310	53,030	13,358	1,968	2,354	**270,749**
Sovereign	195,497	25,578	3,017	1,823	1,901	4	4	**227,824**
Bank	7,973	22,926	3,675	775	43	9	-	**35,401**
Total	**229,089**	**133,614**	**96,002**	**55,628**	**15,302**	**1,981**	**2,358**	**533,974**
% of Total	42.9%	25.0%	18.0%	10.4%	2.9%	0.4%	0.4%	100.0%
Undrawn commitments (included in above)								
Corporate	7,668	30,925	29,367	9,255	1,589	189	192	**79,185**
Sovereign	1,272	207	256	72	10	-	-	**1,817**
Bank	-	410	6	-	1	-	-	**417**
Total	**8,940**	**31,542**	**29,629**	**9,327**	**1,600**	**189**	**192**	**81,419**
Average Exposure at Default								
Corporate	14.665	7.900	2.094	0.825	0.303	0.460	0.903	**1.589**
Sovereign	228.920	171.665	31.428	13.208	23.465	0.490	0.701	**171.167**
Bank	4.571	4.752	3.544	5.653	0.937	0.415	-	**4.532**
Exposure-weighted average Loss Given Default (%)								
Corporate	59.1%	56.7%	45.4%	34.9%	31.5%	35.8%	40.6%	**47.4%**
Sovereign	5.9%	11.9%	27.3%	27.6%	55.7%	60.7%	18.7%	**7.4%**
Bank	57.3%	57.4%	64.5%	68.3%	67.8%	66.2%	-	**58.3%**
Exposure-weighted average risk weight (%)								
Corporate	19.3%	33.8%	53.7%	66.1%	89.8%	183.1%	143.9%	**50.1%**
Sovereign	1.1%	3.3%	27.0%	53.8%	151.8%	321.8%	-	**3.4%**
Bank	14.9%	23.7%	65.3%	120.8%	206.9%	401.8%	-	**28.5%**

Sep 20	AAA < A+ $M	A+ < BBB $M	BBB < BB+ $M	BB+ < B+ $M	B+ < CCC $M	CCC $M	Default $M	Total $M
Exposure at Default								
Corporate	24,603	82,128	91,679	56,616	14,593	2,239	2,556	**274,414**
Sovereign	155,797	23,676	3,109	2,253	1,737	13	20	**186,605**
Bank	8,054	28,841	4,099	1,129	43	5	-	**42,171**
Total	**188,454**	**134,645**	**98,887**	**59,998**	**16,373**	**2,257**	**2,576**	**503,190**
% of Total	37.5%	26.7%	19.7%	11.9%	3.3%	0.4%	0.5%	100.0%
Undrawn commitments (included in above)								
Corporate	8,736	33,475	29,496	9,381	1,658	263	180	**83,189**
Sovereign	1,680	86	113	181	23	-	-	**2,083**
Bank	1	555	26	-	1	-	-	**583**
Total	**10,417**	**34,116**	**29,635**	**9,562**	**1,682**	**263**	**180**	**85,855**
Average Exposure at Default								
Corporate	15.011	10.685	2.206	0.856	0.300	0.473	0.830	**1.582**
Sovereign	168.430	215.233	37.458	18.775	48.251	1.636	2.479	**144.655**
Bank	6.820	7.889	5.654	7.953	1.190	0.235	-	**7.321**
Exposure-weighted average Loss Given Default (%)								
Corporate	58.4%	56.1%	46.7%	36.5%	31.6%	43.3%	40.8%	**47.6%**
Sovereign	6.3%	12.0%	35.6%	22.6%	54.8%	63.0%	11.6%	**8.2%**
Bank	57.4%	59.1%	64.3%	67.9%	69.7%	66.9%	-	**59.5%**
Exposure-weighted average risk weight (%)								
Corporate	19.0%	32.5%	53.6%	67.0%	81.8%	234.6%	148.9%	**50.8%**
Sovereign	1.4%	3.3%	33.6%	43.1%	148.7%	280.7%	-	**4.0%**
Bank	15.5%	25.4%	65.5%	120.4%	220.2%	422.3%	-	**30.2%**

Table 9(d): Retail Exposure at Default subject to Advanced Internal Ratings Based (IRB) approach by risk grade

	Sep 21							
	0.00% <0.11% $M	**0.11% <0.30% $M**	**0.30% <0.51% $M**	**0.51% <3.49% $M**	**3.49% <10.09% $M**	**10.09% <100.00% $M**	**Default $M**	**Total $M**
Exposure at Default								
Residential Mortgage	90,803	94,203	68,171	144,757	7,686	2,052	2,577	**410,249**
Qualifying Revolving Retail	5,276	3,256	1,082	2,938	784	397	36	**13,769**
Other Retail	834	4,117	1,797	14,754	6,036	1,644	914	**30,096**
Total	**96,913**	**101,576**	**71,050**	**162,449**	**14,506**	**4,093**	**3,527**	**454,114**
% of Total	21.3%	22.4%	15.6%	35.8%	3.2%	0.9%	0.8%	100.0%
Undrawn commitments (included in above)								
Residential Mortgage	22,974	5,800	1,493	8,781	27	15	-	**39,090**
Qualifying Revolving Retail	3,967	2,471	715	1,284	225	52	2	**8,716**
Other Retail	760	3,277	923	2,996	725	119	24	**8,824**
Total	**27,701**	**11,548**	**3,131**	**13,061**	**977**	**186**	**26**	**56,630**
Average Exposure at Default								
Residential Mortgage	0.262	0.223	0.297	0.332	0.322	0.330	0.308	**0.279**
Qualifying Revolving Retail	0.009	0.008	0.008	0.010	0.010	0.006	0.009	**0.009**
Other Retail	0.008	0.011	0.011	0.020	0.021	0.010	0.031	**0.016**
Exposure-weighted average Loss Given Default (%)								
Residential Mortgage	19.7%	17.3%	19.7%	20.7%	20.1%	20.0%	19.2%	**19.5%**
Qualifying Revolving Retail	72.7%	76.0%	74.6%	78.4%	82.0%	80.4%	75.7%	**75.6%**
Other Retail	58.7%	62.7%	43.5%	40.6%	41.5%	54.1%	43.1%	**45.3%**
Exposure-weighted average risk weight (%)								
Residential Mortgage	4.5%	11.6%	23.0%	44.6%	98.3%	144.9%	187.9%	**27.0%**
Qualifying Revolving Retail	3.4%	8.0%	16.2%	44.5%	112.2%	218.0%	153.3%	**27.0%**
Other Retail	35.4%	43.8%	33.5%	54.1%	79.0%	141.3%	206.7%	**65.3%**

Table 9(d): Retail Exposure at Default subject to Advanced Internal Ratings Based (IRB) approach by risk grade

Mar 21	0.00% <0.11% $M	0.11% <0.30% $M	0.30% <0.51% $M	0.51% <3.49% $M	3.49% <10.09% $M	10.09% <100.00% $M	Default $M	Total $M
Exposure at Default								
Residential Mortgage	90,796	90,181	66,931	144,061	8,339	2,332	2,912	**405,552**
Qualifying Revolving Retail	5,274	3,443	1,137	2,962	852	424	33	**14,125**
Other Retail	798	3,928	1,810	15,305	6,118	1,900	1,029	**30,888**
Total	**96,868**	**97,552**	**69,878**	**162,328**	**15,309**	**4,656**	**3,974**	**450,565**
% of Total	21.5%	21.7%	15.5%	36.0%	3.4%	1.0%	0.9%	100.0%
Undrawn commitments (included in above)								
Residential Mortgage	22,634	5,669	1,589	8,780	29	16	-	**38,717**
Qualifying Revolving Retail	3,786	2,537	738	1,161	207	38	2	**8,469**
Other Retail	729	3,120	922	3,753	980	169	44	**9,717**
Total	**27,149**	**11,326**	**3,249**	**13,694**	**1,216**	**223**	**46**	**56,903**
Average Exposure at Default								
Residential Mortgage	0.260	0.220	0.290	0.320	0.320	0.340	0.310	**0.273**
Qualifying Revolving Retail	0.010	0.010	0.010	0.010	0.010	0.010	0.010	**0.009**
Other Retail	0.010	0.010	0.010	0.020	0.020	0.010	0.030	**0.016**
Exposure-weighted average Loss Given Default (%)								
Residential Mortgage	19.8%	17.6%	19.9%	20.8%	20.2%	20.0%	19.5%	**19.7%**
Qualifying Revolving Retail	72.4%	75.9%	74.6%	78.6%	82.0%	80.2%	75.7%	**75.6%**
Other Retail	59.0%	62.8%	43.4%	40.9%	42.1%	53.3%	44.0%	**45.4%**
Exposure-weighted average risk weight (%)								
Residential Mortgage	4.4%	11.6%	22.5%	44.1%	98.5%	145.3%	192.4%	**27.2%**
Qualifying Revolving Retail	3.4%	7.8%	15.6%	43.0%	102.0%	203.1%	152.6%	**26.0%**
Other Retail	35.3%	44.0%	33.5%	54.3%	80.4%	142.6%	207.0%	**67.0%**

Sep 20	0.00% <0.11% $M	0.11% <0.30% $M	0.30% <0.51% $M	0.51% <3.49% $M	3.49% <10.09% $M	10.09% <100.00% $M	Default $M	Total $M
Exposure at Default								
Residential Mortgage	87,863	85,491	61,628	141,183	9,430	3,117	3,600	**392,312**
Qualifying Revolving Retail	5,305	3,405	1,176	3,371	983	565	41	**14,846**
Other Retail	732	4,075	1,784	15,508	6,538	2,138	1,156	**31,931**
Total	**93,900**	**92,971**	**64,588**	**160,062**	**16,951**	**5,820**	**4,797**	**439,089**
% of Total	21.4%	21.2%	14.7%	36.5%	3.8%	1.3%	1.1%	100.0%
Undrawn commitments (included in above)								
Residential Mortgage	21,988	5,682	1,656	6,792	32	29	1	**36,180**
Qualifying Revolving Retail	3,999	2,641	800	1,506	298	58	2	**9,304**
Other Retail	672	3,297	900	3,088	869	180	29	**9,035**
Total	**26,659**	**11,620**	**3,356**	**11,386**	**1,199**	**267**	**32**	**54,519**
Average Exposure at Default								
Residential Mortgage	0.260	0.220	0.270	0.280	0.310	0.310	0.280	**0.259**
Qualifying Revolving Retail	0.010	0.010	0.010	0.010	0.010	0.010	0.010	**0.009**
Other Retail	0.010	0.010	0.010	0.020	0.020	0.010	0.030	**0.016**
Exposure-weighted average Loss Given Default (%)								
Residential Mortgage	19.7%	17.7%	19.6%	20.8%	20.2%	20.0%	19.7%	**19.7%**
Qualifying Revolving Retail	72.6%	76.0%	74.7%	78.8%	82.1%	81.1%	75.7%	**75.9%**
Other Retail	57.7%	64.3%	44.3%	41.1%	42.3%	53.5%	42.1%	**45.7%**
Exposure-weighted average risk weight (%)								
Residential Mortgage	4.4%	11.6%	21.8%	44.5%	98.4%	144.8%	181.8%	**28.1%**
Qualifying Revolving Retail	3.4%	7.8%	15.6%	43.4%	102.1%	211.1%	117.5%	**29.2%**
Other Retail	37.6%	44.0%	34.4%	54.9%	81.2%	144.6%	190.1%	**68.3%**

Table 9(e): Actual Losses by portfolio type

	Half year Sep 21	
Basel Asset Class	**Individual provision charge $M**	**Write-offs $M**
Corporate	(14)	79
Sovereign	-	-
Bank	-	-
Residential Mortgage	(3)	21
Qualifying Revolving Retail	34	60
Other Retail	52	123
Total Advanced IRB	**69**	**283**
Specialised Lending	(5)	-
Standardised approach	5	3
Total	**69**	**286**

	Half year Mar 21	
Basel Asset Class	**Individual provision charge $M**	**Write-offs $M**
Corporate	49	68
Sovereign	-	-
Bank	-	-
Residential Mortgage	46	71
Qualifying Revolving Retail	33	61
Other Retail	59	126
Total Advanced IRB	**187**	**326**
Specialised Lending	-	1
Standardised approach	-	13
Total	**187**	**340**

	Half year Sep 20	
Basel Asset Class	**Individual provision charge $M**	**Write-offs $M**
Corporate	126	340
Sovereign	-	-
Bank	-	-
Residential Mortgage	39	32
Qualifying Revolving Retail	79	107
Other Retail	133	131
Total Advanced IRB	**377**	**610**
Specialised Lending	3	2
Standardised approach	15	28
Total	**395**	**640**

Factors impacting the loss experience

The individually assessed credit impairment charge decreased by $118 million driven by decreases across the Australia Retail and Commercial (-$73 million) and Institutional (-$40 million) divisions. The decrease in the Australia division was driven by lower impairments in the home loan portfolio as underlying delinquency flows remained subdued due to the impact of various COVID-19 support initiatives, combined with higher write-backs and recoveries in the Commercial portfolio. The decrease in the Institutional division was driven by lower transitions to impaired loans.

Write-offs decreased $54 million over the half predominantly driven decrease in Australia Home loan portfolio.

Table 9(f): Average estimated vs. actual PD, EAD and LGD – Advanced IRB

	Sep 21				
Portfolio Type	**Average Estimated PD %**	**Average Actual PD %**	**Average estimated to actual EAD ratio**	**Average Estimated LGD %**	**Average Actual LGD %**
Corporate	2.04	1.81	1.14	41.38	35.49
Sovereign	0.42	-	n/a	n/a	n/a
Bank	0.62	0.06	1.02	46.00	58.30
Specialised Lending	n/a	1.87	1.06	n/a	29.86
Residential Mortgage	0.79	0.78	1.01	20.3	1.6
Qualifying Revolving Retail	1.96	1.58	1.11	78.7	65.3
Other Retail	3.97	2.75	1.05	51.6	38.0

APS 330 Table 9(f) compares internal credit risk estimates used in calculating regulatory capital with realised outcomes by portfolio types. It covers the PD, EAD and LGD estimates for the IRB portfolios.

Estimated PD and LGD for Specialised Lending exposures have not been provided, since APRA requires the use of supervisory slotting for Regulatory EL calculations. Actual PD, EAD ratio, Estimated LGD and Actual LGD for Sovereign exposures have not been provided, since there were no Sovereign defaults observed in ANZ Sovereign exposures for the observation period.

Wholesale Portfolios
The estimated PD is based on the average of the internally estimated long-run PDs for obligors that are not in default at the beginning of each financial year over the period of observation being 2009 to 2019. The actual PD is based on the number of defaulted obligors up to August 2021 compared to the total number of obligors measured.

The EAD ratio compares internally estimated EAD prior to default to realised EAD for defaulted obligors over the 12 years of observation being 2009 to August 2021. A ratio greater than 1.0 signifies that on average, the actual defaulted exposures are lower than the estimated exposures at the time of default.

The estimated LGD is the downturn LGD for accounts that defaulted at the beginning of each year during the observation period being 2009 to September 2019. The actual LGD is based on the average realised losses captured over the period for the accounts observed at the beginning and defaulted during the observation period. For non-retail portfolios, the estimated and actual LGDs are based on accounts that defaulted up to September 2019. Defaults occurring after September 2019 have been excluded from the analysis to allow sufficient time for workout period. Actual LGD for defaults where workouts were not finalised have been estimated to approximate the final actual loss. Defaults where no loss data has been captured are excluded from the LGD calculation.

A review of historical LGD data is currently being undertaken and may result in changes to Average Actual LGD numbers detailed above.

Retail Portfolios
The estimated PD is based on the average of the internally estimated long-run PDs for obligors that are not in default at the beginning of each financial year over the period of observation being 2015 to 2019. The actual PD is based on the number of defaulted obligors up to September 2020 compared to the total number of obligors measured.

The EAD ratio compares internally estimated EAD prior to default to realised EAD for defaulted obligors over the period of observation being 2015 to 2019. A ratio greater than 1.0 signifies that on average, the actual defaulted exposures are lower than the estimated exposures at the time of default.

The estimated LGD is the downturn LGD for accounts that defaulted at the beginning of each year during the observation period being 2014 to 2019. The actual LGD is based on the average realised losses over the period for the accounts observed at the beginning and defaulted during the observation period. Defaults occurring after September 2019 have been excluded from the analysis to allow sufficient time for workout period.

Table 10 Credit risk mitigation disclosures

Main types of collateral taken by ANZ

Collateral is used to mitigate credit risk, as the secondary source of repayment in case the counterparty cannot meet its contractual repayment obligations.[28] Types of collateral typically taken by ANZ include:

- Charges over residential, commercial, industrial or rural property,
- Charges over business assets,
- Charges over specific plant and equipment,
- Charges over listed shares, bonds or securities,
- Charges over cash deposits, and
- Guarantees and pledges.
- Cash and securities under Credit Support Annex (CSA) and Global Master Repurchase Agreement (GMRA) for Counterparty credit risk in derivative and repo transactions

In some cases, such as where the customer risk profile is considered very sound or by the nature of the product, a transaction may not be supported by collateral.

Our credit policy, requirements and processes set out the acceptable types of collateral, as well as a process by which additional instruments and/or asset types can be considered for approval.

For derivative transactions, APRA's CPS 226 "Margining and risk mitigation for non-centrally cleared derivatives" has mandated Variation Margin and Initial Margin arrangements between covered entities, subject to trading volume thresholds. The operation of collateral agreements falls under a policy which establishes the control framework designed to ensure a robust and globally consistent approach to the management of collateralised exposures, as well as compliance with CPS 226 obligations.

For non-derivative and repo transactions, ANZ's credit risk modelling teams use historical internal loss data and other relevant external data to assist in determining the discount that each type of collateral would be expected to incur in a forced sale. The discounted value is used in the determination of the SI and LGD. For derivative and repo transactions, ANZ haircuts the value of cash and securities collateral under CSA or GMRA to calculate the regulatory EAD, as per APRA's APS 112 and APS 180.

Policies and processes for collateral valuation and management

ANZ has well established policies, requirements and processes around collateral valuation and management that are reviewed regularly. The concepts of legal enforceability, certainty and current valuation are central to collateral management.

In order to achieve legal enforceability and certainty, ANZ uses standard collateral instruments or has specific documentation drawn up by external legal advisers, and where applicable, security interests are registered. The use of collateral management systems also provides certainty that the collateral has been properly taken, registered and stored.

In order to rely on the valuation of collateral assets, ANZ has developed comprehensive rules around acceptable types of valuations (including who may value an asset), frequency of revaluations and standard extension ratios for typical asset types. Upon receipt of a new valuation, the information is used to recalculate the SI (or to reassess the adequacy of the provision, in the case of an impaired asset), thereby ensuring that the exposure has an updated LGD attached to it for risk quantification purposes.

Guarantee support

Within wholesale lending, guarantee support for lending proposals is a common component in transaction structuring for ANZ. The guarantee of a financially stronger party can help improve the PD of a transaction through its explicit support of the weaker rated borrower.

Guarantees that are recognised for risk rating purposes may be provided by parties that include associated entities, banks, sovereigns or individuals. Credit requirements provide threshold parameters to determine acceptable counterparties in achieving risk grade enhancement of the transaction.

The suitability of the guarantor is determined by risk rating that guarantor. Not all guarantees or guarantors are recognised for risk grade enhancement purposes.

[28] For some products, the collateral provided is fundamental to its structuring so is not strictly the secondary source of repayment. For example, lending secured by trade receivables is typically repaid by the collection of those receivables.

Use of credit derivatives for risk mitigation

ANZ may use purchased credit derivatives to mitigate credit risk by lowering exposures to reference entities that generate high concentration risk exposures or to improve risk return performance. Only certain credit derivatives such as credit default swaps (CDS) are recognised for risk mitigation purposes in the determination of regulatory capital. Standard, legally enforceable documentation applies.

For regulatory capital purposes, ANZ only recognises protection using credit derivatives where they meet several policy and regulatory requirements around the strength of the protection offered such as being irrevocable.
A CDS may only be transacted with banks and non-bank financial institutions that have been credit assessed and approved by a designated specialist credit officer. All parties must meet minimum credit standards and be allocated a related credit limit. In the event that the creditworthiness of a credit protection provider falls below the minimum required to provide effective protection, the protection is no longer recognised as an effective risk mitigant for regulatory purposes.

Additionally, ANZ uses market instruments, mainly interest rate and foreign exchange derivatives, as well as CDS Indices to hedge the Credit value adjustment (CVA) mark to market volatility of the markets derivative portfolio.

The use of netting

Netting is a form of credit risk mitigation in that it reduces EAD, by offsetting a customer's positive and negative balances with ANZ.

In order to apply on-balance sheet netting, the arrangement must be specifically documented with the customer and meet a number of legally enforceable requirements.

Netting is also used where the credit exposure arises from off-balance sheet market related transactions. For close-out netting to be utilised with counterparties, a legally enforceable eligible netting agreement in an acceptable jurisdiction must be in place. This means that each transaction is aggregated into a single net amount and transactions are netted to arrive at a single overall sum.

Transaction structuring to mitigate credit risk

Besides collateral, guarantee support and derivatives described above, credit risk mitigation can also be furthered by prudent transaction structuring. For example, the risk in project finance lending can be mitigated by lending covenants, loan syndication and political risk insurance.

Concentrations of credit risk mitigation

Taking collateral raises the possibility that ANZ may inadvertently increase its risk by becoming exposed to collateral concentrations. For example, in the same way that an over-exposure to a particular industry may mean that a bank is more sensitive to the fortunes of that industry, an over-exposure to a particular collateral asset type may make ANZ more sensitive to the performance of that asset type.

ANZ does not believe that it has any material concentrations of collateral types, given the well diversified nature of its portfolio and conservative asset extension ratios.

Additional credit risk mitigation for markets derivatives

Right to break clauses are used in master agreement or in trade confirmation to reduce the term of long dated derivative trades. Additional termination triggers (close out of exposure) such as credit rating downgrade clauses and change in ownership clauses included in documentation are used to reduce credit exposure under specific credit events. ANZ uses central clearing houses to clear certain derivative transactions and reduce bilateral exposure. Settlement through Continuous Linked Settlement (CLS) is used to eliminate settlement risk for foreign exchange transactions with CLS members. On top of exchange of Variation margin and Initial Margin, APRA's CPS 226 also requires to apply risk mitigation practices for un-cleared derivatives between covered counterparties in the areas of trading relationship documentation, trade confirmation, portfolio reconciliation, portfolio compression, valuation processes and dispute resolution processes.

Table 10(b): Credit risk mitigation on Standardised approach portfolios – collateral [29] [30]

Sep 21	Exposure $M	Eligible Financial Collateral $M	Other Eligible Collateral $M	% Coverage
Standardised approach				
Corporate	6,649	563	-	8.5%
Sovereign	27	520	-	
Residential Mortgage	431	-	-	0.0%
Other Retail	16	-	-	0.0%
Total	**7,123**	**1,083**	**-**	**15.2%**

Mar 21	Exposure $M	Eligible Financial Collateral $M	Other Eligible Collateral $M	% Coverage
Standardised approach				
Corporate	6,445	2,523	-	28.1%
Sovereign	69	403	-	85.4%
Residential Mortgage	422	-	-	-
Other Retail	22	-	-	-
Total	**6,958**	**2,926**	**-**	**26.6%**

Sep 20	Exposure $M	Eligible Financial Collateral $M	Other Eligible Collateral $M	% Coverage
Standardised approach				
Corporate	11,344	6,436	-	36.1%
Sovereign	212	1,532	-	87.8%
Residential Mortgage	435	-	-	-
Other Retail	33	-	-	-
Total	**12,024**	**7,968**	**-**	**39.9%**

[29] Eligible Collateral could include cash collateral (cash, certificates deposits and bank bills issued by the lending ADI), gold bullion and highly rated debt securities.

[30] Exposure at Default represents credit exposure net of offsets for credit risk mitigation such as guarantees, credit derivatives, netting and financial collateral.

Table 10(c): Credit risk mitigation – guarantees and credit derivatives[31]

	Sep 21			
	Exposure $M	Exposures covered by Guarantees $M	Exposures covered by Credit Derivatives $M	% Coverage
Advanced IRB				
Corporate (incl. Specialised Lending)	332,971	1,276	786	0.6%
Sovereign	247,455	4,688	-	1.9%
Bank	32,035	1	37	0.1%
Residential Mortgage	410,249	-	-	-
Qualifying Revolving Retail	13,769	-	-	-
Other Retail	30,096	-	-	-
Total	**1,066,575**	**5,965**	**823**	**0.6%**
Standardised approach				
Corporate	6,649	-	4	0.1%
Sovereign	27	-	-	-
Residential Mortgage	431	-	-	-
Other Retail	16	-	-	-
Total	**7,123**	**-**	**4**	**0.1%**
Qualifying Central Counterparties	**6,420**	**-**	**-**	**0.0%**

	Mar 21			
	Exposure $M	Exposures covered by Guarantees $M	Exposures covered by Credit Derivatives $M	% Coverage
Advanced IRB				
Corporate (incl. Specialised Lending)	314,251	1,563	841	0.8%
Sovereign	227,824	4,440	-	1.9%
Bank	35,401	-	18	-
Residential Mortgage	405,552	-	-	-
Qualifying Revolving Retail	14,125	-	-	-
Other Retail	30,888	-	-	-
Total	**1,028,041**	**6,003**	**859**	**0.7%**
Standardised approach				
Corporate	6,445	23	10	0.5%
Sovereign	69	-	-	-
Residential Mortgage	422	-	-	-
Other Retail	22	-	-	-
Total	**6,958**	**23**	**10**	**0.5%**
Qualifying Central Counterparties	**10,192**	**-**	**-**	**0.0%**

[31] Exposure at Default represents credit exposure net of offsets for credit risk mitigation such as guarantees, credit derivatives, netting and financial collateral.

Table 10(c): Credit risk mitigation – guarantees and credit derivatives (continued)

	Sep 20			
	Exposure $M	**Exposures covered by Guarantees $M**	**Exposures covered by Credit Derivatives $M**	**% Coverage**
Advanced IRB				
Corporate (incl. Specialised Lending)	320,844	1,746	1,070	0.9%
Sovereign	186,605	4,907	-	2.6%
Bank	42,171	-	19	-
Residential Mortgage	392,312	-	-	-
Qualifying Revolving Retail	14,846	-	-	-
Other Retail	31,931	-	-	-
Total	**988,709**	**6,653**	**1,089**	**0.8%**
Standardised approach				
Corporate	11,344	29	11	0.4%
Sovereign	212	-	-	
Residential Mortgage	435	-	-	-
Other Retail	33	-	-	-
Total	**12,024**	**29**	**11**	**0.3%**
Qualifying Central Counterparties	**9,684**	**-**	**-**	**-**

Table 11 General disclosures for derivatives and counterparty credit risk

Definition of Counterparty Credit Risk

Counterparty credit risk in derivative transactions arises from the risk of counterparty default before settlement date of derivative contracts and the counterparty is unable to fulfil present and future contractual payment obligations. The amount at risk may change over time as a function of the underlying market parameters up to the positive value of the contract in favor of ANZ.

Counterparty credit risk is present in market instruments (derivatives and forward contracts), and comprises:

- Settlement risk, which arises where one party makes payment or delivers value in the expectation but without certainty that the counterparty will perform the corresponding obligation in a bilateral contract at settlement date.
- Market replacement risk (pre-settlement risk), which is the risk that a counterparty will default during the life of a derivative contract and that a loss will be incurred in covering the position.

ANZ transacts market instruments with the following counterparties:

- End users – would typically use Over the Counter (OTC) derivative instruments provided by ANZ to manage price movement risk associated with their core business activity.
- Professional counterparties – ANZ may hedge price movement risks by entering into transactions with professional counterparties that conduct two-way (buy and sell) business.

Counterparty credit risk requires a different method to calculate exposure at default because actual and potential market movements impact ANZ's exposure or replacement cost over the life of derivative contracts. The markets covered by this treatment include the derivative activities associated with interest rate, foreign exchange, CDS, equity, commodity and repurchase agreement (repo) products.

Counterparty credit risk governance

ANZ's counterparty credit risk management is governed by its credit principles, policies and procedures. The Markets Risk function is responsible for determining the counterparty credit risk exposure methodology applied to market instruments, in the framework for counterparty credit limit management, measurement and reporting.

The counterparty credit risk associated with derivative transactions is governed by credit limit setting consistent with all credit exposures to the ANZ Group. Counterparty credit limits are approved by the appropriate credit delegation holders.

Counterparty credit risk measurement and reporting

The approach to measure counterparty credit risk exposure is based on internal models. These measures are referred to as potential credit risk exposure (PCRE) and potential future exposure (PFE) and measure the maximum credit exposure of derivative transactions at future time points to ANZ. PFE is measured at the 97.5th percentile at future pre-described time points, and PCRE is a 97.5th percentile averaged over time points.

PCRE factors recognise that prices may change over the remaining period to maturity, and that risk decreases as the contract's remaining term to maturity decreases. In general terms PCRE is calculated by applying a risk weighting or volatility factor to the face value of the notional principal of individual trades.

PFE simulates relevant risk factors in a portfolio by taking into account the relevant volatilities and correlations calibrated to historical market data.

Exposure at default for regulatory capital

For regulatory capital the Exposure at Default captures the expected positive mark-to-market of a portfolio in the event of a counterparty default across a one-year time horizon at a 99% confidence level, taking into account any legal documents in force. It is calculated following Standardised Approach for Counterparty Credit Risk (SA-CCR) under APRA's APS180: Capital Adequacy: Counterparty Credit Risk.

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 PD, LGD, and expected credit risk exposure.

APRA requires banks, including ANZ, to hold additional risk based capital to cover the risk of CVA mark to market losses associated with deterioration in counterparty credit worthiness when entering into derivatives transactions.

ANZ uses market instruments, mainly interest rate and foreign exchange derivatives, as well as CDS Indices to hedge the CVA mark to market volatility.

Wrong way risk

ANZ's management of counterparty credit risk also considers the possibility of wrong way risk, which emerges when PD is adversely correlated with counterparty credit risk exposures.

Counterparty credit risk mitigation and credit enhancements

ANZ's primary tools to mitigate counterparty credit risk include:

- A bilateral netting master agreement (e.g. by International Swaps and Derivatives Association – (ISDA)) allowing close-out netting of exposures in a portfolio with offsetting contracts, with a single net payment with the same legal counterparty.
- Use of collateral agreements in some transactions based on standard market documentation (i.e. ISDA master agreement with credit support annex or CSA for derivatives and Global Master Repurchase Agreement or GMRA for repo) that governs the amount of collateral required to be posted or received by ANZ throughout the life of the contract. Reasons for requiring collateral include:
  - Variation Margin – reflects the current mark-to-market exposure.
  - Initial Margin – covers the future potential exposure that could arise from future changes in market value
  - Since March 2017, APRA's CPS 226 "Margining and risk mitigation for non-centrally cleared derivatives" has mandated Variation Margin and Initial Margin arrangements between covered entities, subject to trading volume thresholds. The operation of collateral agreements falls under a policy which establishes the control framework designed to ensure a robust and globally consistent approach to the management of collateralised exposures, as well as compliance with CPS 226 obligations.
  - APRA's CPS 226 also requires ADIs to apply risk mitigation practices for un-cleared derivatives between covered counterparties in the areas of trading relationship documentation, trade confirmation, portfolio reconciliation, portfolio compression, valuation processes and dispute resolution processes.
- Use of right to break clauses in master agreements or in trade confirmation to reduce the term of long dated derivative trades.
- Independent limit setting, credit exposure control, monitoring and reporting of excesses against approved credit limits.
- Additional termination triggers (close out of exposure) such as credit rating downgrade clauses and change in ownership clauses included in documentation to reduce credit exposure under specific credit events.
- Linking covenants and events of default in existing loan facility agreements to master agreements.
- Use of credit derivatives and market instruments to hedge CVA
- Settlement through Continuous Linked Settlement (CLS) to eliminate settlement risk for foreign exchange transactions with CLS members.
- Clearing certain derivative transactions through central counterparties clearing houses.
- A specific risk appetite for Credit Valuation Adjustment (CVA) exposures, approved by the Board.
- Design and implementation of limit framework and monitoring of CVA exposures, to ensure CVA exposure is within Risk appetite.

In the event of a downgrading of ANZ's rating by one notch from AA- to A+, as at 30 September 2021, ANZ would not be required to lodge additional collateral with its counterparties.

In August 2021, the Group amended the terms of its legal agreements with one of its central clearing counterparties giving effect to this form of legal settlement. As a result of this change, collateral paid and received by the Group under these agreements is no longer separately recognised, instead settling the Group's outstanding derivative exposures and reducing the associated carrying values of the derivative asset and liability balances.

Table 11(b): Counterparty credit risk – net derivative credit exposure

	Sep 21 $M	Mar 21 $M	Sep 20 $M
Gross positive fair value of contracts	38,736	104,666	135,331
Netting benefits	(23,810)	(88,484)	(118,097)
Netted current credit exposure	14,926	16,182	17,234
Collateral held	(5,663)	(6,286)	(6,287)
Net derivatives credit exposure	**9,263**	**9,896**	**10,947**

Counterparty credit risk exposure - by portfolio type

Portfolio Type	**Sep 21 $M**	**Mar 21 $M**	**Sep 20 $M**
Corporate	18,375	18,812	20,222
Sovereign	3,280	3,430	5,212
Bank	12,083	13,313	14,645
Qualifying Central Counterparties	6,239	9,996	9,223
Specialised Lending	960	1,063	1,661
Total exposures	**40,937**	**46,614**	**50,963**

Notional Value of Credit Derivative Hedges

Product Type	**Sep 21 $M**	**Mar 21 $M**	**Sep 20 $M**
Credit Default Swaps	-	-	343
Interest Rate Swaps	-	-	-
Currency Swaps	-	-	-
Other	-	-	-
Total exposures	**-**	**-**	**343**

Table 11(c): Counterparty credit risk exposure – credit derivative transactions

	Sep 21		
	Protection Bought $M	**Protection Sold $M**	**Total $M**
Credit derivative products used for own credit portfolio			
Credit default swaps	6,755	2,764	9,519
Total notional value	**6,755**	**2,764**	**9,519**
Credit derivative products used for intermediation			
Credit default swaps	-	-	-
Total return swaps	-	-	-
Total notional value	**-**	**-**	**-**
Total credit derivative notional value	**6,755**	**2,764**	**9,519**

	Mar 21		
	Protection Bought $M	**Protection Sold $M**	**Total $M**
Credit derivative products used for own credit portfolio			
Credit default swaps	4,564	414	4,978
Total notional value	**4,564**	**414**	**4,978**
Credit derivative products used for intermediation			
Credit default swaps	-	-	-
Total return swaps	-	-	-
Total notional value	**-**	**-**	**-**
Total credit derivative notional value	**4,564**	**414**	**4,978**

	Sep 20		
	Protection Bought $M	**Protection Sold $M**	**Total $M**
Credit derivative products used for own credit portfolio			
Credit default swaps	4,157	636	4,793
Total notional value	**4,157**	**636**	**4,793**
Credit derivative products used for intermediation			
Credit default swaps	343	343	686
Total return swaps	-	-	-
Total notional value	**343**	**343**	**686**
Total credit derivative notional value	**4,500**	**979**	**5,479**

Chapter 6 – Securitisation

Table 12 Securitisation disclosures

Definition of securitisation

A securitisation is a financial structure where the cash flow from a pool of assets is used to service obligations to at least two different tranches or classes of creditors, typically holders of debt securities, with each class or tranche reflecting a different degree of credit risk. This stratification of credit risk means that one class of creditors is entitled to receive payments from the pool before another class.

Securitisation of ANZ originated assets

Securitisations may be categorised as:

- Traditional securitisations, where legal ownership of the underlying asset pool is transferred to investors, with principal and interest paid from realisation of or regular cash flows from the assets. The Special Purpose Vehicle (SPV) assets are insulated from bankruptcy of the seller or servicer.

- Synthetic securitisations, where credit risk is transferred to a third party but legal ownership of the underlying assets remain with the originator e.g. by using credit derivatives or guarantees.

Covered bond transactions, whereby bonds issued by ANZ are secured by assets held in a special purpose vehicle, are not securitisation exposures.

ANZ adopts securitisation as a funding, capital and liquidity management tool using assets it has originated. This may involve the transfer of credit risk i.e. may provide regulatory capital relief. ANZ also operates a self-securitisation program, backed by a pool of residential mortgages, which forms part of the Bank's liquidity arrangements through access to government sponsored facilities including the Committed Liquidity Facility and the Term Funding Facility.

For these securitisation programs, ANZ will undertake roles including as the originator, sponsor, servicer and trust manager. ANZ may retain an exposure to these securitisation programs (including as facility provider and swap provider), consistent with the roles described below in 'Third Party Securitisation Activities' and facilities provided as described below in 'Risk Management'.

Third Party Securitisation Activities

ANZ's involvement with securitisation of third-party originated assets, including residential mortgages, auto and equipment loans and trade receivables, comprises of:

- Provision of facilities – this may include providing facilities to securitisation vehicles in the form of funding facility provider and interest rate swap provider. Funding may be provided via an ANZ-sponsored securitisation vehicle which is consolidated onto the Bank's financial statements, to certain clients wishing to access securitisation.
- Services to securitisation programs may include structuring and arranging services and distributing securities.
- Investment in securities – ANZ may purchase notes issued by securitisation programs.

For any assets ANZ has securitised or for SPVs that ANZ sponsors, any role provided by ANZ or its subsidiaries is subject to market based terms and conditions, and ANZ's normal approval and review processes. Further, any securitisation exposures retained by ANZ or its affiliated entities are subject to ANZ's normal approval and review processes as well as satisfying the requirements under APS 120: Securitisation.

Governance and Risk Management

Similar to other exposures, securitisation exposures are subject to credit, market, operational liquidity and compliance risks. Governance of securitisation activities is managed in accordance with ANZ's established risk management framework, including the credit risk and market risk frameworks described in Chapters 5 and 7. Roles and responsibilities are clearly outlined in the Bank's policies and procedures, including:

- Appropriate risk management systems to identify, measure, monitor and manage the risks arising from its involvement in securitisation exposures;

- Impact of ANZ's involvement in securitisation exposures on its risk profile; and

- How ANZ ensures that it does not provide any implicit support to securitisations with ANZ originated assets.

Funding third party originated exposures and investment in securities are via balance sheet funded arrangements where such arrangements satisfy ANZ's credit, due diligence and other business requirements.

Many functions within ANZ are involved in securitisation activities given the range of activities undertaken and risks that need to be managed. For origination and structuring of securitisation transactions, ANZ has a specialist securitisation team with independent Risk personnel overseeing operations. Credit decisions require joint approval by Risk business unit and respective independent credit risk officer. The securitisation team must be involved in all non-trading securitisation transactions across ANZ, which ensures consistent expert treatment. Where ANZ invests in instruments issued by securitisation programs, oversight of these exposures by securitisation specialists continue until the securitisation exposures are repaid in full or sold.

All facilities provided to our investments in securitisation programs (across both the banking and trading books) undergo initial and ongoing due diligence requirements as outlined by APRA. This includes analysing the risk characteristics of the securitisation exposure, structure of the transaction and monitoring performance of the underlying assets of the transaction. In addition, such securitisation exposures are formally reviewed at least annually with credit discretions being exercised.

Risk reporting of securitisation exposures

Credit risk management information systems, reporting and analysis are managed centrally for all securitisation exposures. In addition to the formal credit review process for ANZ's securitisation exposures, internal reporting to the appropriate Risk and management functions provides oversight at the portfolio level. These reports include securitisation program performance, EAD, portfolio mix, and RWA.

The use and treatment of Credit Risk Mitigation (CRM) techniques with respect to securitisation exposures is assessed on a case-by-case basis in a manner consistent with the bank-wide CRM methodology[32].

Regulatory capital approaches

For securitisation exposures held in ANZ's banking book[33], ANZ adopts a Standardised approach (as outlined in APS 120: Securitisation) to determine the credit risk regulatory capital charge via a hierarchy of approaches.

The primary rating approach is the External Ratings Based Approach (ERBA). For externally rated securitisation exposures that satisfy the operational requirements for external credit assessments, ANZ calculates credit risk regulatory capital based upon the ratings assigned by Standard & Poor's, Moody's Investor Services and/or Fitch Ratings as appropriate, seniority of the securitisation exposure and the tenor of the securitisation exposure.

If ERBA is not applicable, ANZ adopts the Supervisory Formula Approach (SFA) for securitisation exposures. In this case, the credit risk regulatory capital calculation takes into account the type and performance of the underlying assets of the securitisation and the credit support provided to the securitisation exposure.

In relation to securitisation of ANZ originated assets, where:

- the significant credit risk transfer requirements have been satisfied under APS 120, ANZ is not required to hold credit risk regulatory capital for the underlying assets of the securitisation, however credit risk regulatory capital is calculated for the facilities provided to the securitisation;
- in absence of significant credit risk transfer being satisfied under APS 120, ANZ holds credit risk regulatory capital for the underlying assets of the securitisation however the credit risk regulatory capital for facilities provided to the securitisation is not required to be calculated.

Chapter 7 outlines regulatory capital treatment for securitisation exposures held in ANZ's trading book. In addition, the operational requirements for the recognition of external credit assessments outlined in APS 120 also apply to these exposures.

[32] For example, various types of analysis including quantitative analysis of credit enhancements are performed for non-externally rated transactions. Factors such as geography, facility/transaction type and ANZ's role will determine the applicable CRM techniques to apply.

[33] Exposures are classified into either the trading book or the banking book. In general terms, the trading book consists of positions in financial instruments and commodities held with trading intent or in order to hedge other elements of the trading book, and the banking book contains all other exposures. Banking book exposures are typically held to maturity, in contrast to the shorter term, trading nature of the trading book.

Accounting policies

A key consideration in determining the treatment of transactions involving ANZ assets is whether the securitisation special purpose vehicles (SPVs) should be consolidated under AASB 10: Consolidated Financial Statements. If these SPVs meet the criteria for consolidation, the assets remain on ANZ's balance sheet and are classified and valued in accordance with AASB 9: Financial Instruments. Currently, transactions with all of ANZ's securitisation SPVs are treated as financing transactions. Securitisation services based on customer's generated assets include warehouse and term fund facilities which are treated as loans.

For synthetic securitisations of ANZ originated assets, any transferred credit exposure is recognised through the fair value measurement of the credit derivative established within the structure.

Full details of the principal accounting policies governing ANZ's securitisation activities are outlined in ANZ's 2021 Annual Report, Notes to the Financial Statements. These include the valuation, derecognition, consolidation and income recognition principles outlined in the accounting policies and key judgements and estimates disclosures in each relevant note. Note 27 – Structured Entities and Note 28 – Transfers of Financial Assets also provides details about the nature of ANZ's securitisation activities and certain accounting policies as they specifically apply to these activities.

During the 2021 financial year, ANZ changed its accounting policy for the separate ANZ BGL (parent company) financial statements regarding intragroup positions with consolidated securitisation structured entities. ANZ recognises a net nil position with the securitisation structured entities to reflect the economic substance of fully offsetting transactions when ANZ transfers mortgages to the structured entities but also holds all of the notes issued by the structured entities. This change in accounting policy does not impact the consolidated financial statements of the ANZ Group. These intra-group transactions are internal to the Level 1 and Level 2 groups and have no impact on the disclosures in this document. Further details of the impact are included in Note 35 of ANZ's 2021 Annual Report.

There have been no other changes to the application of accounting policies in relation to securitisation activities since the prior year.

To the extent that ANZ has exposures intended to be securitised, they could reside in either the banking or trading book.

To the extent that ANZ has entered into contractual arrangements that could require it to provide financial support for securitised assets e.g. liquidity facilities, these are recognised in accordance with the accounting policies set out in ANZ's 2021 Annual Report.

Banking Book

Table 12(g): Banking Book: Traditional and synthetic securitisation exposures

	Sep 21		
Traditional securitisations **Underlying asset**	**ANZ Originated $M**	**ANZ Self Securitised $M**	**ANZ Sponsored $M**
Residential mortgage	1,396	76,895	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
Commercial loans	-	-	-
Other	-	-	-
Total	**1,396**	**76,895**	**-**

Synthetic securitisations **Underlying asset**	**ANZ Originated $M**	**ANZ Self Securitised $M**	**ANZ Sponsored $M**
Residential mortgage	-	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
Commercial loans	-	-	-
Other	-	-	-
Total	**-**	**-**	**-**

Aggregate of traditional and synthetic securitisations **Underlying asset**	**ANZ Originated $M**	**ANZ Self Securitised $M**	**ANZ Sponsored $M**
Residential mortgage	1,396	76,895	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
Commercial loans	-	-	-
Other	-	-	-
Total	**1,396**	**76,895**	**-**

Table 12(g): Banking Book: Traditional and synthetic securitisation exposures (continued)

Mar 21

Traditional securitisations Underlying asset	ANZ Originated $M	ANZ Self Securitised $M	ANZ Sponsored $M
Residential mortgage	1,587	72,153	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
Commercial loans	-	-	-
Other	-	-	-
Total	**1,587**	**72,153**	**-**

Synthetic securitisations Underlying asset	ANZ Originated $M	ANZ Self Securitised $M	ANZ Sponsored $M
Residential mortgage	-	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
Commercial loans	-	-	-
Other	-	-	-
Total	**-**	**-**	**-**

Aggregate of traditional and synthetic securitisations Underlying asset	ANZ Originated $M	ANZ Self Securitised $M	ANZ Sponsored $M
Residential mortgage	1,587	72,153	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
Commercial loans	-	-	-
Other	-	-	-
Total	**1,587**	**72,153**	**-**

Sep 20

Traditional securitisations Underlying asset	ANZ Originated $M	ANZ Self Securitised $M	ANZ Sponsored $M
Residential mortgage	1,793	85,239	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
Commercial loans	-	-	-
Other	-	-	-
Total	**1,793**	**85,239**	**-**

Synthetic securitisations Underlying asset	ANZ Originated $M	ANZ Self Securitised $M	ANZ Sponsored $M
Residential mortgage	-	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
Commercial loans	-	-	-
Other	-	-	-
Total	**-**	**-**	**-**

Aggregate of traditional and synthetic securitisations Underlying asset	ANZ Originated $M	ANZ Self Securitised $M	ANZ Sponsored $M
Residential mortgage	1,793	85,239	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
Commercial loans	-	-	-
Other	-	-	-
Total	**1,793**	**85,239**	**-**

Table 12(h): Banking Book: Impaired and Past due loans relating to ANZ originated securitisations

	Sep 21				
Underlying asset	**ANZ originated $M**	**ANZ Self Securitised $M**	**Impaired $M**	**Past due $M**	**Losses recognised for the six month ended $M**
Residential mortgage	1,396	76,895	-	53	-
Credit cards and other personal loans	-	-	-	-	-
Auto and equipment finance	-	-	-	-	-
Commercial loans	-	-	-	-	-
Other	-	-	-	-	-
Total	**1,396**	**76,895**	**-**	**53**	**-**

	Mar 21				
Underlying asset	**ANZ originated $M**	**ANZ Self Securitised $M**	**Impaired $M**	**Past due $M**	**Losses recognised for the six month ended $M**
Residential mortgage	1,587	72,153	-	57	-
Credit cards and other personal loans	-	-	-	-	-
Auto and equipment finance	-	-	-	-	-
Commercial loans	-	-	-	-	-
Other	-	-	-	-	-
Total	**1,587**	**72,153**	**-**	**57**	**-**

	Sep 20				
Underlying asset	**ANZ originated $M**	**ANZ Self Securitised $M**	**Impaired $M**	**Past due $M**	**Losses recognised for the six month ended $M**
Residential mortgage	1,793	85,239	-	214	-
Credit cards and other personal loans	-	-	-	-	-
Auto and equipment finance	-	-	-	-	-
Commercial loans	-	-	-	-	-
Other	-	-	-	-	-
Total	**1,793**	**85,239**	**-**	**214**	**-**

Table 12(i): Banking Book: Total amount of outstanding exposures intended to be securitised

No assets from ANZ's Banking Book were intended to be securitised as at the reporting date.

Table 12(j): Banking Book: Securitisation - Summary of current period's activity by underlying asset type and facility [34]

Sep 21				
Securitisation activity by underlying asset type	Original value securitised ANZ Originated $M	ANZ Self Securitised $M	ANZ Sponsored $M	Recognised gain or loss on sale $M
Residential mortgage	(191)	4,742	-	-
Credit cards and other personal loans	-	-	-	-
Auto and equipment finance	-	-	-	-
Commercial loans	-	-	-	-
Other	-	-	-	-
Total	**(191)**	**4,742**	**-**	**-**

Securitisation activity by facility provided	Notional amount $M
Liquidity facilities	-
Funding facilities	(600)
Underwriting facilities	-
Lending facilities	-
Credit enhancements	-
Holdings of securities (excluding trading book)	204
Other	9
Total	**(387)**

Mar 21				
Securitisation activity by underlying asset type	Original value securitised ANZ Originated $M	ANZ Self Securitised $M	ANZ Sponsored $M	Recognised gain or loss on sale $M
Residential mortgage	(206)	(13,086)	-	-
Credit cards and other personal loans	-	-	-	-
Auto and equipment finance	-	-	-	-
Commercial loans	-	-	-	-
Other	-	-	-	-
Total	**(206)**	**(13,086)**	**-**	**-**

Securitisation activity by facility provided	Notional amount $M
Liquidity facilities	-
Funding facilities	500
Underwriting facilities	-
Lending facilities	-
Credit enhancements	-
Holdings of securities (excluding trading book)	140
Other	17
Total	**657**

[34] Activity represents net movement in outstandings.

Table 12(j): Banking Book: Securitisation - Summary of current period's activity by underlying asset type and facility (continued)

	Sep 20			
	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	(315)	(48,411)	-	-
Credit cards and other personal loans	-	-	-	-
Auto and equipment finance	-	-	-	-
Commercial loans	-	-	-	-
Other	-	-	-	-
Total	**(315)**	**(48,411)**	**-**	**-**

Securitisation activity by facility provided	Notional amount $M
Liquidity facilities	-
Funding facilities	701
Underwriting facilities	-
Lending facilities	-
Credit enhancements	-
Holdings of securities (excluding trading book)	(117)
Other	23
Total	**607**

Table 12(k): Banking Book: Securitisation - Regulatory credit exposures by exposure type

Securitisation exposure type - On balance sheet	Sep 21 $M	Mar 21 $M	Sep 20 $M
Liquidity facilities	-	-	-
Funding facilities	7,696	9,028	8,480
Underwriting facilities	-	-	-
Lending facilities	-	-	-
Credit enhancements	-	-	-
Holdings of securities (excluding trading book)	2,624	2,420	2,280
Protection provided	-	-	-
Other	177	245	330
Total	**10,497**	**11,693**	**11,090**

Securitisation exposure type - Off Balance Sheet	Sep 21 $M	Mar 21 $M	Sep 20 $M
Liquidity facilities	15	17	19
Funding facilities	2,084	2,000	2,112
Underwriting facilities	-	-	-
Lending facilities	-	-	-
Credit enhancements	-	-	-
Holdings of securities (excluding trading book)	-	-	-
Protection provided	-	-	-
Other	-	-	-
Total	**2,099**	**2,017**	**2,131**

Total Securitisation exposure type	Sep 21 $M	Mar 21 $M	Sep 20 $M
Liquidity facilities	15	17	19
Funding facilities	9,780	11,028	10,592
Underwriting facilities	-	-	-
Lending facilities	-	-	-
Credit enhancements	-	-	-
Holdings of securities (excluding trading book)	2,624	2,420	2,280
Protection provided	-	-	-
Other	177	245	330
Total	**12,596**	**13,710**	**13,221**

Table 12(l) part (i): Banking Book: Securitisation - Regulatory credit exposures by risk weight band

	Sep 21		Mar 21		Sep 20	
Securitisation risk weights	**Regulatory credit exposure $M**	**Risk weighted assets $M**	**Regulatory credit exposure $M**	**Risk weighted assets $M**	**Regulatory credit exposure $M**	**Risk weighted assets $M**
≤ 25%	12,596	2,056	13,710	2,220	13,221	2,125
>25 ≤ 35%	-	-	-	-	-	-
>35 ≤ 50%	-	-	-	-	-	-
>50 ≤ 75%	-	-	-	-	-	-
>75 ≤ 100%	-	-	-	-	-	-
>100 ≤ 650%	-	-	-	-	-	-
1250% (Deduction)	-	-	-	-	-	-
Total	**12,596**	**2,056**	**13,710**	**2,220**	**13,221**	**2,125**

	Sep 21		Mar 21		Sep 20	
Resecuritisation risk weights	**Regulatory credit exposure $M**	**Risk weighted assets $M**	**Regulatory credit exposure $M**	**Risk weighted assets $M**	**Regulatory credit exposure $M**	**Risk weighted assets $M**
≤ 25%	-	-	-	-	-	-
>25 ≤ 35%	-	-	-	-	-	-
>35 ≤ 50%	-	-	-	-	-	-
>50 ≤ 75%	-	-	-	-	-	-
>75 ≤ 100%	-	-	-	-	-	-
>100 ≤ 650%	-	-	-	-	-	-
1250% (Deduction)	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**

	Sep 21		Mar 21		Sep 20	
Total Securitisation risk weights	**Regulatory credit exposure $M**	**Risk weighted assets $M**	**Regulatory credit exposure $M**	**Risk weighted assets $M**	**Regulatory credit exposure $M**	**Risk weighted assets $M**
≤ 25%	12,596	2,056	13,710	2,220	13,221	2,125
>25 ≤ 35%	-	-	-	-	-	-
>35 ≤ 50%	-	-	-	-	-	-
>50 ≤ 75%	-	-	-	-	-	-
>75 ≤ 100%	-	-	-	-	-	-
>100 ≤ 650%	-	-	-	-	-	-
1250% (Deduction)	-	-	-	-	-	-
Total	**12,596**	**2,056**	**13,710**	**2,220**	**13,221**	**2,125**

Table 12(l) part (ii): Banking Book: Securitisation - Aggregate securitisation exposures deducted from Capital

No longer required under Basel III; defaulted exposures are given a risk weight of 1250% and no longer deducted from Capital.

Table 12(m): Banking Book: Securitisations subject to early amortisation treatment

ANZ does not have any Securitisations subject to early amortisation treatment or using Standardised approach.

Table 12(n): Banking Book: Resecuritisation - Aggregate amount of resecuritisation exposures retained or purchased

ANZ does not have any retained or purchased Resecuritisation exposures.

Trading Book

Table 12(o): Trading Book: Traditional and synthetic securitisation exposures

No assets from ANZ's Trading Book were securitised during the reporting period.

Table 12(p): Trading Book: Total amount of outstanding exposures intended to be securitised

No assets from ANZ's Trading Book were intended to be securitised as at the reporting date.

Table 12(q): Trading Book: Securitisation - Summary of current year's activity by underlying asset type and facility

No assets from ANZ's Trading Book were securitised during the reporting period.

Table 12(r): Trading Book: Traditional and synthetic securitisation exposures

No assets from ANZ's Trading Book were securitised during the reporting period.

Table 12(s): Trading Book: Securitisation – Regulatory credit exposures by exposure type

ANZ does not have any Regulatory credit exposures by exposure type.

Table 12(t)(i) & Table 12(u)(i): Trading Book: Aggregate securitisation exposures subject to Internal Models Approach (IMA) and the associated Capital requirements

ANZ does not have any Securitisation exposures subject to Internal Models Approach.

Table 12(t)(ii) & Table 12(u)(ii): Trading Book: Aggregate securitisation exposures subject to APS 120 and the associated Capital requirements

ANZ does not have any aggregate Securitisation exposures subject to APS120 and the associated Capital requirements.

Table 12(u)(iii): Trading Book: Securitisation - Aggregate securitisation exposures deducted from Capital

ANZ does not have any Securitisation exposures deducted from Capital.

Table 12(v): Trading Book: Securitisations subject to early amortisation treatment

ANZ does not have any Securitisation exposures subject to early amortisation or using Standardised approach.

Table 12(w): Trading Book: Resecuritisation - Aggregate amount of resecuritisation exposures retained or purchased

ANZ does not have any retained or purchased Resecuritisation exposures.

Chapter 7 – Market risk

Table 13 Market risk – Standard approach

ANZ uses the standard model approach to measure market risk capital for specific risk[35] (APRA does not currently permit Australian banks to use an internal model approach for this).

Table 13(b): Market risk – Standard approach [36]

	Sep 21 $M	Mar 21 $M	Sep 20 $M
Interest rate risk	134	134	138
Equity position risk	-	-	-
Foreign exchange risk	-	-	-
Commodity risk	-	-	-
Total	**134**	**134**	**138**
Risk Weighted Assets equivalent	**1,675**	**1,675**	**1,725**

[35] Specific risk is the risk that the value of a security will change due to issuer-specific factors. It applies to interest rate and equity positions related to a specific issuer.

[36] RWA equivalent is the capital requirement multiplied by 12.5 in accordance with APS 110.

Table 14 Market risk – Internal models approach

Definition and scope of market risk

Market Risk stems from ANZ's trading and balance sheet activities and is the risk to ANZ's earnings or economic value arising from changes in interest rates, foreign exchange rates, credit spreads, volatility, correlations or from fluctuations in bond, commodity or equity prices.

Market risk management of IRRBB is described in Chapter 10 and is excluded from this Chapter.

Regulatory approval to use the Internal Models Approach

ANZ has been approved by APRA to use the Internal Models Approach (IMA) under APS 116 Capital Adequacy: Market Risk for general market risk and under APS 117 Capital Adequacy: Interest Rate Risk in the Banking Book (Advanced ADIs) for interest rate risk in the banking book (IRRBB).

Governance of market risk

The Board Risk Committee supervision of market risk is supported by the Credit and Market Risk Committee (CMRC). CMRC is responsible for the oversight and control of credit, market, insurance and material financial risks across the ANZ Group and meets at least monthly.

The Market Risk function is a specialist risk management unit independent of the business that is responsible for:

- Designing and implementing policies and procedures to ensure market risk exposures are managed within the appetite and limit framework set by the Board.
- Measuring and monitoring market risk exposures, and approving counterparty and associated risks.
- The ongoing effectiveness and appropriateness of the risk management framework.

Traded Market Risk

Traded Market Risk is the risk of loss from changes in the value of financial instruments due to movements in price factors for both physical and derivative trading positions. Trading positions arise from transactions where ANZ acts as principal with customers, financial exchanges or inter-bank counterparties.

The Traded, Foreign Exchange and Commodity Market Risk Policy and accompanying procedures (together the "TFC Framework") governs the management of traded market risk and its key components include:

- A clear definition of the trading book.
- A comprehensive set of requirements that promote the proactive identification and communication of risk.
- A robust Value at Risk (VaR) quantification approach supplemented by comprehensive stress testing.
- A comprehensive limit framework that controls all material market risks.
- An independent Market Risk function with specific responsibilities.
- Regular and effective reporting of market risk to executive management and the Board.

Non-Traded Market Risk

Non-Traded Market Risk is the market risk associated with the management of non-traded interest rate risk, liquidity risk and foreign exchange exposures from the Group's foreign currency capital and earnings.

Included in Non-Traded Market risk is Interest Rate Risk in the Banking Book (IRRBB). This is the risk of loss arising from adverse changes in the overall and relative level of interest rates for different tenors, differences in the actual versus expected net interest margin, and the potential valuation risk associated with embedded options in financial instruments and bank products.

In quantifying risk, all material market risk factors need to be identified and reflected within the risk measurement approach. Non-traded market risk (or balance sheet risk) comprises the management of non-traded interest rate risk, liquidity risk, and foreign exchange exposures from the Group's foreign currency capital and earnings.

ANZ has a detailed market risk management and control framework, to support its balance sheet activities, which incorporates an independent risk measurement approach to quantify the magnitude of market risk within the trading and balance sheet portfolios. This approach, along with related analysis, identifies the range of possible outcomes that can be expected over a given period of time, and establishes the likelihood of those outcomes and allocates an appropriate amount of capital to support these activities.

Markets Risk is a specialist risk management unit independent of the business that is responsible for measuring and monitoring market risk. Markets Risk has implemented policies and procedures to keep ANZ's market risk exposures managed within the appetite and limit framework set by the Board.

Measurement of Traded Market Risk

ANZ's traded market risk management framework incorporates a risk measurement approach to quantify the magnitude of market risk within trading books. This approach and related analysis identifies the range of possible outcomes that can be expected over a given period of time and establishes the relative likelihood of those outcomes.

ANZ's key tools to measure and manage traded market risk on a daily basis are VaR, sensitivity measures and stress tests. VaR is calculated using a historical simulation with a 500-day observation period for standard VaR, and a one-year stressed period for stressed VaR. Traded VaR is calculated at a 99% confidence level for one and ten-day holding periods for Standard VaR, and a ten-day holding period for stressed VaR. All material market risk factors and all trading portfolios are captured within the VaR model, with the exception of specific risk for interest rates, equity trading, for which capital is calculated using the Standardised approach.

ANZ also undertakes a wide range of stress tests on the Group trading portfolio and to individual trading portfolios. Standard stress tests are applied daily measuring the potential loss that could arise from the largest market movements observed since 2008 over specific holding periods. Holding periods used to calculate stress parameters differ and reflect the relative liquidity of each product type. Results from stress testing on plausible severe scenarios are also calculated daily.

VaR and stress tests are supplemented by loss limits and detailed control limits. Loss limits are designed to ensure that in the event of continued losses from a trading activity, the trading activity is stopped and senior management reviews before trading resumed. Where necessary, detailed control limits such as sensitivity or position limits are also in place to ensure appropriate control is exercised over a specific risk or product.

Comparison of VaR estimates to gains/losses

Back testing involves comparing VaR calculations with corresponding profit and loss to identify how often trading losses exceed the calculated VaR. For APRA back testing purposes, VaR is calculated at the 99% confidence interval with a one-day holding period.

Back testing is conducted daily, and outliers are analysed to determine whether they are the result of trading decisions, systemic changes in market conditions or issues related to the VaR model (historical data or model calibration).

ANZ uses actual and hypothetical profit and loss data. Hypothetical data is designed to remove the impacts of intraday trading and sales margins. It is calculated as the difference between the value of the prior day portfolio at prior day closing rates and the value at current day closing rates. Markets Finance calculates actual profit and loss while Market Risk calculates hypothetical profit and loss.

Table 14(f): Value at Risk (VaR) and stressed VaR over the reporting period [37]

	Six months ended Sep 21			
99% 1 Day Value at Risk (VaR)	**Mean $M**	**Maximum $M**	**Minimum $M**	**Period end $M**
Foreign Exchange	3.1	5.5	1.3	3.8
Interest Rate	7.5	12.9	4.6	9.6
Credit	13.1	21.8	5.3	6.3
Commodity	3.1	5.0	2.0	3.1
Equity	-	-	-	-

	Six months ended Mar 21			
99% 1 Day Value at Risk (VaR)	**Mean $M**	**Maximum $M**	**Minimum $M**	**Period end $M**
Foreign Exchange	4.6	10.0	2.0	3.2
Interest Rate	10.0	19.5	4.4	6.4
Credit	14.4	22.2	9.3	14.8
Commodity	2.4	3.4	1.3	2.6
Equity	-	-	-	-

	Six months ended Sep 20			
99% 1 Day Value at Risk (VaR)	**Mean $M**	**Maximum $M**	**Minimum $M**	**Period end $M**
Foreign Exchange	3.5	5.2	2.0	2.0
Interest Rate	9.3	14.0	4.5	9.6
Credit	13.1	17.1	3.6	13.9
Commodity	2.9	4.7	1.3	3.0
Equity	-	-	-	-

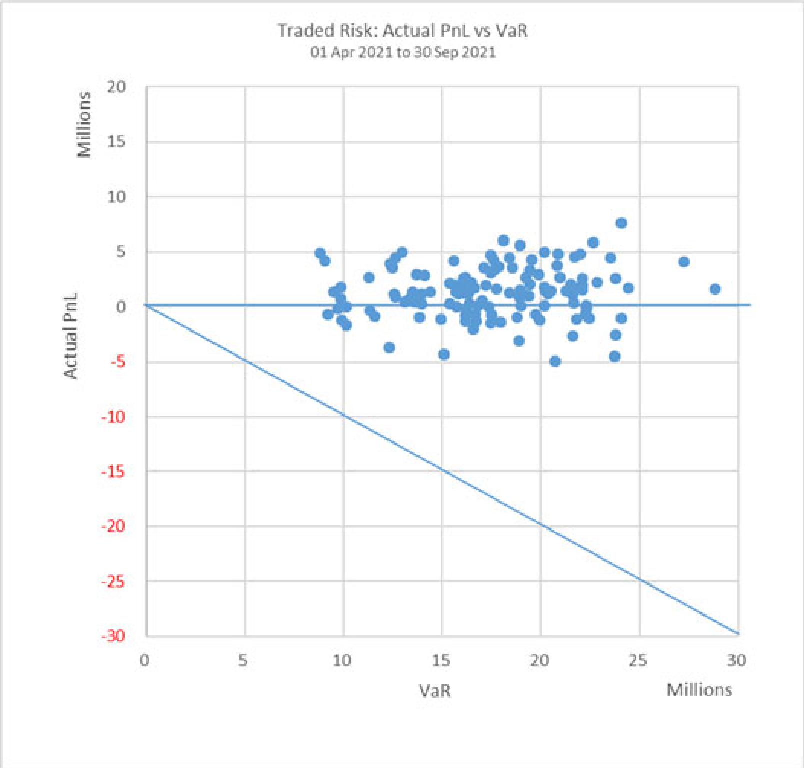
	Six months ended Sep 21			
99% 10 Day Stressed VaR	**Mean $M**	**Maximum $M**	**Minimum $M**	**Period end $M**
Foreign Exchange	29.5	55.8	14.3	31.0
Interest Rate	48.8	88.2	27.1	74.1
Credit	47.1	65.9	26.6	30.0
Commodity	31.5	38.8	24.5	25.2
Equity	-	-	-	-

	Six months ended Mar 21			
99% 10 Day Stressed VaR	**Mean $M**	**Maximum $M**	**Minimum $M**	**Period end $M**
Foreign Exchange	39.8	116.0	12.5	16.5
Interest Rate	52.8	99.2	23.2	26.5
Credit	49.1	64.5	34.1	47.1
Commodity	29.1	36.8	16.1	29.8
Equity	-	-	-	-

	Six months ended Sep 20			
99% 10 Day Stressed VaR	**Mean $M**	**Maximum $M**	**Minimum $M**	**Period end $M**
Foreign Exchange	29.6	54.9	11.4	32.7
Interest Rate	65.7	111.3	37.7	59.1
Credit	48.8	77.0	32.5	41.3
Commodity	11.8	18.5	5.0	16.3
Equity	-	-	-	-

[37] The Foreign exchange VaR excludes foreign exchange translation exposures outside of the trading book.

Comparison of VaR estimates with actual gains/losses experienced



Reporting of Traded Market Risk

Market Risk reports the result of daily VaR and stress testing results to senior management in Market Risk and the Markets business. Market Risk will escalate details of any limit breach to the appropriate discretion holder within Market Risk and to Group Risk, and reports to the CMRC each month.

Market Risk monitors and analyses back testing results daily and reports results to the CMRC quarterly.

Total traded market risks back testing exceptions were within the APS 116 green zone for the period.

Mitigation of market risk

The Market Risk team's responsibilities, including the reporting and escalation processes described above, are fundamental to how market risk is managed. Market Risk has a presence in all the major dealing operations centres in Australia, New Zealand, Asia, Europe and America.

Commodities risk

Commodity price risk arises as a result of movement in prices or the implied volatilities of various commodities. All direct commodity price exposures are transferred to the trading book centrally managed by the Markets business and monitored by Market Risk in accordance with the TFC framework.

Foreign exchange risk

Foreign exchange risk arises as a result of movements in values or the implied volatilities of exchange rates.

Exposures from ANZ's normal operating business and trading activities are recorded in core multi-currency systems and managed within the trading book in accordance with the TFC framework.

Structural exposures from foreign investments and capital management activities are managed in accordance with policies approved by the Board Risk Committee, with the main objective of ensuring that ANZ's capital ratio is largely protected from changes in foreign exchange. As at 30 September 2021, ANZ's investment in ANZ Bank New Zealand Limited is the main source of the structural foreign exchange exposure.

Chapter 8 – Operational risk

Table 15 Operational risk

Definition of operational risk

Operational Risk is the risk of loss and/or non-compliance with laws resulting from inadequate or failed internal processes, people and/or systems, or from external events. This definition includes legal risk, and the risk of reputation loss arising from inadequate or failed internal processes, people and systems, but excludes strategic risk.

ANZ's I.AM (Identify, Act, Monitor) - Compliance and Operational Risk Framework (I.AM Framework), taking into consideration the internal and external environment in which ANZ operates at any point in time, allows for targeted focus on particular areas of operational risk. Currently, ANZ has identified Compliance Risk, Conduct Risk and Technology Risk as separate Key Material Risks, which are managed in accordance to the I.AM Framework

ANZ has been authorised by APRA to use the advanced measurement approach (AMA) for calculation of Operational Risk capital requirements under APS 115 Capital Adequacy: Advanced Measurement Approaches to Operational Risk. This methodology applies across all of ANZ. For the purposes of RBNZ capital adequacy, ANZ Bank New Zealand Ltd uses Reserve Bank of New Zealand standardised approach to Operational risk capital calculation.

Operational risk governance and structure

The primary responsibilities for operational risk are vested by the Compliance and Operational Risk Principles, in the Board Risk Committee and Operational Risk Executive Committee. Each of the duties of these committees stated in *Chapter 2 – Risk appetite and governance*, applies to their responsibilities for Compliance and Operational Risk.

Risk management framework

ANZ operates the three lines of defence model for the management of Operational Risk. Each line of defence has defined roles, responsibilities and escalation paths to support effective two-way communication and management of Operational Risk at ANZ. There are also on-going review mechanisms in place to ensure the I.AM Framework continues to meet organisational needs and regulatory requirements.

First line

The Business has first line of defence responsibility for managing Operational Risk including obligations to:

- take primary accountability for the identification, measurement and management of key risks and the related control environment.

Second line

Compliance and Operational Risk functions (Divisional/Functional and Group) form the second line of defence.

Divisional/Functional Compliance and Operational Risk is accountable for:

- undertaking appropriate review and challenge and independent oversight of business activities including consistent implementation of the I.AM Framework, across the division.

Group Compliance and Operational Risk is accountable for:

- developing and maintaining relevant policies and procedures to ensure continuing appropriateness of the I.AM Framework and to support its consistent execution;
- providing subject matter expertise on the I.AM Framework and relevant policies and procedures to enable consistent implementation; and
- setting and monitoring compliance with the Group Operational Risk, Risk Appetite Statements (RAS).

Third line

Internal Audit forms the third line of defence and is accountable for:

- providing independent and objective assurance to management and the ANZ Board regarding the adequacy and compliance with policy and regulatory requirements;
- performing objective assessments across all geographies, divisions, lines of business and processes, and

- undertaking independent review of the adequacy of the I.AM Framework.

Collectively Internal Audit, Compliance and Operational Risk functions and the Business are responsible for monitoring and reporting to Executive Management, the Board, Regulators and others on all matters related to the measurement and management of Compliance and Operational Risk.

Operational Risk Framework

ANZ's I.AM Framework is delivered through:

- Level 1 Compliance and Operational Risk Principles (the Principles) – approved by the Board Risk Committee, outlines the core standards, outlining roles and responsibilities and minimum requirements of the way in which operational risks and obligations are identified, acted on and monitored across ANZ, sets the Principles for governing the overall measurement and management of Compliance and Operational Risk across ANZ.

- Level 2A Operational Risk Procedures (the Requirements, and Lifecycle, Roles and Responsibilities) – owned by Group Compliance and Operational Risk, provide the procedures to support the consistent application of Level 1 Principles across ANZ. The procedures are further augmented by tools, templates, systems and on-going training.

Operational risk mitigation

In line with industry practice, ANZ obtains insurance to cover those Operational Risks where cost-effective premiums can be obtained. In conducting their business, Business Units are advised to act as if uninsured and not to use insurance as a guaranteed mitigants for operational risk.

ANZ has business continuity, recovery and crisis management plans. The intention of the business continuity and recovery plans is to ensure critical business functions can be maintained, or restored in a timely fashion, in the event of material disruptions arising from internal or external events.

Crisis management planning at Group and country levels supplement business continuity plans in the event of a broader group or country crisis. Crisis management plans include crisis team structures, roles, responsibilities and contact lists, and are subject to testing.

Operational risk reporting

ANZ's I.AM Framework includes a global Compliance and Operational Risk platform within ANZ to provide source of truth and greater transparency of Risk, Controls, Obligations and Events information across ANZ. This information is used for internal and external reporting including operational risk capital calculation and regulatory reporting.

OREC along with various risk committees periodically monitor and oversight the state of Compliance and Operational Risk management and instigate any necessary corrective actions.

Operational risk management

The objective of ANZ's approach to Operational Risk is to ensure that risks are identified, assessed, measured, evaluated, treated, monitored and reported in a structured environment with appropriate governance oversight.

The I.AM Framework includes management and measurement of operational risks and compliance with laws, regulations, industry standards, codes and principles of good governance, and internal policies and procedures. It is founded on ANZ's values and culture, which focus on doing what's right and being ethical, accountable, trustworthy and transparent in our decisions.

ANZ takes a risk-based approach to the management of Operational Risks and obligations. This enables ANZ to be consistent in proactively identifying, assessing, managing, reporting and escalating Operational Risk related risk exposures, while respecting the specific obligations of each jurisdiction in which we operate.

Day-to-day management of Operational Risk is the responsibility of business unit line management and staff. Risk management, supported by a strong Risk Culture, ensures all staff are thinking about and managing risk on a daily basis – "Risk is Everyone's Responsibility". However, Senior Management needs visibility of Key Risks. These are the risks that if materialised, would adversely affect the achievement of business objectives, ANZ's reputation, legal and regulatory compliance or impact key processes.

ANZ's advanced measurement approach

Group Operational Risk is responsible for maintaining ANZ's advance measurement approach (AMA) for the measurement and allocation of operational risk capital.

Operational Risk Capital is held to protect depositors and shareholders of the bank from rare and severe unexpected losses. In order to quantify the overall Operational Risk profile, ANZ maintains and calculates Operational Risk Capital on at least a six monthly basis. The capital model uses the following data as inputs:

- historical internal losses captured and reported in the bank wide Compliance and Operational Risk platform;
- relevant external losses, sourced from the Operational Risk Data Exchange (ORX), an industry data base comprising the anonymised loss data from over 90 member banks;
- Operational risk scenario - unexpected potential loss estimates for severe but plausible risk events which are calculated using exposure models developed using business data and inputs from subject matter experts.

Once calculated, the capital is allocated to divisions based on the historic loss experience and exposure to scenarios. Understanding the divisional exposure to scenarios (and their underlying risk drivers) allows lines of business to consider capital impacts when making decisions. Accordingly, capital allocations are structured to encourage businesses to effectively manage their operational risk exposures e.g. improve controls, reduce losses etc.

Chapter 9 – Equities

Table 16 Equities – Disclosures for banking book positions

Definition and categorisation of equity investments held in the banking book

Equity risk is the risk of financial loss arising from the unexpected reduction in value of equity investments not held in the trading book including those of the Group's joint ventures associates. ANZ's equity exposures in the banking book are primarily categorised as follows:

- Equity investments that are taken for strategic reasons - These transactions represent strategic business initiatives and include ANZ's investments in partnership arrangements with financial institutions in Asia and those investments managed by a dedicated investment manager (1835i). These investments are undertaken after extensive analysis and due diligence by Group Strategy, internal specialists and external advisors, where appropriate. Board approval is required prior to committing to any investments over delegated authorities, and all regulatory notification requirements are met. Performance of these investments is monitored by both the owning business unit and where appropriate, either Group Strategy or a dedicated investment oversight group to ensure that it is within expectations.
- Equity investments made as the result of a work out of a problem exposure - From time to time, ANZ will take an equity stake in a customer as part of a work out arrangement for problem exposures. These investments are made only where there is no other viable option available and form an immaterial part of ANZ's equity exposures.

Valuation of and accounting for equity investments in the banking book

In line with Group Accounting Policy the accounting treatment of equity investments depends on whether ANZ has significant influence over the investee or not.

Investments in associates

Where significant influence exists, the investment is classified as an Investment in Associate in the financial statements. ANZ adopts the equity method of accounting for associates. ANZ's share of the profit or loss of associates is included in the consolidated income statement. The associate investments are recognised at cost plus ANZ's share of post-acquisition net assets less accumulated impairment. Interests in associates are reviewed semi-annually for impairment. If an indicator of impairment is identified, their recoverable amount is determined being the higher of their fair value less costs of disposal (market value for listed entities) or a discounted cash flow methodology to assess value in-use (VIU). If the recoverable amount is less than the carrying value of the investment, an impairment is recorded. As at 30 September 2021 the carrying value of the Group's investment in AMMB Holdings Berhad (Ambank) and PT Bank Pan Indonesia (PT Panin) were supported by VIU assessments.

Equity instruments held at Fair Value

Where ANZ does not have significant influence over the investee, the instrument is categorised as an investment security and classified as fair value through profit and loss, with changes in fair value recognised in the income statement, unless designated irrevocably on acquisition as fair value through other comprehensive income (FVOCI). If this election is made, gains or losses are not reclassified from other comprehensive income to profit or loss on disposal of the investment. However, gains or losses may be reclassified within equity.

Table 16(b) and 16(c): Equities – Types and nature of Banking Book investments

Equity investments	Sep 21 $M Balance sheet value	Fair value
Value of listed (publicly traded) equities	2,941	2,443
Value of unlisted (privately held) equities	399	399
Total	**3,340**	**2,842**

Equity investments	Mar 21 $M Balance sheet value	Fair value
Value of listed (publicly traded) equities	2,870	3,430
Value of unlisted (privately held) equities	230	230
Total	**3,100**	**3,660**

Equity investments	Sep 20 $M Balance sheet value	Fair value
Value of listed (publicly traded) equities	3,075	2,314
Value of unlisted (privately held) equities	201	199
Total	**3,276**	**2,513**

Table 16(d) and 16(e): Equities – gains (losses)[38]

Realised gains (losses) on equity investments	Half Year Sep-21 $M	Half Year Mar 21 $M	Half Year Sep 20 $M
Cumulative realised gains (losses) from disposals and liquidations in the reporting period	8	-	(2)
Cumulative realised losses from impairment and writedowns in the reporting period	(2)	-	-
Total	**6**	**-**	**(2)**

Unrealised gains (losses) on equity investments	Half Year Sep 21 $M	Half Year Mar 21 $M	Half Year Sep 20 $M
Total unrealised gains (losses)	(26)	73	(112)
Reversal of prior period unrealised gains (losses) from disposals and liquidations in the reporting period	-	-	-
Total unrealised gains (losses) included in Common Equity Tier 1, Tier 1 and/or Tier 2 capital	(26)	**73**	**(112)**

Table 16(f): Equities Risk Weighted Assets

From 1 January 2013 all banking book equity exposures are deducted from Common Equity Tier 1 capital.

[38] Table 16(d) and Table 16 (e) are reported on an after-tax basis

Chapter 10 – Interest Rate Risk in the Banking Book

Table 17 Interest Rate Risk in the Banking Book

Definition of Interest Rate Risk in the Banking Book (IRRBB)

Interest rate risk in the banking book (IRRBB) relates to the potential adverse impact of changes in market interest rates on ANZ's future earnings or economic value. The risk generally arises from:

- **Repricing and yield curve risk** - the risk to earnings or economic value as a result of changes in the overall level of interest rates and/or the relativity of these rates across the yield curve.
- **Basis risk** - the risk to earnings or market value arising from volatility in the interest margin applicable to banking book items.
- **Optionality risk** – the risk to earnings or market value arising from the existence of stand-alone or embedded options in banking book items.

Regulatory capital approach

ANZ has received approval from APRA to use the IMA for the calculation of regulatory capital for IRRBB, under APS 117 Capital Adequacy: Interest Rate Risk in the Banking Book (Advanced ADIs).

Governance

The Board Risk Committee has established a risk appetite for IRRBB and delegated authority to the Group Asset and Liability Committee (GALCO) to manage the strategic position (capital investment term) and oversee the interest rate risk arising from the repricing of asset and liabilities (mismatch risk) in the banking book. GALCO has delegated the management of this mismatch risk to the Markets business.

Market Risk is the independent function responsible for:

- Designing and implementing policies and procedures to ensure that IRRBB exposure is managed within the limit framework set by the Board Risk Committee.
- Monitoring and measuring IRRBB market risk exposure, compliance with limits and policies.
- Ensuring ongoing effectiveness and appropriateness of the risk management framework.

Risk Management framework

IRRBB is managed under a comprehensive measurement and reporting framework, supported by an independent Market Risk function. Key components of the framework include:

- A comprehensive set of policies that promote proactive risk identification and communication.
- Funds Transfer Pricing framework to transfer interest rate risk from business units so it can be managed by the Markets business and monitored by Market Risk.
- Quantifying the magnitude of risks and controlling the potential impact that changes in market interest rates can have on the net interest income and balance sheet market value of ANZ.
- Regular and effective reporting of IRRBB to executive management and the Board

Measurement of interest rate risk in the banking book

ANZ uses the following principal techniques to quantify and monitor IRRBB:

- Interest Rate Sensitivity - this is an estimate of the change in economic value of the banking book due to a 1 basis point move in a specific part of the yield curve.
- Earnings at risk (EaR) - this is an estimate of the amount of income that is at risk from interest rate movements over a given holding period, expressed to a 97.5% level of statistical confidence.
- Value at risk (VaR) - this is an estimate of the impact of interest rate changes on the banking book's market value, expressed to a 99% level of statistical confidence for a given holding period.
- Market Value loss limits - this mitigates the potential for embedded losses within the banking book.
- Stress testing - standard extraordinary forward looking and repricing term assumptions tests are used to highlight potential risk which may not be captured by VaR, and how the portfolio might behave under extraordinary circumstances.

The calculations used to quantify IRRBB require assumptions to be made about the repricing term of exposures that do not have a contractually defined repricing date, such as deposits with no set maturity dates, and prepayments. Changes to these assumptions require GALCO approval.

Basis and optionality risks are measured using Monte Carlo simulation techniques, to generate a theoretical worst outcome at a specified confidence level (typically no less than at a 99% level of statistical confidence) less the average outcome.

Reporting of interest rate risk in the banking book

Market Risk analyses the output of ANZ's VaR, EaR and Stress Testing calculations daily. Compliance with the risk appetite and limit framework is reported to CMRC, GALCO and the Board Risk Committee.

ANZ's interest rate risk in the banking book capital requirement

The IRRBB regulatory capital requirements includes a value for repricing and yield curve risk, basis and optionality risks based on a 99% confidence interval, one year holding period and a six-year historical data set.

Embedded losses also make up the capital requirement and are calculated as the difference between the book value and the current economic value of banking book items accounted for on an actual basis.

Results of standard shock scenario

The Basel II framework sets out a standard shock scenario of a 200 basis point parallel shift change in interest rates, in order to establish a comparable test across banks.

Table 17(b) that follows shows the results of this shock by currency of ANZ's banking book exposures.

Table 17(b): Interest Rate Risk in the Banking Book

	Change in Economic Value		
Standard Shock Scenario Stress Testing:	**Sep 21**	**Mar 21**	**Sep 20**
Interest rate shock applied	**$M**	**$M**	**$M**
AUD			
200 basis point parallel increase	(1,317)	(479)	(229)
200 basis point parallel decrease	1,419	489	227
NZD			
200 basis point parallel increase	(306)	(224)	(121)
200 basis point parallel decrease	294	209	101
USD			
200 basis point parallel increase	(10)	59	(45)
200 basis point parallel decrease	18	(50)	52
GBP			
200 basis point parallel increase	34	6	38
200 basis point parallel decrease	(35)	(6)	(38)
Other			
200 basis point parallel increase	(153)	(125)	(122)
200 basis point parallel decrease	165	135	132
IRRBB regulatory capital	**1,443**	**812**	**1,084**
IRRBB regulatory RWA	**18,036**	**10,150**	**13,547**

IRRBB stress testing methodology

Stress tests within ANZ include standard and extraordinary tests. These tests are used to highlight potential risk which may not be captured by VaR, and how the portfolio might behave under extraordinary circumstances. Standard stress tests include statistically derived scenarios based on historical yield curve movements. These combine parallel shocks with twists and bends in the curve to produce a wide range of hypothetical scenarios at high statistical confidence levels, with the single worst scenario identified and reported. Extraordinary stress tests include interest rate moves from historical periods of stress as well as stresses to assumptions made about the repricing term of exposures. The rate move scenarios include daily changes over the stressed periods and the worst theoretical losses over the selected period are each reported. Stresses of the repricing term assumptions investigate scenarios where actual repricing terms are significantly different to those modelled.

Chapter 11 – Leverage and Liquidity Coverage Ratio

Leverage Ratio

The Leverage Ratio requirements are part of the Basel Committee on Banking Supervision (BCBS) Basel III capital framework. It is a simple, non-risk based supplement or backstop to the current risk based capital requirements and is intended to restrict the build-up of excessive leverage in the banking system.

Consistent with the BCBS definition, APRA's Leverage Ratio compares Tier 1 Capital to the Exposure Measure (expressed as a percentage) as defined by APS 110: Capital Adequacy. APRA has not finalised a minimum Leverage Ratio requirement for Australian ADIs, although they have proposed a minimum of 3.5% for ADIs authorised to use the internal ratings based approach to credit risk.

At 30 September 2021, the Group's Leverage Ratio of 5.5% was above the 3% minimum currently proposed by APRA. Table 18 below shows the Group's Leverage Ratio calculation as at 30 September 2021 and Table 19 summarises the reconciliation of accounting assets and leverage ratio exposure measure at 30 September 2021.

Table 18 Leverage Ratio

		Sep 21 $M	Mar 21 $M	Sep 20 $M
	On-balance sheet exposures			
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	914,059	889,625	853,357
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	(12,090)	(11,438)	(11,527)
3	**Total on-balance sheet exposures (excluding derivatives and SFTs)**	**901,969**	**878,187**	**841,830**
	Derivative exposures			
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	9,675	10,965	11,287
5	Add-on amounts for PFE associated with all derivatives transactions	31,879	30,555	30,360
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	2,076	671	777
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	(5,875)	(8,271)	(10,499)
8	(Exempted CCP leg of client-cleared trade exposures)	-	-	-
9	Adjusted effective notional amount of written credit derivatives	143	313	979
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	(129)	(300)	(608)
11	**Total derivative exposures**	**37,769**	**33,933**	**32,296**
	Securities financing transaction exposures			
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	25,943	23,875	53,384
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	(1,253)	(2,012)	(1,206)
14	CCR exposure for SFT assets	5,794	5,084	6,238
15	Agent transaction exposures	-	-	-
16	**Total securities financing transaction exposures**	**30,484**	**26,947**	**58,416**
	Other off-balance sheet exposures			
17	Off-balance sheet exposure at gross notional amount	260,594	253,217	267,614
18	(Adjustments for conversion to credit equivalent amounts)	(142,746)	(139,092)	(153,486)
19	Off-balance sheet items	**117,848**	**114,125**	**114,128**
	Capital and Total Exposures			
20	**Tier 1 capital**	**59,473**	**58,431**	**56,481**
21	**Total exposures**	**1,088,070**	**1,053,192**	**1,046,670**
	Leverage ratio			
22	**Basel III leverage ratio**	**5.5%**	**5.5%**	**5.4%**

Table 19 Summary comparison of accounting assets vs. leverage ratio exposure measure

		Sep 21 $M	Mar 21 $M	Sep 20 $M
1	Total consolidated assets as per published financial statements	978,857	1,018,339	1,042,286
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation.	(120)	(174)	(214)
3	Adjustment for assets held on the balance sheet in a fiduciary capacity pursuant to the Australian Accounting Standards but excluded from the leverage ratio exposure measure	-	-	-
4	Adjustments for derivative financial instruments.	(967)	(70,733)	(103,034)
5	Adjustment for SFTs (i.e. repos and similar secured lending)	4,542	3,073	5,032
6	Adjustment for off-balance sheet exposures (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	117,848	114,125	114,128
7	Other adjustments	(12,090)	(11,438)	(11,528)
	Leverage ratio exposure	**1,088,070**	**1,053,192**	**1,046,670**

Table 20 Liquidity Coverage Ratio disclosure template

		Sep 21		Jun 21	
		Total Unweighted Value $M	Total Weighted Value $M	Total Unweighted Value $M	Total Weighted Value $M
	Liquid assets, of which:				
1	High-quality liquid assets (HQLA)		229,748		210,191
2	Alternative liquid assets (ALA)		8,025		9,635
3	Reserve Bank of New Zealand (RBNZ) securities		22		-
	Cash outflows				
4	Retail deposits and deposits from small business customers	267,495	27,477	255,840	26,078
5	of which: stable deposits	114,957	5,748	111,095	5,555
6	of which: less stable deposits	152,538	21,729	144,745	20,523
7	Unsecured wholesale funding	271,577	141,562	249,291	129,955
8	of which: operational deposits (all counterparties) and deposits in networks for cooperative banks	98,712	23,840	95,939	23,163
9	of which: non-operational deposits (all counterparties)	157,480	102,337	137,885	91,325
10	of which: unsecured debt	15,385	15,385	15,467	15,467
11	Secured wholesale funding		681		588
12	Additional requirements	144,670	39,722	142,051	37,677
13	of which: outflows related to derivatives exposures and other collateral requirements	22,824	22,824	21,070	21,070
14	of which: outflows related to loss of funding on debt products	-	-	-	-
15	of which: credit and liquidity facilities	121,846	16,898	120,981	16,607
16	Other contractual funding obligations	8,789	-	8,277	-
17	Other contingent funding obligations	101,203	6,006	98,402	6,373
18	Total cash outflows		215,448		200,671
	Cash inflows				
19	Secured lending (e.g. reverse repos)	13,422	1,580	14,716	1,592
20	Inflows from fully performing exposures	24,857	16,068	24,256	15,979
21	Other cash inflows	22,636	22,636	20,648	20,648
22	Total cash inflows	60,915	40,284	59,620	38,219
23	Total liquid assets		237,795		219,826
24	Total net cash outflows		175,164		162,452
25	Liquidity Coverage Ratio (%)		135.8%		135.3%
	Number of data points used (simple average)		66		65

Liquidity Coverage Ratio (LCR)

ANZ's average LCR for the 3 months to 30 Sep 2021 was 135.8% with total liquid assets exceeding net outflows by an average of $62.6billion.

The main contributors to net cash outflows were modelled outflows associated with the bank's corporate and retail deposit portfolios, offset by inflows from maturing loans. While cash outflows associated with derivatives are material, these are effectively offset by derivative cash inflows.

ANZ has a well-diversified deposit and funding base avoiding undue concentrations by investor type, maturity, market source and currency.

ANZ monitors and manages its liquidity risk on a daily basis including LCR by geography and currency, ensuring ongoing compliance across the network.

Table 21 NSFR disclosure template

		Sep 21				
		Unweighted value by residual maturity				
		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	Weighted value
	Available Stable Funding (ASF) Item	$M	$M	$M	$M	$M
1	Capital	63,679	-	-	24,067	87,746
2	of which: regulatory capital	63,679	-	-	24,067	87,746
3	of which: other capital instruments	-	-	-	-	-
4	Retail deposits and deposits from small business customers	253,543	59,474	-	-	287,840
5	of which: stable deposits	115,279	11,206	-	-	120,161
6	of which: less stable deposits	138,264	48,268	-	-	167,679
7	Wholesale funding	169,417	248,234	23,974	72,616	197,136
8	of which: operational deposits	105,374	-	-	-	52,687
9	of which: other wholesale funding	64,043	248,234	23,974	72,616	144,449
10	Liabilities with matching interdependent assets	-	-	-	-	-
11	Other liabilities	19,405	6,051	-	49	49
12	NSFR derivative liabilities		6,051	-	-	
13	All other liabilities and equity not included in the above categories	19,405	-	-	49	49
14	**Total ASF**					**572,771**
Required Stable Funding (RSF) Item						
15a	Total NSFR (HQLA)					7,189
15b	ALA					3,079
15c	RBNZ securities					1,118
16	Deposits held at other financial institutions for operational purposes	-	-	-	-	-
17	Performing loans and securities	14,389	94,375	48,808	464,395	414,231
18	of which: Performing loans to financial institutions secured by Level 1 HQLA	-	20,518	-	-	2,052
19	of which: Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	576	17,362	7,958	20,611	27,770
20	of which: Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and public sector entities (PSEs)	11,129	48,261	33,251	109,375	143,081
21	of which: With a risk weight of less than or equal to 35% under APS 112	-	13	224	515	453
22	of which: Performing residential mortgages	-	7,367	6,911	330,793	235,195
23	of which: With a risk weight equal to 35% under APS 112	-	6,523	6,117	285,415	195,805
24	of which: Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	2,684	867	688	3,616	6,133
25	Assets with matching interdependent liabilities		-	-	-	-
26	Other assets:	23,792	24,238	885	3,993	29,067
27	of which: Physical traded commodities, including gold	2,187				1,859
28	of which: Assets posted as initial margin for derivative contracts and contributions to default funds of central counterparties (CCPs)		2,527	-	-	2,148
29	of which: NSFR derivative assets		9,675	-	-	3,624
30	of which: NSFR derivative liabilities before deduction of variation margin posted		11,941	-	-	2,388
31	of which: All other assets not included in the above categories	21,605	95	885	3,993	19,048
32	Off-balance sheet items		-	-	191,511	7,811
33	**Total RSF**					**462,496**
34	**Net Stable Funding Ratio (%)**					**123.84%**

ANZ's NSFR as at 30 September 2021 was 123.8%, down 0.4% in the quarter since June 2021.

The main sources of Available Stable Funding (ASF) at September 2021 were deposits from Retail and SME customers, at 50%, with other wholesale funding (including Term Funding Facilities) at 25% and capital at 15% of the total ASF.

The majority of ANZ's Required Stable Funding (RSF) at September 2021 was driven by mortgages at 51% and other lending to non-FI customers at 31% of the total RSF.

Table 21 NSFR disclosure template (continued)

	Jun 21	Unweighted value by residual maturity				
		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	Weighted value
	Available Stable Funding (ASF) Item	$M	$M	$M	$M	$M
1	Capital	62,177	-	-	23,226	85,402
2	of which: regulatory capital	62,177	-	-	23,226	85,402
3	of which: other capital instruments	-	-	-	-	-
4	Retail deposits and deposits from small business customers	240,739	63,186	-	-	277,886
5	of which: stable deposits	107,984	12,177	-	-	114,153
6	of which: less stable deposits	132,755	51,009	-	-	163,733
7	Wholesale funding	159,785	251,256	34,795	72,664	201,085
8	of which: operational deposits	101,948	-	-	-	50,974
9	of which: other wholesale funding	57,837	251,256	34,795	72,664	150,111
10	Liabilities with matching interdependent assets	-	-	-	-	-
11	Other liabilities	19,595	5,670	-	835	835
12	NSFR derivative liabilities		5,670	-	-	
13	All other liabilities and equity not included in the above categories	19,595	-	-	835	835
14	**Total ASF**					**565,208**
	Required Stable Funding (RSF) Item					
15(a)	Total NSFR (HQLA)					7,797
15(b)	ALA					3,080
15(c)	RBNZ securities					976
16	Deposits held at other financial institutions for operational purposes	-	-	-	-	-
17	Performing loans and securities	14,457	89,215	43,180	459,137	406,478
18	of which: Performing loans to financial institutions secured by Level 1 HQLA	-	17,695	8	-	1,774
19	of which: Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	463	17,141	6,625	19,373	25,720
20	of which: Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and public sector entities (PSEs)	11,706	46,071	28,967	107,098	138,400
21	of which: With a risk weight of less than or equal to 35% under APS 112	-	34	192	508	443
22	of which: Performing residential mortgages	-	7,494	6,950	329,007	234,807
23	of which: With a risk weight equal to 35% under APS 112	-	6,624	6,128	282,898	194,768
24	of which: Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	2,288	814	630	3,659	5,777
25	Assets with matching interdependent liabilities		-	-	-	-
26	Other assets:	20,821	24,276	1,792	3,133	29,377
27	of which: Physical traded commodities, including gold	2,594				2,205
28	of which: Assets posted as initial margin for derivative contracts and contributions to default funds of central counterparties (CCPs)		2,524	-	-	2,145
29	of which: NSFR derivative assets		8,857	-	-	3,187
30	of which: NSFR derivative liabilities before deduction of variation margin posted		12,691	-	-	2,538
31	of which: All other assets not included in the above categories	18,227	204	1,792	3,133	19,301
32	Off-balance sheet items		-	-	182,651	7,375
33	**Total RSF**					**455,083**
34	**Net Stable Funding Ratio (%)**					**124.20%**

Glossary

ADI	Authorised Deposit-taking Institution.
Basel III Credit Valuation adjustment (CVA) capital charge	CVA charge is an additional capital requirement under Basel III for bilateral derivative exposures. Derivatives not cleared through a central exchange/counterparty are subject to this additional capital charge and also receive normal CRWA treatment under Basel II principles.
Collectively Assessed Provision for Credit Impairment	Collectively assessed provisions for credit impairment represent the Expected Credit Loss (ECL) calculated in accordance with AASB 9 Financial Instruments (AASB 9). These incorporate forward looking information and do not require an actual loss event to have occurred for an impairment provision to be 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 a counterparty failing to fulfil its obligations, or from a decrease in credit quality of a counterparty resulting in a loss in value.
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)	Individual 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.
Individually Assessed Provisions for Credit Impairment	Individually assessed provisions for credit impairment are calculated in accordance with AASB 9 Financial Instruments (AASB 9). They 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.

Internationally Comparable Basel III Capital Ratio	The Internationally Comparable Basel III CET1 ratios are ANZ's interpretation of the regulations documented in the Basel Committee publications; "Basel 3: A global regulatory framework for more resilient banks and banking systems" (June 2011) and "International Convergence of Capital Measurement and Capital Standards" (June 2006). They also include differences identified in APRA's information paper entitled International Capital Comparison Study (13 July 2015).
Market risk	The risk to ANZ's earnings arising from changes in interest rates, foreign exchange rates, credit spreads, volatility, correlations 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 both physical and derivative trading positions. Trading positions arise from transactions where ANZ acts as principal with customers, financial exchanges or inter-bank counterparties. 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 processes, people and systems, 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.
Qualifying Central Counterparties (QCCP)	QCCP is a central counterparty which is an entity that interposes itself between counterparties to derivative contracts. Trades with QCCP attract a more favorable risk weight calculation.
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 (both on and off-balance sheet) are risk weighted according to each asset's inherent potential for default and what the likely losses would be in the case of default. In the case of non-asset backed risks (i.e. market and operational risk), RWA is determined by multiplying the capital requirements for those risks by 12.5.
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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