2013
BASEL III
PILLAR 3 DISCLOSURE

APS 330: PUBLIC DISCLOSURE

ANZ

Important notice

This document has been prepared by Australia and New Zealand Banking Group Limited (ANZ) to meet its disclosure obligations under the Australian Prudential Regulation Authority (APRA) ADI Prudential Standard (APS) 330: Public Disclosure.

This disclosure was prepared as at 30 September 2013. ANZ has a continuous disclosure policy, under which ANZ will immediately notify the market of any material price sensitive information concerning the Group, in accordance with legislative and regulatory disclosure requirements.

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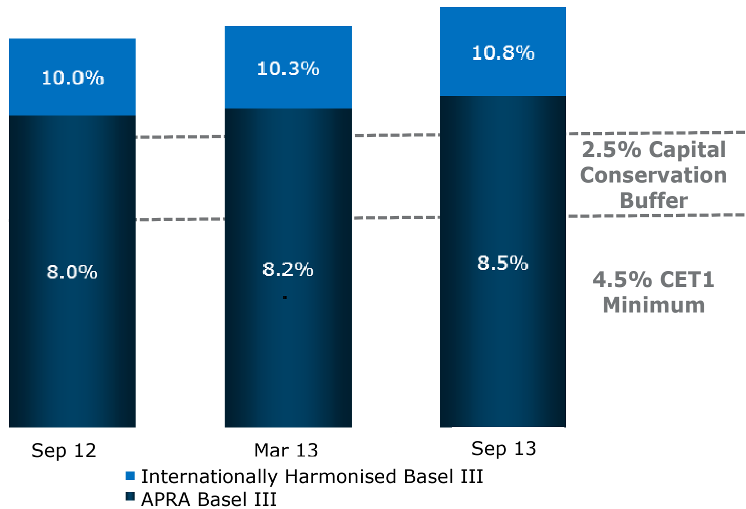
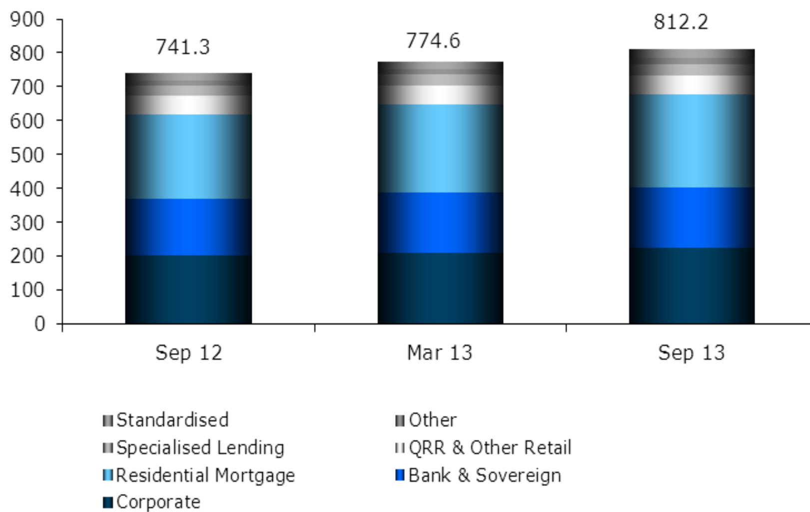
[1] Each table reference adopted in this document aligns to those required by APS 330 to be disclosed at year end.

Chapter 1 – Highlights



Strengthening capital position

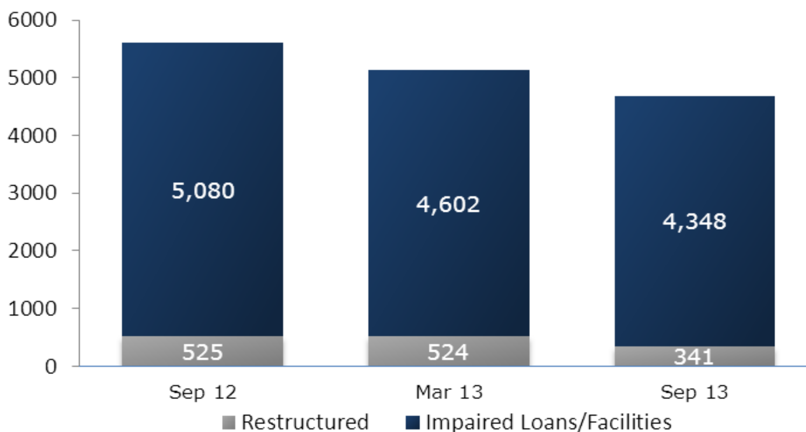
- The Group is well placed in regards to capital levels with capital generation and initiatives in FY13 lifting capital levels by 47bps (APRA CET1) AND 76bps (Internationally Harmonised CET1)



* Exposure at Default represents exposure gross of credit risk mitigation such as guarantees, credit derivatives, netting and financial collateral.

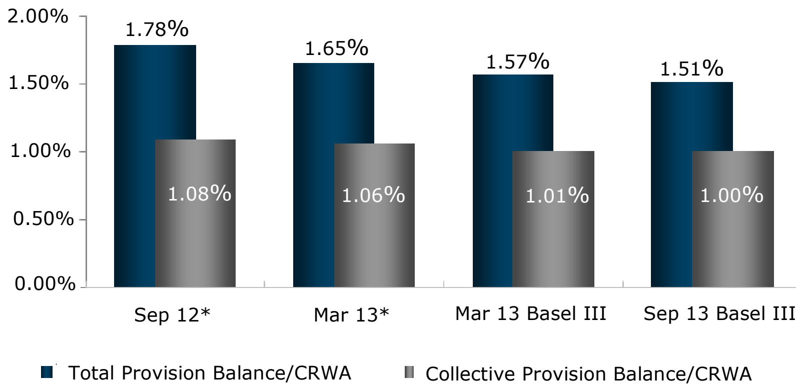
Growth in EAD of 5% HoH to $812.2bn in 2H13

- Growth driven predominately by increases in the Corporate +$16bn and Residential Mortgages +$15bn asset classes.



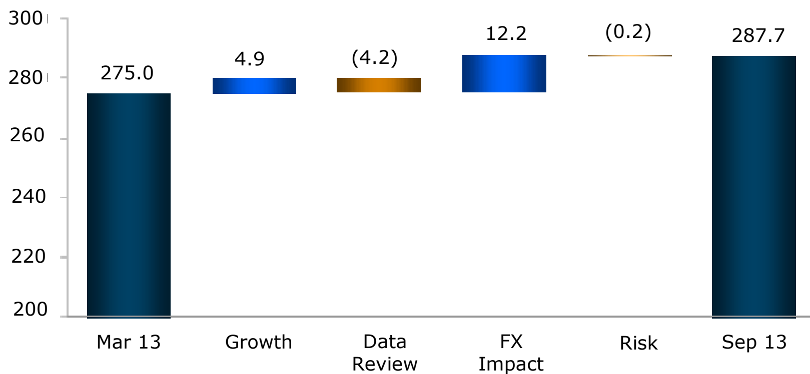
Impaired Assets continue the downward trend

- Impaired Loans/Facilities decreased by 6% HoH; 14% YoY.
- Gross Impaired assets declining at an average of $0.8bn YoY since September 2010.



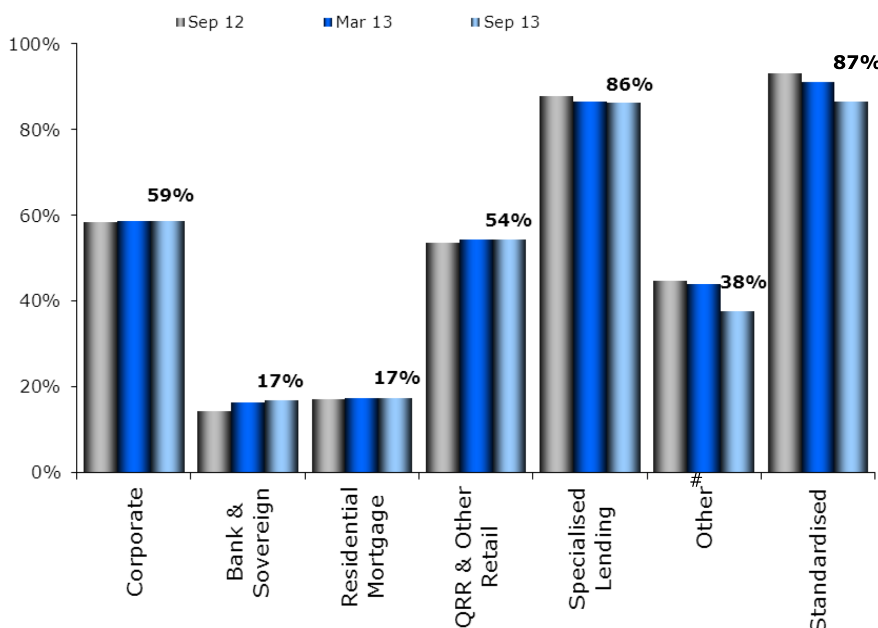
Provision coverage remains appropriate

- The total provision coverage ratio at 1.51% and collective provision ratio at 1.00% on a Basel III basis provides conservative coverage given the ongoing improvement in credit quality.



Credit Risk Weighted Assets (CRWA) up by $12.7bn HoH

- Growth in CRWA has been driven by increases in the Corporate, Other Retail, as well as Residential Mortgages Basel Asset Classes.
- FX impact driven by the depreciation of the AUD against most of the major currencies, in particular USD & NZD.
- Total average risk weight remaining flat HoH at 37.7%



* EAD represents exposure net of credit risk mitigation such as guarantees, credit derivatives, netting and financial collateral as used as input to advanced Credit RWA calculations.

includes Equity, Securitisation and Other Asset classes.

Chapter 2 - 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, which has the most comprehensive requirements.

Basel in ANZ

In December 2007, ANZ 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. Prior period comparatives for 30 September 2012 in this disclosure are under Basel II approach.

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 Annual Report and in Pillar 1 returns provided to APRA. This Pillar 3 disclosure is not audited by ANZ's external auditor.

Comparison to ANZ's Annual Report

These disclosures have been produced in accordance with regulatory capital adequacy concepts and rules, rather than in accordance with accounting policies adopted in ANZ's Annual Report. 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 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 3 – Risk appetite and governance

Risk types

ANZ is exposed to a broad range of interrelated business risks. The main risks that directly impact determination of regulatory capital are as follows:

- Credit risk - is the risk of financial loss resulting from the failure of ANZ's customers and counterparties to honour or perform fully the terms of a loan or contract. ANZ has a comprehensive framework to manage credit risk and support sound growth for appropriate returns. The framework is top down, being defined by credit principles and policies. The effectiveness of the credit risk management framework is assessed through various compliance and monitoring processes. These, together with portfolio selection, define and guide the credit process, organisation and staff.

- Market risk – is defined as the risk to earnings arising from changes in market risk factors, which ANZ may have an exposure to in the Banking Book and/or Trading Book. The key market risk factors can be summarised as follows:

    - Interest rate risk - exposure to changes in the level and volatility of interest rates, slope of the yield curve and changes in credit spreads.
    - Currency rate risk - exposure to changes in foreign exchange spot and forward prices and the volatility of foreign exchange rates.
    - Commodity price risk - exposure to changes in commodity prices and the volatility of commodity prices.
    - Equity price risk - exposure to changes in equity prices and the volatility of equity prices.

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

- Equity risk - is the potential loss that may be incurred on equity investments in the banking book.

- 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.

- Operational risk – within ANZ, operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. The 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[3]. The Group Operational Risk function is responsible for exercising governance over operational risk by ensuring the business management usage of the operational risk measurement and management framework. They are also responsible for ensuring that key operational risks and their management are reported to executive risk committees. Key operational risk themes include business disruption, rogue trader and mis-selling. Business units are responsible for the day to day management of operational risks through the implementation of the Operational Risk Measurement and Management framework. This includes the identification, analysis, assessment, monitoring, treatment and escalation of operational risks.

Other key risks faced by ANZ, but which do not directly impact determination of regulatory capital, include:

- Insurance Risk – within ANZ, insurance risk is defined as the risk of loss due to unexpected changes in current and future insurance claim rates. In life insurance business, insurance risk arises primarily through mortality (death) and morbidity (illness and injury) and longevity risks. For general insurance business, insurance risk arises mainly through weather-related incidents and similar calamities, as well as adverse variability in home, contents, motor, travel and other insurance claim amounts. Insurance risk is managed primarily by: product design to price all applicable risks into contracts; reinsurance to reduce liability for large individual risks; underwriting to price/reserve for the level of risk associated with an individual contract; claims management to admit and pay only genuine claims; insurance experience reviews to update assumptions and portfolio management to maintain a diversity of individual risks.

- Reinsurance Risk - Reinsurance is an agreement in which one insurer ('the reinsurer') indemnifies another insurer for all or part of the risk of a policy originally issued and assumed by that other insurer. Reinsurance is a risk transfer tool between the insurer and reinsurer. The main risk that arises with reinsurance is counterparty credit risk. This is the risk that a reinsurer fails to meet their contractual obligations, i.e. to pay reinsurance claims when due. This risk is measured by assigning a

[3] Regulatory Capital is calculated in accordance with the definition of Operational Risk outlined in APS 115 Capital Adequacy: Advanced Measurement Approaches to Operational Risk, and therefore excludes reputation risk considerations.

counterparty credit rating or probability of default. Reinsurance counterparty credit risk is mitigated by restricting counterparty exposures on the basis of financial strength and concentration.

- Strategic risk - is defined to be the potential for loss arising from a failure in ANZ's strategies. These include strategies designed to address or anticipate changes in the competitive, client, political or regulatory environments.
- Business risk - the risk of financial loss due to unexpected movements in volume, profit margin, and operating expenses (excluding risks elsewhere defined) arising from unexpected changes in the business environment, customer preferences and/or competitor actions.
- Liquidity risk – within ANZ, liquidity risk is defined as 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. The timing mismatch of cash flows and the related liquidity risk is inherent in all banking operations and is closely monitored by the Group. The Group maintains a portfolio of liquid assets to manage potential stresses in funding sources. The minimum level of liquidity portfolio assets to hold is based on a range of ANZ specific and general market liquidity stress scenarios such that potential cash flow obligations can be met over the short to medium term.
- Compliance risk – within ANZ, compliance risk is defined as the probability and impact of an event that results in a 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. Group Compliance is accountable for designing a compliance program that allows ANZ to meet its regulatory obligations. It also provides assurance to the Board that material risks are identified, assessed and managed by the business.
- Reputation risk – within ANZ, reputation risk is defined as the risk of loss caused by adverse perceptions of ANZ held by the public, shareholders, investors, regulators, or rating agencies that directly or indirectly impact earnings, capital adequacy or value. We have established decision-making frameworks and policies to ensure our business decisions are guided by sound social and environmental standards and take into account reputation risk.

Risk Appetite Framework

ANZ's risk appetite is set by the Board and integrated within ANZ's strategic objectives. The risk appetite framework underpins fundamental principles of strong capitalisation, robust balance sheet and sound earnings, which protects ANZ's franchise and supports the development of an enterprise-wide risk culture. The framework provides an enforceable risk statement on the amount of risk ANZ is willing to accept. It supports strategic and core business activities and customer relationships ensuring that:

- Only permitted activities are engaged in.
- The scale of permitted activities, and subsequent risk profile, does not lead to potential losses or earnings volatility that exceeds ANZ approved risk appetite.
- Risk is expressed quantitatively via limits and tolerances.
- Management focus is brought to bear on key and emerging risk issues and mitigating actions.
- Risk is linked to the business by informing, guiding and empowering the business in executing strategy.

Risk management governance

ANZ's Board has ultimate responsibility for risk management, and has three key committees focused on risks that impact regulatory capital.

Risk Committee	Assists the Board in the effective discharge of the Board's responsibilities for business, market, credit, equity and other investment, financial, operational, liquidity, compliance and reputation risk management.
Audit Committee	In addition to its role reviewing financial reporting principles and policies, controls and procedures, the Audit Committee also reviews prudential supervision procedures required by regulatory bodies to the extent relating to financial reporting and oversees the work of Global Internal Audit.
Governance Committee	Ensures an appropriate Board and Committee structure is in place. Reviews the development of and approves corporate governance policies and principles applicable to ANZ.

The Chair and members of these committees are non - executive directors, and are appointed by the Board. Global Internal Audit provides independent and objective assurance around ANZ's risk management and control effectiveness, and its primary reporting line is to the Audit Committee.

ANZ's Chief Executive Officer (CEO) creates and delegates powers to various executive management committees, several of which perform functions that support the Risk Committee. The executive committees most relevant to the risks described above and overall capital management at ANZ are as follows:

Group Asset and Liability Committee (GALCO)
GALCO is responsible for the oversight and strategic management of ANZ's balance sheet, liquidity and funding positions and capital management activities. This ensures they are aligned to adding shareholder value by managing and positioning the balance sheet consistent with ANZ's appetite for risk, maintaining ANZ's preferred AA rating category, and striving for best-practice corporate governance. Specifically, GALCO co-ordinates, approves and, where necessary, directs: • Liquidity and funding activities, to ensure that these are managed in a way consistent with ANZ's strategy and within ANZ's appetite for liquidity risk. • The management of ANZ's capital management framework to ensure that ANZ is adequately capitalised to cover its material risks and exposures in an efficient and effective manner. • Balance sheet management activities including management of non-traded related risks and exposures. In all cases this is in accordance with ANZ's risk appetite and limits defined by the Board, regulatory requirements, and international best practice. GALCO is chaired by ANZ's Chief Financial Officer (CFO). GALCO is supported by specialist committees that cover capital management and non-traded market risk, as well as regional asset and liability management committees.

Capital Management Policy Committee (CMPC)
CMPC is a sub-committee of GALCO, with responsibility for the oversight and control of ANZ's capital and portfolio measurement framework, addressing economic and regulatory capital requirements. CMPC is also responsible for making capital management and portfolio measurement related recommendations to the Risk Committee and ANZ Board. The Committee's main objective is to ensure ANZ's regulatory and economic capital management activities are aligned with ANZ and GALCO's objectives. CMPC is chaired by ANZ's CFO (or in absence, ANZ's Chief Risk Officer (CRO)) and meets six times a year.
Credit and Market Risk Committee (CMRC)
CMRC is the senior executive management forum responsible for the oversight and control of credit and market risk. Its responsibilities and duties include: • Approve Level 2 credit and market risk management policy, propose Level 1 policy changes to the Risk Committee. • Approve take up of equity interest within its discretion. • Ensure comprehensive credit and market risk control. • Oversee credit portfolio composition including large exposures, risk grade migration, risk concentrations and changes to delinquency patterns. • Set Value at Risk, Earnings at Risk and other limits within discretions. • Oversee market risk limits. CMRC is chaired by ANZ's CRO and meets as required, and is supported by a specialist committee that covers credit ratings systems.

<table>
<tr><td>Credit Ratings System Oversight Committee (CRSOC)</td></tr>
<tr><td>CRSOC is the senior executive management forum responsible for the oversight and control of the Internal Ratings System for credit risk across ANZ including credit model approvals and performance monitoring. This delegation is intended to encompass all aspects of model governance including:
• Approving the content and design of the rating system, including models and methodology for Probability of Default (PD), LGD and EAD.
• Prioritising, monitoring and approval of model changes, enhancements and re-builds.
• Performance monitoring of internal rating system models.
• Monitor annual independent validation of use and performance of all models.

CRSOC is chaired by the Chief Wholesale Credit Officer and meets six times a year. It supports CMPC and CMRC, and in turn is supported by working groups.</td></tr>
<tr><td>Operational Risk Executive Committee (OREC)</td></tr>
<tr><td>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. Its main responsibilities and duties include:
• Endorse ANZ’s Operational Risk Measurement and Management Framework (ORMMF) for approval by the Board Risk Committee.
• Approve ANZ’s Group Compliance Framework.
• Approve Operational Risk policies and Compliance policies.
• Approve extreme operational risks treatment plans.

OREC is chaired by ANZ’s CRO and meets a minimum of four times per year.</td></tr>
<tr><td>Reputation Risk Committee (RRC)</td></tr>
<tr><td>The purpose of the RRC is to assist ANZ businesses, Risk, Corporate Affairs, and Legal in partnership to effectively manage reputation risk in relation to environmental, social, business and regulatory issues in the regions in which ANZ operates.

RRC is chaired by ANZ’s CRO and meets a minimum of four times a year.</td></tr>
</table>

Chapter 4 – Capital reporting and measurement

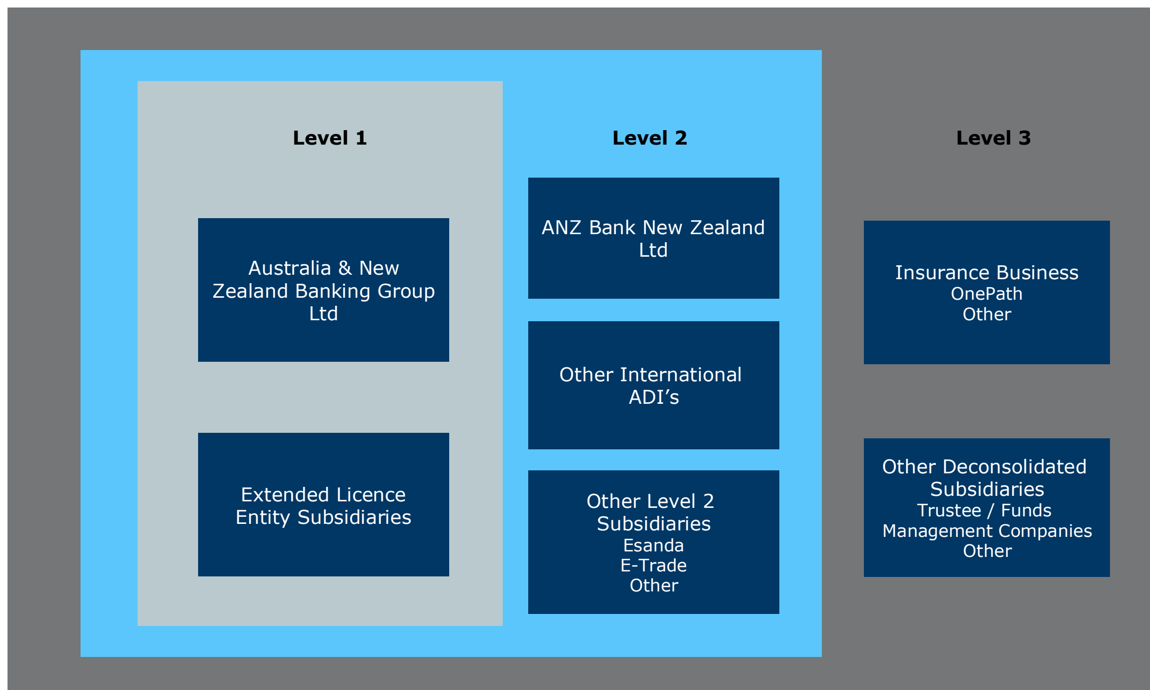
Capital reporting and measurement

To ensure that an Authorised Deposit-taking Institution (ADI) is adequately capitalised on both a stand alone 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 excluded 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. APRA has announced that it will proceed with implementing Level 3 Conglomerates framework on 1 January 2015, with final Level 3 Prudential Standards on capital adequacy to be released by January 2014. The standards will regulate a bancassurance group such as ANZ as a single economic entity with minimum capital requirements and additional reporting on risk exposure levels. Based upon APRA's draft prudential standards covering group governance and risk exposures in December 2012 and draft Level 3 capital adequacy standards released in May 2013, ANZ is not expecting any material impact on its operations.

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



Refer to Note 38 of ANZ's 2013 Annual Report for a list of all material subsidiaries and a brief description of their key activities.

Chapter 5 – Capital and Capital Adequacy

Table 1 Common 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 common 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 do not apply until 1 January 2016 and the phase out period for capital instruments began on 1 January 2013.

The information in the lines of the template have 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, which is subject to minimum capital requirements as set by the Reserve Bank of New Zealand (RBNZ). The RBNZ adopted the Basel II framework, effective from 1 January 2008 and Basel III reforms from 1 January 2013 and ANZ Bank New Zealand Limited has been accredited to use the advanced approach for the calculation of credit risk and operational risk. ANZ Bank New Zealand Limited maintains a buffer above the minimum capital base required by the RBNZ. This capital buffer has been calculated via the ICAAP undertaken for ANZ Bank New Zealand Limited, to ensure ANZ Bank New Zealand Limited is appropriately capitalised under stressed economic scenarios.

Table 1 Common disclosure template

		Sep 13 $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	23,749	Table A
2	Retained earnings	21,365	Table B
3	Accumulated other comprehensive income (and other reserves)	(847)	Table C
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)	36	Table D
6	Common Equity Tier 1 capital before regulatory adjustments	44,303	
Common Equity Tier 1 capital : regulatory adjustments			
7	Prudential valuation adjustments	-	
8	Goodwill (net of related tax liability)	3,943	Table E
9	Other intangibles other than mortgage servicing rights (net of related tax liability)	4,226	Table F
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	33	Table I
11	Cash-flow hedge reserve	75	
12	Shortfall of provisions to expected losses	376	Table G
13	Securitisation gain on sale	-	
14	Gains and losses due to changes in own credit risk on fair valued liabilities	-	
15	Defined benefit superannuation fund net assets	-	
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)	1,393	Table H
20	Mortgage service rights (amount above 10% threshold)	n/a	
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	n/a	
25	of which: deferred tax assets arising from temporary differences	-	
26	National specific regulatory adjustments (sum of rows 26a, 26b, 26c, 26d, 26e, 26f, 26g, 26h, 26i and 26j)	5,466	
26a	of which: treasury shares	-	
26b	of which: offset to dividends declared under a dividend reinvestment plan (DRP), to the extent that the dividends are used to purchase new ordinary shares issued by the ADI	-	
26c	of which: deferred fee income	(380)	
26d	of which: equity investments in financial institutions not reported in rows 18, 19 and 23	3,617	Table H
26e	of which: deferred tax assets not reported in rows 10, 21 and 25	1,069	Table I
26f	of which: capitalised expenses	979	Table J
26g	of which: investments in commercial (non-financial) entities that are deducted under APRA prudential requirements	140	Table K
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	41	
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-	
28	Total regulatory adjustments to Common Equity Tier 1	15,512	
29	Common Equity Tier 1 Capital (CET1)	28,791	

		Sep 13 $M	Reconciliation Table Reference
Additional Tier 1 Capital: instruments			
30	Directly issued qualifying Additional Tier 1 instruments	1,120	Table L
31	of which: classified as equity under applicable accounting standards	-	
32	of which: classified as liabilities under applicable accounting standards	1,120	Table L
33	Directly issued capital instruments subject to phase out from Additional Tier 1	5,384	Table L
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)	n/a	
35	of which: instruments issued by subsidiaries subject to phase out	n/a	
36	Additional Tier 1 Capital before regulatory adjustments	6,504	Table L
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)	85	Table L
41	National specific regulatory adjustments (sum of rows 41a, 41b and 41c)	18	
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	18	Table L
41c	of which: other national specific regulatory adjustments not reported in rows 41a and 41b	-	
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	
43	Total regulatory adjustments to Additional Tier 1 capital	103	
44	Additional Tier 1 capital (AT1)	6,401	
45	Tier 1 Capital (T1=CET1+AT1)	35,192	
Tier 2 Capital: instruments and provisions			
46	Directly issued qualifying Tier 2 instruments	-	
47	Directly issued capital instruments subject to phase out from Tier 2	5,440	Table M
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)	624	
49	of which: instruments issued by subsidiaries subject to phase out	624	Table M
50	Provisions	245	Table G
51	Tier 2 Capital before regulatory adjustments	6,309	
Tier 2 Capital: regulatory adjustments			
52	Investments in own Tier 2 instruments	10	Table M
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% threshold)	-	
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 M
56	National specific regulatory adjustments (sum of rows 56a, 56b and 56c)	24	
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	24	Table M
56c	of which: other national specific regulatory adjustments not reported in rows 56a and 56b	-	
57	Total regulatory adjustments to Tier 2 capital	119	
58	Tier 2 capital (T2)	6,190	
59	Total capital (TC=T1+T2)	41,382	
60	Total risk-weighted assets based on APRA standards	339,265	

		Sep 13 $M	Reconciliation Table Reference
Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of risk-weighted assets)	8.5%	
62	Tier 1 (as a percentage of risk-weighted assets)	10.4%	
63	Total capital (as a percentage of risk-weighted assets)	12.2%	
64	Institution specific buffer requirement (minimum CET1 requirement of 4.5% plus capital conservation buffer of 2.5% plus any countercyclical buffer requirements expressed as a percentage of risk-weighted assets)	7.0%	
65	of which: capital conservation buffer requirement	2.5%	
66	of which: ADI-specific countercyclical buffer requirements	-	
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)	4.0%	
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	94	
73	Significant investments in the ordinary shares of financial entities	3,565	Table H
74	Mortgage servicing rights (net of related tax liability)	n/a	
75	Deferred tax assets arising from temporary differences (net of related tax liability)	1,069	
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)	245	
77	Cap on inclusion of provisions in Tier 2 under standardised approach	405	
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	-	
79	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	1,531	
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	5,384	
83	Amount excluded from AT1 instruments due to cap (excess over cap after redemptions and maturities)	683	
84	Current cap on T2 instruments subject to phase out arrangements	6,183	
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	229	

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
Liquid Assets	39,737	(160)	39,577	
Due from other financial institutions	22,177	-	22,177	
Trading securities	41,288	(2)	41,286	
of which: Financial Institutions capital instruments			24	Table M
Derivative financial instruments	45,878	(1)	45,877	
of which: Financial Institutions equity investments			28	Table H
of which: Other entities equity investments			3	Table K
Available-for-sale assets	28,135	(681)	27,454	
of which: Financial institutions equity instruments			14	Table H
of which: Other entities equity investments			86	Table K
of which: Financial Institutions Additional Tier 1 instruments			18	Table L
Net loans and advances	469,295	-	469,295	
of which: deferred fee income			(380)	Row 26c
of which: collective provision			(2,887)	Table G
of which: individual provisions			(1,467)	Table G
of which: capitalised brokerage			942	Table J
of which: Financial Institutions equity exposures			10	Table H
of which: Other equity exposures			35	Table K
of which: margin lending adjustment			41	Row 26j
Regulatory deposits	2,106	-	2,106	
Due from controlled entities	-	725	725	
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 M
Shares in controlled entities	-	3,915	3,915	
of which: Investment in deconsolidated financial subsidiaries			3,830	Table H
of which: AT1 significant investment in banking, financial and insurance entities that are outside the scope of regulatory consolidation			85	Table L
Shares in associates	4,123	(9)	4,114	
of which: Financial Institutions			4,098	Table H
of which: Other Entities			16	Table K
Current tax assets	20	(2)	18	
Deferred tax assets	721	(45)	676	Table I
of which: Deferred tax assets that rely on future profitability			33	Table I
Goodwill and other intangible assets	7,690	(2,265)	5,425	
of which: Goodwill			3,290	Table E
of which: Software			2,102	Table F
of which: other intangible assets			33	Table F
Investments backing policy liabilities	32,083	(32,083)	-	
Other assets	7,574	(1,252)	6,322	
Premises and equipment	2,164	(8)	2,156	
Total Assets	**702,991**	**(31,868)**	**671,123**	

Liabilities	Balance Sheet as in published financial statements ($m)	Adjustments ($m)	Balance sheet under scope of regulatory consolidation ($m)	Template and Reconciliation Table Reference
Due to other financial institutions	36,306	-	36,306	
Deposits and other borrowings	439,674	4,927	444,601	
Derivative financial instruments	47,509	4	47,513	
Due to controlled entities	-	1,062	1,062	
Current tax liabilities	972	(145)	827	
Deferred tax liabilities	14	(362)	(348)	Table I
of which: related to intangible assets			4	Table F
of which: related to capitalised expenses			8	Table J
Policy liabilities	32,388	(32,388)	-	
External unit holder liabilities	3,511	(3,511)	-	
Payables and other liabilities	12,594	(335)	12,259	
Provisions	1,228	(189)	1,039	
Bonds and notes	70,376	(749)	69,627	
Loan Capital	12,804	8	12,812	
of which: capitalised debt raising expenses			(45)	Table J
of which: Directly issued qualifying Additional Tier 1 instruments			1,106	Table L
of which: Directly issued capital instruments subject to phase out from Additional Tier 1			5,185	Table L
of which: Directly issued capital instruments subject to phase out from Tier 2			5,778	Table M
of which: instruments issued by subsidiaries subject to phase out			743	Table M
Total Liabilities	**657,376**	**(31,678)**	**625,698**	
Net Assets	**45,615**	**(190)**	**45,425**	

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
Issued Capital	23,641	272	23,913	Table A
of which: Share reserve			164	Table A & C
Preference share capital	871	-	871	
of which: Directly issued capital instruments subject to phase out from Additional Tier 1			871	Table L
Reserves	(907)	(91)	(998)	Table C
of which: Cash flow hedging reserves			75	Row 11
Retained earnings	21,948	(365)	21,583	Table B
Share capital and reserves attributable to shareholders of the company	**45,553**	**(184)**	**45,369**	
Non-controlling interest	62	(6)	56	Table D
Total Shareholders Equity	**45,615**	**(190)**	**45,425**	

The following reconciliation tables provide additional information on the difference between Table 1 Common Disclosure template and the Level 2 balance sheet.

Table A		**Sep 13** $M	**Table 1 Reference**
	Issued capital	23,913	
less	Reclassification to reserves	(164)	Table C
	Regulatory Directly Issued qualifying ordinary shares	**23,749**	Row 1

Table B		**Sep 13** $M	**Table 1 Reference**
	Retained earnings	21,583	
less	Regulatory reclassification from significant investments in the ordinary shares of banking, financial and insurance entities outside the scope of regulatory consolidation	(218)	Table H
	Retained earnings	**21,365**	Row 2

Table C		**Sep 13** $M	**Table 1 Reference**
	Reserves	(998)	
add	Reclassification from Issued Capital	164	Table A
less	Non qualifying reserves	(13)	
	Reserves for Regulatory capital purposes (amount allowed in group CET1)	**(847)**	Row 3

Table D		**Sep 13** $M	**Table 1 Reference**
	Non-controlling interests	56	
less	Surplus capital attributable to minority shareholders	(20)	
	Ordinary share capital issued by subsidiaries and held by third parties	**36**	Row 5

Table E		**Sep 13** $M	**Table 1 Reference**
	Goodwill	3,290	
add	Goodwill component of investments in financial associates	653	Table H
	Goodwill (net of related tax liability)	**3,943**	Row 8

Table F		**Sep 13** $M	**Table 1 Reference**
	Software	2,102	
	Other intangible assets	33	
less	Associated deferred tax liabilities	(4)	
add	Regulatory reclassification from significant investments in the ordinary shares of banking, financial and insurance entities outside the scope of regulatory consolidation	2,095	Table H
	Other intangibles other than mortgage servicing rights (net of related tax liability)	**4,226**	Row 9

Table G		**Sep 13** $M	**Table 1 Reference**
	Collective Provision	2,887	
	Individual Provision	1,467	
less	Standardised component of collective provision allowed as Tier 2 capital	(245)	Row 50
less	Standardised component of individual provision	(219)	
less	Excluded component of collective provision	(24)	
	Eligible Provisions for regulatory purposes	3,866	
less	Regulatory expected loss	(4,242)	
	Expected loss in excess of eligible provisions	**(376)**	Row 12

Table H		Sep 13 $M	Table 1 Reference
	Investment in deconsolidated financial subsidiaries	3,830	
less	Regulatory reclassification to Retained Earnings and Other Intangible Assets	(2,317)	Table B & F
add	Investment in financial associates	4,098	
less	Goodwill component of investments in financial associates	(653)	Table E
less	Amount below 10% threshold	(3,565)	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)	**1,393**	Row 19
add	Amount below the 10% threshold	3,565	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 - derivative exposures	28	
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 - Available for Sale exposures	14	
	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 - Loan exposures	10	
	Equity investment in financial institutions not reported in rows 18, 19 and 23	3,617	Row 26d
	Deduction for equity holdings in financial institutions - APRA regulations	**5,010**	

Table I		Sep 13 $M	Table 1 Reference
	Deferred tax assets	676	
	Deferred tax liabilities	(348)	
	Deferred tax asset less deferred tax liabilities	1,024	
less	Deferred tax assets that rely on future profitability	(33)	Row 10
add	Deferred tax liabilities on intangible assets and capitalised expenses	12	
add	Impact of calculating the deduction on a jurisdictional basis	66	
	Deferred tax assets not reported in rows 10, 21 and 25 of the Common Disclosure Template	**1,069**	Row 26e

Table J		Sep 13 $M	Table 1 Reference
	Capitalised brokerage costs	942	
	Capitalised debt raising expenses	45	
less	Associated deferred tax liabilities	(8)	
	Capitalised expenses	**979**	Row 26f

Table K		Sep 13 $M	Table 1 Reference
	Investments in non-financial Available for Sale equities	86	
	Investments in non financial associates	16	
	Non financial equity exposures (loans)	35	
	Derivative non financial equity exposures	3	
	Equity exposures to non financial entities	**140**	Row 26g

Table L		Sep 13 $M	Table 1 Reference
	Directly issued qualifying Additional Tier 1 Capital Instruments classified as liabilities	1,106	
add	Issue costs	14	
	Directly issued qualifying Additional Tier 1 Capital Instruments classified as liabilities	1,120	Row 30
	Directly issued capital instruments subject to phase out from Additional Tier 1 – loan capital	5,185	
	Directly issued capital instruments subject to phase out from Additional Tier 1 - preference shares	871	
add	Issue costs	16	
less	Fair value adjustment	(5)	
less	Transitional adjustment	(683)	
	Directly issued capital instruments subject to phase out from Additional Tier 1	5,384	
	Additional Tier 1 capital before regulatory adjustments	**6,504**	Row 36
less	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, (net of eligible short positions)	(85)	Row 40
less	Investments in the capital of financial institutions that are outside the scope of regulatory consolidation which are not reported in rows 39 and 40	(18)	Row 41b
	Additional Tier 1 capital	**6,401**	Row 44

Table M		Sep 13 $M	Table 1 Reference
	Directly issued capital instruments subject to phase out from Tier 2	5,778	
add	Issue costs	15	
less	Fair value adjustment	(124)	
less	Transition adjustment	(229)	
	Directly issued capital instruments subject to phase out from Tier 2	5,440	Row 47
	Instruments issued by subsidiaries subject to phase out from Tier 2	743	
less	Surplus capital attributable to third party holders	(119)	
	Instruments issued by subsidiaries subject to phase out from Tier 2	624	Row 49
add	Provisions	245	Table G
	Tier 2 capital before regulatory adjustments	6,309	Row 51
less	Investments in own Tier 2 instruments (trading limit)	(10)	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	(24)	Row 56b
	Tier 2 capital	**6,190**	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	Corporate	-	-
Advice for Life Pty Ltd	Advice	-	-
ANZ Insurance Broker Co Ltd	Insurance Broker	22	1
ANZ Investment Services (New Zealand) Limited	Funds Manager	53	33
ANZ Lenders Mortgage Insurance Pty Limited	Mortgage insurance	864	482
ANZ Life Assurance Company Pty Ltd	Insurance	3	-
ANZ New Zealand Investments Limited	Funds Manager	108	19
ANZ New Zealand Investments Nominees Limited	Trustee/Nominee	-	-
ANZ New Zealand Securities Limited	Broker	35	26
ANZ Private Equity Management Limited	Investment	1	-
ANZ Securities (NZ) Limited	Trustee/Nominee	1	-
ANZ Self Managed Super Ltd	Investment	-	-
ANZ Specialist Asset Management Limited	Trustee/Nominee	6	-
ANZ Trustees Limited	Trustee/Nominee	64	37
ANZ Underwriting Limited	Trustee/Nominee	9	-
ANZ Wealth Alternative Investments Management Pty Ltd	Investment	1,281	1,281
ANZ Wealth Australia Limited	Corporate	2,802	798
ANZ Wealth New Zealand Limited	Holding Company	490	-
ANZcover Insurance Pte Ltd	Captive-Insurance	46	6
ANZcover Insurance Pty Ltd	Captive-Insurance	268	123
ANZMAC Securities (NZ) Nominees Limited	Trustee/Nominee	-	-
AUT (NZ) Administration Pty Ltd	Corporate	1	-
AUT Investments Limited	Investment Company	6	-
Capricorn Financial Advisers Pty Ltd	Advice	1	2
Direct Nominees Limited	Trustee/Nominee	-	-
Elders Financial Planning Pty Ltd	Advice	14	3
Financial Investment Network Group Pty Ltd	Advice	78	3
Financial Lifestyle Solutions Pty Limited	Advice	4	4
Financial Planning Hotline Pty Ltd	Investment	-	-
FSP Group Pty Limited	Advice	7	5
Mercantile Mutual Financial Services Pty Ltd	Investment	1	-
Millennium 3 Financial Services Group Pty Ltd	Advice	66	9
Millennium 3 Professional Services Pty Ltd	Advice	1	-
Millennium3 Financial Services Pty Ltd	Advice	15	7
Millennium3 Mortgage Platform Services Pty Limited	Advice	-	-
OASIS Asset Management Limited	Investment	31	5
OASIS Fund Management Limited	Investment	2	2
OneAnswer Nominees Limited	Trustee/Nominee	-	-
OnePath Administration Pty Ltd	Corporate	105	54
OnePath Custodians Pty Ltd	Investment	30	5
OnePath Financial Planning Pty Ltd	Advice	1	-
OnePath Funds Management Ltd	Investment	119	39
OnePath General Insurance Pty Ltd	Insurance	262	181
OnePath Insurance Holdings (NZ) Limited	Holding Company	325	-
OnePath Insurance Services (NZ) Limited	Insurance	153	46
OnePath Investment Holdings Pty Ltd	Investment	71	-
OnePath Life (NZ) Limited	Insurance	578	142
OnePath Life Australia Holdings Pty Ltd	Corporate	2,529	-
OnePath Life Limited	Insurance	35,538	33,362
Polaris Financial Solutions Pty Limited	Advice	1	1
Private Nominees Limited	Trustee/Nominee	-	-
RI Advice Group Pty Ltd	Advice	20	7
RI Central Coast Pty Ltd	Advice	2	-
RI Gold Coast Pty Ltd	Advice	2	-
RI Maroochydore Pty Ltd	Advice	1	-
RI Newcastle Pty Ltd	Advice	2	-
RI Parramatta Pty Ltd	Advice	7	1
RI Rockhampton & Gladstone Pty Ltd	Advice	3	-
RI Townsville Pty Ltd	Advice	1	-
Super Concepts Pty Ltd	Investment	7	1

Table 2 Main features of capital instruments

As the main feature 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 plans through ensuring that available capital exceeds the level of Economic Capital required to support the Ratings Agency 'default frequency' confidence level for a 'AA' credit rating category bank. Economic Capital is an internal estimate of capital levels required to support risk and unexpected losses above a desired target solvency level;
- Capital levels are commensurate with ANZ maintaining its preferred 'AA' credit rating category for senior long-term unsecured debt given its risk appetite outlined in its strategic plan; 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.

Annually, ANZ 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 to ensure that under specific stressed economic scenarios that capital levels have sufficient capital to remain above both Economic Capital and Prudential Capital Ratio (PCR) requirements;
- Stress tests are performed under different economic conditions to ensure 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 modeling 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 Management that models and reports to management and the Board's 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 both Economic Capital and 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 (RWAs), 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:

- Additional Tier 1 capital instruments included within shareholders' equity are excluded;
- Reserves excluding the hedging reserve and reserves of insurance and funds management subsidiaries excluded for Level 2 purposes;
- Retained earnings excluding retained earnings of insurance and funds management subsidiaries excluded for Level 2 purposes, but includes capitalised deferred fees forming part of loan yields that meet the criteria set out in the prudential standard;
- Inclusion of qualifying treasury shares; and
- Current year net of tax earnings less profits of insurance and funds management subsidiaries excluded for Level 2 purposes.

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 and funds management entities and associates, capitalised expenses (including loan and origination fees), and the amount of regulatory expected losses (EL) in excess of eligible provisions.

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 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 change

The Basel Committee on Banking Supervision has released a series of consultation papers (Basel III) containing a number of proposals to strengthen the global capital and liquidity framework to improve the banking sector's ability to absorb shocks arising from financial and economic stress.

Following the above, APRA's released its new prudential capital standards in September 2012 detailing the implementation of the majority of Basel III capital reforms in Australia. ANZ has implemented APRA's Basel III capital reforms from 1 January 2013, and is also well placed to meet the future implementation of the capital conservation measures included in the reforms, including the capital conservation buffer from 1 January 2016

APRA is still to finalise capital standards on the Basel III reforms dealing with the improvements in capital disclosures, leverage ratio, counterparty credit risk, contingent capital and measures to address systematic and inter-connected risks.

Level 3 Conglomerates

Refer to discussion of page 10 of this document.

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

Table 6 Capital Ratio and Risk Weighted Assets

	Basel III		Basel II
Risk weighted assets (RWA)	**Sep 13** $M	**Mar 13** $M	**Sep 12** $M
Subject to Advanced Internal Rating Based (IRB) approach			
Corporate	121,586	114,700	111,796
Sovereign	4,360	4,382	4,088
Bank	16,270	15,838	10,964
Residential Mortgage	47,559	44,597	42,959
Qualifying Revolving Retail	7,219	7,234	7,092
Other Retail	24,328	23,200	21,277
Credit risk weighted assets subject to Advanced IRB approach	**221,322**	**209,951**	**198,176**
Credit risk Specialised Lending exposures subject to slotting approach [4]	**27,640**	**27,842**	**27,628**
Subject to Standardised approach			
Corporate	19,285	17,157	18,281
Residential Mortgage	1,922	1,827	1,812
Qualifying Revolving Retail	1,728	2,068	2,028
Other Retail	985	1,248	1,165
Credit risk weighted assets subject to Standardised approach	**23,920**	**22,300**	**23,286**
Credit Valuation Adjustment[5] and Qualifying Central Counterparties[6]	**8,501**	**8,949**	**n/a**
Credit risk weighted assets relating to securitisation exposures	2,724	2,549	1,170
Credit risk weighted assets relating to equity exposures	n/a	n/a	1,030
Other assets	3,544	3,387	3,585
Total credit risk weighted assets	**287,651**	**274,978**	**254,875**
Market risk weighted assets	4,303	6,850	4,664
Operational risk weighted assets	29,024	28,125	28,125
Interest rate risk in the banking book (IRRBB) risk weighted assets	18,287	12,629	12,455
Total risk weighted assets	**339,265**	**322,582**	**300,119**
Capital ratios (%)[7]			
Level 2 Common Equity Tier 1 capital ratio	**8.5%**	**8.2%**	**n/a**
Level 2 Tier 1 capital ratio	**10.4%**	**9.8%**	**10.8%**
Level 2 Total capital ratio	**12.2%**	**11.7%**	**12.2%**
Level 1: Extended licensed Common Equity Tier 1 capital ratio	**8.5%**	**8.4%**	**n/a**
Level 1: Extended licensed entity Tier 1 capital ratio	**10.6%**	**10.3%**	**11.4%**
Level 1: Extended licensed entity Total capital ratio	**12.5%**	**12.2%**	**12.7%**
Other significant Authorised Deposit-taking Institution (ADI) or overseas bank subsidiary:			
ANZ Bank New Zealand Limited – Common Equity Tier 1 capital ratio	**10.4%**	**10.2%**	**n/a**
ANZ Bank New Zealand Limited - Tier 1 capital ratio	**10.8%**	**10.2%**	**10.8%**
ANZ Bank New Zealand Limited - Total capital ratio	**12.4%**	**11.8%**	**12.5%**

[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] Basel III capital reforms have introduced a Credit Value Adjustment (CVA) capital charge on over the counter derivative (OTC) assets.

[6] Basel III capital reforms, exposures to Qualifying Central Counterparties (QCCP's) arising from over the counter (OTC) derivatives, exchange-traded derivatives and securities financing transactions are subject to refined capital requirements.

[7] 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 CRWA increased $32.8 billion (12.9%) from September 2012 to $287.7 billion at September 2013, including a $14.1 billion increase due to the introduction of Basel III. Significant Basel Asset Class movements include an increase of $9.8 billion (8.8%) in AIRB Corporate driven by growth in the Institutional business, FX impacts and Basel III, a $5.3 billion (48.4%) in AIRB Bank driven mainly by growth in the Institutional business and Basel III, and an increase of $4.6 billion (10.7%) in IRB Retail Mortgages driven mainly by growth in the Australian portfolio.

IRRBB RWA increased by $5.8 billion (46.8%) to $18.3 billion over the year, which was due to greater repricing and yield curve risk.

International capital ratio comparisons

International harmonisation details

One of the main purposes of the Pillar 3 disclosures is to facilitate comparisons of banks, both within and across jurisdictions. International investors should be aware that there are a number of features of APRA's implementation of Basel III that have the effect of making key capital adequacy ratios appear lower than would be the case if they were calculated under the rules in other jurisdictions.

The following table details the material differences between APRA's Basel III prudential requirements and those of the Basel Committee on Banking Supervision (BCBS) as at 30 September 2013 (Internationally Harmonised). ANZ's CET1, Tier 1 and Total Capital ratios as at 30 September 2013 on an Internationally Harmonised Basel III basis were 10.8%, 12.8% and 14.7% respectively.

Regulatory Capital Frameworks Comparison	**CET1** %	**Tier 1 Capital** %	**Total Capital** %
Basel III - APRA	**8.5%**	**10.4%**	**12.2%**
Differences relating to capital			
Significant Investments in FI's and deconsolidated entities	0.8%	0.8%	0.7%
Deferred Tax Assets	0.3%	0.2%	0.2%
Net Capitalised Expenses & Other Capital Items	0.2%	0.2%	0.2%
Differences related to risk weighted assets			
IRRBB	0.5%	0.6%	0.7%
RWA treatment - residential mortgages & other	0.5%	0.6%	0.7%
Total Adjustments	**2.3%**	**2.4%**	**2.5%**
Basel III - Internationally Harmonised	**10.8%**	**12.8%**	**14.7%**

The table below provides an explanation of the material differences between APRA's Basel III capital rules and the BCBS Basel III minimum requirements and the impact of converting APRA Basel III capital ratios to fully implemented Internationally Harmonised Basel III capital ratios.

Item	**Description**	**Movement in ratios, APRA to Internationally Harmonised**
Significant investments in Financial Institutions (FI's) and other deconsolidated subsidiaries	A 100% adjustment is required from CET1 for significant equity investments in financial institutions and entities that are deconsolidated for regulatory purposes (e.g. insurance and funds management businesses). APRA requires these equity investments to be 100% deducted from CET1. BCBS allows a concessional threshold before the deduction is required.	Increase ratio

Item	Description	Movement in ratios, APRA to Internationally Harmonised
Deferred Tax Assets	A 100% adjustment is required from CET1 for deferred tax assets relating to temporary differences. APRA requires all deferred tax assets, including those relating to temporary differences, to be deducted 100% from CET1. BCBS allows a concessional threshold before the deduction is required.	Increase ratio
Capitalised expenses net of deferred fee income	A 100% adjustment is required for the net of capitalised expenses and deferred fee income. BCBS does not provide for any adjustments to CET1 for capitalised expenses net of deferred fee income.	Increase ratio
Interest rate risk in the banking book (IRRBB)	APRA requires the inclusion of IRRBB within RWA. BCBS requirements make no reference to IRRBB RWA.	Increase ratio
RWA treatment – residential mortgages	APRA imposes a floor of 20% on the downturn Loss Given Default (LGD) used in advanced credit models for determining credit RWA's for residential mortgages. BCBS imposes a downturn LGD floor of 10% for these exposures.	Increase ratio

Chapter 6 – Credit risk

Table 7 Credit risk – General disclosures

Definition of credit risk

Credit risk is defined as the risk of financial loss resulting from the failure of ANZ's customers and counterparties to honour or perform fully the terms of a loan or contract.

Regulatory approval to use the Advanced Internal Ratings-based approach

ANZ has been given approval by APRA to use the Advanced Internal Ratings-based approach to credit risk, under APS 113. There are however several small portfolios (mainly retail and local corporates in Asia Pacific) where 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 and support sound growth for appropriate returns. 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, define and guide the credit process, organisation and staff.

Organisation

As described in Chapter 3, the CMRC is a senior executive level credit risk committee. The CRSOC supports the CMRC, by providing group-wide oversight of ANZ's credit rating system.

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 CRO, even where they are embedded in business units. Risk provides independent credit assessment and approval on lending decisions, and also performs key roles in portfolio management such as development and validation of credit risk measurement systems, loan asset quality reporting, and development of credit policies and requirements.

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 his credit discretion to individuals as part of a 'cascade' of authority from senior to the most junior credit officers. Within ANZ, 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 a 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, with assessors considering the decision tool recommendation.

Portfolio direction and performance

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

- Business writing strategies that 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.
- Exposure concentration limits, covering single customers, industries and cross border risk, to ensure 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, EL, regulatory RWA and regulatory expected loss.
- Assessing impact of emerging issues, and conducting adhoc investigations and analysis.
- Validating rating/scoring tools and credit estimates.
- Ongoing review and refinement of ANZ's credit risk measurement and policy framework.

Reporting – overview and definitions

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 requiring attention 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. Within the retail segments, monthly reporting packs are prepared that focus on such aspects as scoring and delinquency/slippage monitoring.

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.

Impaired assets

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 value adjustment (CVA), 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 beyond those typically offered to new facilities with similar risk.

Collective provisions

As well as holding individual provisions for credit loss, ANZ also holds a collective provision to cover credit losses which have been incurred but have not yet been specifically identified.

Calculation of the collective provision involves placing exposures in pools of similar assets with similar risk characteristics. The required collective provision is estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the collective pool and includes an allowance for inherent risk associated with the design and use of models. The initial calculation from historical loss experience may be adjusted based on current observable data such as changed economic conditions, and to take account of the impact of inherent risk of large concentrated losses within the portfolio.

The methodology underpinning calculation of collective provision from historical experience is predominantly based around the product of an exposure's PD, LGD and EAD. ANZ uses slightly different PD, LGD and EAD factors in the calculation of regulatory capital and regulatory EL, due to the different requirements of APRA and accounting standards. The key differences are:

- ANZ must use more conservative LGD assumptions for regulatory capital purposes, such as the 20% LGD floor for retail mortgages and downturn LGD factors.
- ANZ must use cycle-adjusted PDs for regulatory capital purposes, but uses point-in-time estimates to calculate provisions.

Essentially these differences reflect the effects of the credit cycle on credit losses. Point-in-time refers to losses at any given point in the credit cycle, cycle-adjusted refers to adjusting estimates to reflect a full credit cycle and downturn refers to losses at the worst of the cycle and is the most conservative estimate to use. Regardless of the adjustments, the starting point for all estimates is the output of the rating/scoring models and tools to satisfy the in use test[8].

Individual provisions

Individual provisions 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 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.

Basel III definition of default

ANZ uses the standard APRA definition of default, so that a default is considered to have occurred with regard to a particular obligor when either or both of the two following events have taken place:

- ANZ considers that the obligor is unlikely to pay[9] its credit obligations to ANZ in full, without recourse by ANZ to actions such as realising available security.
- The obligor is at least 90 days past due on a credit obligation to ANZ.

Specific provision and general reserve for credit losses

Due to definitional differences, there is a difference in the split between ANZ's individual provision and collective provision for accounting purposes and the specific provision and general reserve for credit losses (GRCL) for regulatory purposes. This does not impact total provisions, and essentially relates to the classification of collectively assessed provisions on defaulted accounts. The disclosures in this document are based on individual provision and collective provision, for ease of comparison with other published results.

[8] One of the key criteria for regulatory acceptance of a rating model is that the outputs must be used in a wide range of ongoing management activities, to demonstrate that the model is used in day-to-day management of exposures and not just for regulatory capital calculation.

[9] Elements to be taken as indications of unlikeliness to pay include the factors relating to impairment (irrespective of whether the credit obligations are well secured) or ANZ selling the credit obligation at a material credit-related economic loss.

Table 7(b) part (i): Period end and average Exposure at Default [10] [11]

	Sep 13				
Advanced IRB approach	Basel III 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	121,586	224,087	215,887	225	240
Sovereign	4,360	73,846	75,922	-	-
Bank	16,270	102,636	102,504	-	-
Residential Mortgage	47,559	274,755	267,154	23	51
Qualifying Revolving Retail	7,219	21,174	21,063	115	152
Other Retail	24,328	37,034	36,111	166	188
Total Advanced IRB approach	**221,322**	**733,532**	**718,641**	**529**	**631**
Specialised Lending	**27,640**	**32,072**	**32,197**	**6**	**51**
Standardised approach					
Corporate	19,285	19,756	18,373	20	71
Residential Mortgage	1,922	5,191	4,699	4	5
Qualifying Revolving Retail	1,728	1,721	1,892	(7)	3
Other Retail	985	980	1,111	20	32
Total Standardised approach	**23,920**	**27,648**	**26,075**	**37**	**111**
Credit Valuation Adjustment and Qualifying Central Counterparties	**8,501**	**5,069**	**3,293**	**-**	**-**
Total	**281,383**	**798,321**	**780,206**	**572**	**793**

[10] Exposure at Default in Table 7 includes Advanced IRB, Specialised Lending and Standardised exposures, however does not include Securitisation, Equities or Other Assets exposures. Exposure at Default in Table 7 is gross of credit risk mitigation such as guarantees, credit derivatives, netting and financial collateral.

[11] 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.

	Mar 13				
Advanced IRB approach	Basel III 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	114,700	207,687	205,084	243	303
Sovereign	4,382	77,998	72,294	-	-
Bank	15,838	102,372	100,640	-	-
Residential Mortgage	44,597	259,553	255,196	35	31
Qualifying Revolving Retail	7,234	20,951	20,932	112	146
Other Retail	23,200	35,187	33,570	138	150
Total Advanced IRB approach	**209,951**	**703,748**	**687,716**	**528**	**630**
Specialised Lending	**27,842**	**32,321**	**31,969**	**39**	**170**
Standardised approach					
Corporate	17,157	16,989	17,478	22	36
Residential Mortgage	1,827	4,206	3,991	1	1
Qualifying Revolving Retail	2,068	2,062	2,041	(9)	8
Other Retail	1,248	1,242	1,194	14	19
Total Standardised approach	**22,300**	**24,499**	**24,704**	**28**	**64**
Credit Valuation Adjustment and Qualifying Central Counterparties	**8,949**	**1,516**	**1,516**	**-**	**-**
Total	**269,042**	**762,084**	**745,905**	**595**	**864**

	Sep 12				
Advanced IRB approach	Basel II 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	111,796	202,481	193,822	450	387
Sovereign	4,088	66,590	62,747	-	-
Bank	10,964	98,908	95,085	-	-
Residential Mortgage	42,959	250,839	247,516	34	36
Qualifying Revolving Retail	7,092	20,912	21,150	134	161
Other Retail	21,277	31,954	31,219	131	125
Total Advanced IRB approach	**198,176**	**671,684**	**651,539**	**749**	**709**
Specialised Lending	**27,628**	**31,616**	**31,538**	**137**	**79**
Standardised approach					
Corporate	18,281	17,967	21,382	27	38
Residential Mortgage	1,812	3,775	3,463	3	1
Qualifying Revolving Retail	2,028	2,021	1,973	(9)	4
Other Retail	1,165	1,146	1,125	8	10
Total Standardised approach	**23,286**	**24,909**	**27,943**	**29**	**53**
Total	**249,090**	**728,209**	**711,020**	**915**	**841**

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

Portfolio Type	Sep 13 $M	Mar 13 $M	Sep 12 $M	Average for half year Sep 13 $M
Cash and liquid assets	38,767	47,433	34,592	43,100
Contingents liabilities, commitments, and other off-balance sheet exposures	133,668	127,206	121,752	130,438
Derivatives	90,368	80,648	86,797	85,508
Due from other financial institutions	11,991	14,518	8,836	13,255
Investment securities	24,207	20,018	18,116	22,113
Loans, advances and acceptances	468,000	441,299	427,537	454,651
Other assets	2,956	2,788	1,506	2,872
Trading securities	28,364	28,174	29,073	28,269
Total exposures	**798,321**	**762,084**	**728,209**	**780,206**

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

	Sep 13			
Portfolio Type	Australia $M	New Zealand $M	Asia Pacific, Europe and Americas $M	Total $M
Corporate	126,645	42,061	75,137	**243,843**
Sovereign	21,742	9,155	42,949	**73,846**
Bank	59,667	10,994	31,975	**102,636**
Residential Mortgage	218,861	55,894	5,191	**279,946**
Qualifying Revolving Retail	21,174	-	1,721	**22,895**
Other Retail	28,476	8,602	936	**38,014**
Qualifying Central Counterparties	3,522	819	728	**5,069**
Specialised Lending	24,111	7,047	914	**32,072**
Total exposures	**504,198**	**134,572**	**159,551**	**798,321**

	Mar 13			
Portfolio Type	Australia $M	New Zealand $M	Asia Pacific, Europe and Americas $M	Total $M
Corporate	122,352	38,389	63,935	**224,676**
Sovereign	19,923	8,547	49,528	**77,998**
Bank	62,994	9,913	29,465	**102,372**
Residential Mortgage	210,841	48,712	4,206	**263,759**
Qualifying Revolving Retail	20,951	-	2,062	**23,013**
Other Retail	27,671	7,564	1,194	**36,429**
Qualifying Central Counterparties	1,292	68	156	**1,516**
Specialised Lending	23,814	6,585	1,922	**32,321**
Total exposures	**489,838**	**119,778**	**152,468**	**762,084**

	Sep 12			
Portfolio Type	Australia $M	New Zealand $M	Asia Pacific, Europe and Americas $M	Total $M
Corporate	125,607	37,779	57,062	**220,448**
Sovereign	19,098	9,763	37,729	**66,590**
Bank	61,967	11,199	25,742	**98,908**
Residential Mortgage	203,665	47,177	3,772	**254,614**
Qualifying Revolving Retail	20,912	-	2,021	**22,933**
Other Retail	24,469	7,538	1,093	**33,100**
Specialised Lending	24,500	6,491	625	**31,616**
Total exposures	**480,218**	**119,947**	**128,044**	**728,209**

Table 7(d): Industry distribution of Exposure at Default [12] [13]

	Sep 13														
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	38,673	9,726	6,526	10,083	10,376	33,559	2,554	41,223	2,446	18,723	26,608	15,126	12,255	15,965	**243,843**
Sovereign	1,045	-	67	633	8	43,456	26,608	731	1	622	49	-	527	99	**73,846**
Bank	-	-	-	-	-	102,441	-	75	-	-	25	-	95	-	**102,636**
Residential Mortgage	-	-	-	-	-	-	-	-	279,946	-	-	-	-	-	**279,946**
Qualifying Revolving Retail	-	-	-	-	-	-	-	-	22,895	-	-	-	-	-	**22,895**
Other Retail	3,149	2,065	3,001	88	1,193	392	9	1,121	18,565	1,029	815	2,631	1,179	2,777	**38,014**
Qualifying Central Counterparties	-	-	-	-	-	2,966	-	-	-	-	-	-	-	2,103	**5,069**
Specialised Lending	411	26	142	2,029	130	3	173	15	-	26,945	-	34	1,602	562	**32,072**
Total exposures	**43,278**	**11,817**	**9,736**	**12,833**	**11,707**	**182,817**	**29,344**	**43,165**	**323,853**	**47,319**	**27,497**	**17,791**	**15,658**	**21,506**	**798,321**
% of Total	*5.4%*	*1.5%*	*1.2%*	*1.6%*	*1.5%*	*22.9%*	*3.7%*	*5.4%*	*40.6%*	*5.9%*	*3.4%*	*2.2%*	*2.0%*	*2.7%*	*100.0%*

[12] 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.

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

Mar 13

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	35,439	8,475	6,083	9,035	10,054	28,291	2,345	39,567	1,943	17,607	25,612	14,450	11,137	14,638	**224,676**
Sovereign	1,154	-	91	790	8	49,052	25,045	585	2	598	122	-	370	181	**77,998**
Bank	-	-	-	-	-	102,372	-	-	-	-	-	-	-	-	**102,372**
Residential Mortgage	-	-	-	-	-	-	-	-	263,759	-	-	-	-	-	**263,759**
Qualifying Revolving Retail	-	-	-	-	-	-	-	-	23,013	-	-	-	-	-	**23,013**
Other Retail	3,129	2,024	2,934	85	1,098	373	7	1,131	17,764	1,031	806	2,508	1,131	2,408	**36,429**
Qualifying Central Counterparties	-	-	-	-	-	660	-	-	-	-	-	-	-	856	**1,516**
Specialised Lending	730	26	9	2,318	168	-	173	124	-	26,373	-	22	1,827	551	**32,321**
Total exposures	**40,452**	**10,525**	**9,117**	**12,228**	**11,328**	**180,748**	**27,570**	**41,407**	**306,481**	**45,609**	**26,540**	**16,980**	**14,465**	**18,634**	**762,084**
% of Total	*5.3%*	*1.4%*	*1.2%*	*1.6%*	*1.5%*	*23.7%*	*3.6%*	*5.4%*	*40.2%*	*6.0%*	*3.5%*	*2.2%*	*1.9%*	*2.4%*	*100.0%*

Sep 12

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	35,024	8,597	6,388	9,256	10,616	25,921	2,291	37,350	1,474	17,916	24,502	13,974	11,716	15,423	**220,448**
Sovereign	527	3	98	688	2	37,983	25,464	368	2	668	57	-	452	278	**66,590**
Bank	-	-	-	-	-	98,908	-	-	-	-	-	-	-	-	**98,908**
Residential Mortgage	-	-	-	-	-	-	-	-	254,614	-	-	-	-	-	**254,614**
Qualifying Revolving Retail	-	-	-	-	-	-	-	-	22,933	-	-	-	-	-	**22,933**
Other retail	2,821	1,828	2,626	84	903	330	8	923	16,782	857	638	2,046	1,039	2,215	**33,100**
Specialised Lending	462	-	-	2,070	137	-	173	241	-	26,460	-	11	1,634	428	**31,616**
Total exposures	**38,834**	**10,428**	**9,112**	**12,098**	**11,658**	**163,142**	**27,936**	**38,882**	**295,805**	**45,901**	**25,197**	**16,031**	**14,841**	**18,344**	**728,209**
% of Total	*5.3%*	*1.4%*	*1.3%*	*1.7%*	*1.6%*	*22.4%*	*3.8%*	*5.3%*	*40.6%*	*6.3%*	*3.5%*	*2.2%*	*2.0%*	*2.5%*	*100.0%*

Table 7(e): Residual contractual maturity of Exposure at Default [14]

Sep 13					
Portfolio Type	< 12 mths $M	1 - 5 years $M	> 5 years $M	No Maturity Specified $M	Total $M
Corporate	108,760	114,807	20,106	170	**243,843**
Sovereign	44,171	17,771	11,904	-	**73,846**
Bank	47,573	53,269	1,794	-	**102,636**
Residential Mortgage	689	4,969	244,357	29,931	**279,946**
Qualifying Revolving Retail	-	-	-	22,895	**22,895**
Other Retail	12,419	14,133	11,462	-	**38,014**
Qualified Central Counterparties	1,303	2,464	1,302	-	**5,069**
Specialised Lending	11,410	18,925	1,676	61	**32,072**
Total exposures	**226,325**	**226,338**	**292,601**	**53,057**	**798,321**

Mar 13					
Portfolio Type	< 12 mths $M	1 - 5 years $M	> 5 years $M	No Maturity Specified $M	Total $M
Corporate	100,881	104,989	18,677	129	**224,676**
Sovereign	49,351	19,598	9,049	-	**77,998**
Bank	49,495	50,540	2,337	-	**102,372**
Residential Mortgage	1,646	4,403	228,585	29,125	**263,759**
Qualifying Revolving Retail	-	-	-	23,013	**23,013**
Other Retail	12,312	15,932	8,185	-	**36,429**
Qualified Central Counterparties	847	370	299	-	**1,516**
Specialised Lending	12,254	17,251	2,754	62	**32,321**
Total exposures	**226,786**	**213,083**	**269,886**	**52,329**	**762,084**

Sep 12					
Portfolio Type	< 12 mths $M	1 - 5 years $M	> 5 years $M	No Maturity Specified $M	Total $M
Corporate	93,957	104,262	22,121	108	**220,448**
Sovereign	40,990	15,386	10,214	-	**66,590**
Bank	44,356	51,210	3,342	-	**98,908**
Residential Mortgage	653	3,549	221,393	29,019	**254,614**
Qualifying Revolving Retail	-	-	-	22,933	**22,933**
Other Retail	10,760	14,335	8,005	-	**33,100**
Specialised Lending	11,183	17,872	2,509	52	**31,616**
Total exposures	**201,899**	**206,614**	**267,584**	**52,112**	**728,209**

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

Table 7(f) part (i): Impaired assets [15] [16], Past due loans [17], Provisions and Write-offs by Industry sector

	Sep 13					
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	-	1,143	161	337	78	65
Business Services	-	96	44	63	11	23
Construction	-	105	94	47	14	22
Electricity, gas and water supply	-	285	5	2	(5)	(1)
Entertainment Leisure & Tourism	-	122	56	35	6	8
Financial, Investment & Insurance	-	160	21	21	-	12
Government & Official Institutions	-	-	-	-	-	-
Manufacturing	-	319	31	141	27	60
Personal	-	955	955	395	309	400
Property Services	6	479	145	134	-	55
Retail Trade	-	119	91	77	53	25
Transport & Storage	61	238	23	70	7	19
Wholesale Trade	-	186	25	109	43	68
Other	-	141	47	36	29	37
Total	**67**	**4,348**	**1,698**	**1,467**	**572**	**793**

[15] Impaired derivatives are net of credit value adjustment (CVA) of $93 million, being a market value based assessment of the credit risk of the relevant counterparties (March 2013: $111 million; September 2012: $105 million).

[16] Impaired loans / facilities include restructured items of $341 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 2013: $524 million; September 2012: $525 million).

[17] Not well secured portfolio managed retail exposures have been reclassified from past due loans > 90 days to impaired loans / facilities from June 2013.

	Mar 13					
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	-	1,158	178	327	49	33
Business Services	-	131	61	64	27	35
Construction	2	113	58	50	11	25
Electricity, gas and water supply	2	271	3	6	-	1
Entertainment Leisure & Tourism	1	110	59	34	12	13
Financial, Investment & Insurance	-	171	22	31	(2)	5
Government & Official Institutions	-	-	-	-	-	-
Manufacturing	6	373	30	132	30	147
Personal	-	810	1,009	403	269	334
Property Services	7	727	122	191	65	68
Retail Trade	-	90	68	55	30	37
Transport & Storage	65	253	22	74	73	144
Wholesale Trade	-	240	19	133	13	8
Other	-	155	45	43	18	14
Total	**83**	**4,602**	**1,696**	**1,543**	**595**	**864**

	Sep 12					
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	-	1,142	229	312	69	54
Business Services	-	158	41	70	24	47
Construction	-	149	49	66	142	124
Electricity, gas and water supply	2	273	27	5	7	2
Entertainment Leisure & Tourism	-	156	45	41	12	11
Financial, Investment & Insurance	-	210	26	28	(15)	6
Government & Official Institutions	-	-	-	-	-	-
Manufacturing	9	489	26	234	178	105
Personal	-	798	970	412	258	359
Property Services	11	796	133	211	44	73
Retail Trade	-	112	85	64	20	16
Transport & Storage	94	383	19	158	127	7
Wholesale Trade	-	241	29	130	29	21
Other	-	173	34	42	20	16
Total	**116**	**5,080**	**1,713**	**1,773**	**915**	**841**

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

	Sep 13					
	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	2,286	308	790	225	240
Sovereign	-	-	-	-	-	-
Bank	-	-	-	-	-	-
Residential Mortgage	-	398	1,026	134	23	51
Qualifying Revolving Retail	-	78	-	-	115	152
Other Retail	-	390	233	213	166	188
Total Advanced IRB approach	**2**	**3,152**	**1,567**	**1,137**	**529**	**631**
Specialised Lending	**65**	**857**	**97**	**145**	**6**	**51**
Portfolios subject to Standardised approach						
Corporate	-	172	21	100	20	71
Residential Mortgage	-	44	9	14	4	5
Qualifying Revolving Retail	-	65	-	45	(7)	3
Other Retail	-	58	4	26	20	32
Total Standardised approach	**-**	**339**	**34**	**185**	**37**	**111**
Qualifying Central Counterparties	**-**	**-**	**-**	**-**	**-**	**-**
Total	**67**	**4,348**	**1,698**	**1,467**	**572**	**793**

Mar 13	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	10	2,418	282	759	243	303
Sovereign	-	-	-	-	-	-
Bank	-	-	-	-	-	-
Residential Mortgage	-	463	907	159	35	31
Qualifying Revolving Retail	-	-	94	-	112	146
Other Retail	-	323	284	202	138	150
Total Advanced IRB approach	**10**	**3,204**	**1,567**	**1,120**	**528**	**630**
Specialised Lending	**71**	**1,055**	**72**	**183**	**39**	**170**
Portfolios subject to Standardised approach						
Corporate	2	237	39	150	22	36
Residential Mortgage	-	18	3	14	1	1
Qualifying Revolving Retail	-	63	1	46	(9)	8
Other Retail	-	25	14	30	14	19
Total Standardised approach	**2**	**343**	**57**	**240**	**28**	**64**
Qualifying Central Counterparties	**-**	**-**	**-**	**-**	**-**	**-**
Total	**83**	**4,602**	**1,696**	**1,543**	**595**	**864**

Sep 12	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	15	2,631	358	854	450	387
Sovereign	-	-	-	-	-	-
Bank	-	-	-	-	-	-
Residential Mortgage	-	468	898	163	34	36
Qualifying Revolving Retail	-	-	83	1	134	161
Other Retail	-	286	198	182	131	125
Total Advanced IRB approach	**15**	**3,385**	**1,537**	**1,200**	**749**	**709**
Specialised Lending	**99**	**1,343**	**117**	**326**	**137**	**79**
Portfolios subject to Standardised approach						
Corporate	2	209	30	142	27	38
Residential Mortgage	-	23	4	17	3	1
Qualifying Revolving Retail	-	65	13	53	(9)	4
Other Retail	-	55	12	35	8	10
Total Standardised approach	**2**	**352**	**59**	**247**	**29**	**53**
Total	**116**	**5,080**	**1,713**	**1,773**	**915**	**841**

Table 7(g): Impaired assets [18] [19], Past due loans [20] and Provisions by Geography

	Sep 13				
Geographic region	Impaired derivatives $M	Impaired loans/ facilities $M	Past due loans ≥90 days $M	Individual provision balance $M	Collective provision balance $M
Australia	67	2,806	1,486	944	1,862
New Zealand	-	873	178	261	495
Asia Pacific, Europe and America	-	669	34	262	530
Total	**67**	**4,348**	**1,698**	**1,467**	**2,887**

	Mar 13				
Geographic region	Impaired derivatives $M	Impaired loans/ facilities $M	Past due loans ≥90 days $M	Individual provision balance $M	Collective provision balance $M
Australia	79	2,973	1,455	955	1,808
New Zealand	-	1,021	184	313	470
Asia Pacific, Europe and America	4	608	57	275	491
Total	**83**	**4,602**	**1,696**	**1,543**	**2,769**

	Sep 12				
Geographic region	Impaired derivatives $M	Impaired loans/ facilities $M	Past due loans ≥90 days $M	Individual provision balance $M	Collective provision balance $M
Australia	111	3,335	1,473	1,128	1,788
New Zealand	-	1,157	181	368	496
Asia Pacific, Europe and America	5	588	59	277	481
Total	**116**	**5,080**	**1,713**	**1,773**	**2,765**

[18] Impaired derivatives are net of credit value adjustment (CVA) of $93 million, being a market value based assessment of the credit risk of the relevant counterparties (March 2013: $111 million; September 2012: $105 million).

[19] Impaired loans / facilities include restructured items of $341 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 2013: $524 million; September 2012: $525 million).

[20] Not well secured portfolio managed retail exposures have been reclassified from past due loans > 90 days to impaired loans / facilities from June 2013.

Table 7(h): Provision for Credit Impairment

Collective Provision	Half year Sep 13 $M	Half year Mar 13 $M	Half year Sep 12 $M
Balance at start of period	2,769	2,765	2,994
Charge to income statement	26	4	(227)
Disposal	-	-	(4)
Adjustments for exchange rate fluctuations	92	-	2
Total Collective Provision	**2,887**	**2,769**	**2,765**
Individual Provision			
Balance at start of period	1,543	1,773	1,714
New and increased provisions	957	932	1,270
Write-backs	(247)	(240)	(286)
Adjustment for exchange rate fluctuations	54	(3)	(5)
Discount unwind	(47)	(55)	(79)
Bad debts written off	(793)	(864)	(841)
Total Individual Provision	**1,467**	**1,543**	**1,773**
Total Provisions for Credit Impairment	**4,354**	**4,312**	**4,538**

Specific Provision Balance and General Reserve for Credit Losses [21]

	Sep 13		
	Specific Provision Balance $M	General Reserve for Credit Losses $M	Total $M
Collective Provision	346	2,541	2,887
Individual Provision	1,467	-	1,467
Total Provision for Credit Impairment			**4,354**

	Mar 13		
	Specific Provision Balance $M	General Reserve for Credit Losses $M	Total $M
Collective Provision	341	2,428	2,769
Individual Provision	1,543	-	1,543
Total Provision for Credit Impairment			**4,312**

	Sep 12		
	Specific Provision Balance $M	General Reserve for Credit Losses $M	Total $M
Collective Provision	334	2,431	2,765
Individual Provision	1,773	-	1,773
Total Provision for Credit Impairment			**4,538**

[21] 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

Use of external rating agencies (External Credit Assessment Institutions)

ANZ portfolios under the Standardised approach are mainly Retail portfolios and hence are not rated by external rating agencies. However, there are a small number of local corporate counterparties that are externally rated. 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 gradings of these two External Credit Assessment Institutions (ECAIs).

Table 8(b): Exposure at Default by risk bucket [22]

Risk weight Standardised approach exposures	Sep 13 $M	Mar 13 $M	Sep 12 $M
0%	-	-	-
20%	364	-	-
35%	4,771	3,156	2,434
50%	821	387	375
75%	-	711	971
100%	21,478	19,660	20,248
150%	184	539	847
>150%	2	-	-
Capital deductions	-	-	-
Total	**27,620**	**24,453**	**24,875**
Other Asset exposures			
0%	-	-	-
20%	1,023	1,081	1,092
35%	-	-	-
50%	-	-	-
75%	-	-	-
100%	3,339	3,171	3,367
150%	-	-	-
>150%	-	-	-
Capital deductions	-	-	-
Total	**4,362**	**4,252**	**4,459**
Specialised Lending exposures			
0%	1,020	1,231	1,478
70%	11,938	11,339	9,954
90%	14,972	15,519	15,102
115%	3,308	3,231	3,970
250%	802	889	1,001
Total	**32,040**	**32,209**	**31,505**
Equity exposures [23]			
300%	n/a	n/a	58
400%	n/a	n/a	214
Total	n/a	n/a	**272**

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

[23] Under Basel III, equity exposures are no longer risk weighted, but are taken as capital deductions.

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[24] In Australia only, other authorised deposit taking institutions (ADI) incorporated in Australia	AIRB
Residential mortgages	Exposures secured by residential property	AIRB
Qualifying revolving retail	Consumer credit cards <$100,000 limit	AIRB
Other retail	Small business lending Other lending to consumers	AIRB
Specialised Lending	Income Producing Real Estate[25] Project finance Object finance	AIRB – Supervisory Slotting[26]
Equity		AIRB – fixed risk weights
Other assets	All other assets not falling into the above classes e.g. margin lending, fixed assets	AIRB – fixed risk weights

In addition, ANZ has applied the Standardised approach to some portfolio segments (mainly retail and local corporates in Asia Pacific) 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.

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.

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

[25] 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.

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

- 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. When measuring economic loss, all relevant factors are taken into account, including material effects of the timing of cash flows and material direct and indirect costs associated with collecting on the exposure, including realisation of collateral.

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 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 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 gradings 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 < A1	AAA to < A+	0.0000 - 0.0346%
2+ to 3+	A1 to < Baa2	A+ to < BBB	0.0347 - 0.1636%
3= to 4=	Baa2 to < Ba1	BBB to < BB+	0.1637 - 0.5108%
4- to 6-	Ba1 to < B1	BB+ to < B+	0.5109 - 3.4872%
7+ to 8+	B1 to < Caa	B+ to < CCC	3.4873 - 10.0928%
8=	Caa	CCC	10.0929 - 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 PD, so the PD master scale gives ANZ a common language to understand and manage credit risk. For retail asset class exposures, the LGD dimension is recognised through the process of pooling retail exposures into homogenous groups.

ANZ also uses specialised PD master scale/mappings for the sovereign and bank asset classes, based predominantly on the corporate master scale.

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.
- Collective provision measurement.
- Management of deteriorating customers (where certain CCR/SI combinations trigger increasing scrutiny).
- Pricing decisions.

PD, LGD and EAD are used in the calculation of economic capital and in the collective 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 Global 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.

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 economic capital ensures 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	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	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[27]

For the Retail Basel asset class (Residential Mortgages, Qualifying Revolving Retail and Other Retail Exposures) the large number of relatively homogenous exposures enable the development of statistically robust application scoring models for use at origination and behavioural scoring for ongoing management. The scores are calibrated to PD, so the PD master scale gives ANZ a common language to understand and discuss credit risk. LGD is recognised through the process of pooling retail exposures into homogenous groups.

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.

[27] 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 Internal Ratings Based (IRB) approach [28] [29] [30]

	Sep 13							
	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	12,338	56,758	77,638	68,754	3,792	1,706	3,101	**224,087**
Sovereign	67,730	1,933	1,239	2,873	50	21	-	**73,846**
Bank	85,766	8,769	6,914	1,180	1	6	-	**102,636**
Total	**165,834**	**67,460**	**85,791**	**72,807**	**3,843**	**1,733**	**3,101**	**400,569**
% of Total	41.4%	16.8%	21.4%	18.2%	1.0%	0.4%	0.8%	100.0%
Undrawn commitments (included in above)								
Corporate	4,238	18,957	21,365	10,822	509	207	117	**56,215**
Sovereign	711	411	19	9	-	-	-	**1,150**
Bank	282	107	220	13	-	-	-	**622**
Total	**5,231**	**19,475**	**21,604**	**10,844**	**509**	**207**	**117**	**57,987**
Average Exposure at Default								
Corporate	3.861	3.057	1.258	0.388	0.635	0.319	0.748	**0.783**
Sovereign	71.914	38.134	20.392	16.607	5.571	1.775	-	**58.910**
Bank	7.613	2.755	3.517	1.198	0.083	0.198	-	**5.313**
Exposure-weighted average Loss Given Default (%)								
Corporate	58.2%	60.0%	48.3%	39.7%	40.4%	43.0%	39.4%	**48.4%**
Sovereign	2.4%	4.2%	49.8%	49.8%	70.7%	34.6%	-	**5.2%**
Bank	63.7%	64.6%	70.9%	72.0%	54.5%	65.7%	-	**64.3%**
Exposure-weighted average risk weight (%)								
Corporate	20.8%	37.0%	54.0%	74.1%	125.2%	187.9%	136.5%	**58.7%**
Sovereign	0.5%	1.8%	52.9%	110.9%	222.9%	212.3%	-	**6.1%**
Bank	20.0%	29.8%	81.6%	134.2%	167.1%	329.7%	-	**31.1%**

[28] In accordance with APS 330, EAD in Table 9(d) includes Advanced IRB exposures; however does not include 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).

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

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

Mar 13	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	10,663	50,805	74,387	62,974	1,812	3,765	3,281	**207,687**
Sovereign	72,199	1,576	1,018	3,115	22	68	-	**77,998**
Bank	81,682	13,350	5,960	1,375	4	1	-	**102,372**
Total	**164,544**	**65,731**	**81,365**	**67,464**	**1,838**	**3,834**	**3,281**	**388,057**
% of Total	42.4%	16.9%	21.0%	17.4%	1.3%	1.0%	0.8%	100.0%
Undrawn commitments (included in above)								
Corporate	3,865	17,933	20,947	10,396	508	136	118	**53,903**
Sovereign	789	411	41	4	-	-	-	**1,245**
Bank	102	99	62	16	-	-	-	**279**
Total	**4,756**	**18,443**	**21,050**	**10,416**	**508**	**136**	**118**	**55,427**
Average Exposure at Default								
Corporate	0.199	2.730	1.161	0.356	0.589	0.197	0.798	**0.611**
Sovereign	67.595	24.178	19.346	15.185	4.557	1.463	-	**54.644**
Bank	4.437	2.486	3.420	1.679	0.070	0.256	-	**3.820**
Exposure-weighted average Loss Given Default (%)								
Corporate	57.0%	60.2%	48.1%	39.1%	40.3%	41.4%	40.0%	**48.2%**
Sovereign	2.4%	4.4%	44.0%	52.6%	59.1%	40.6%	-	**5.1%**
Bank	64.8%	66.4%	73.0%	73.3%	75.0%	68.5%	-	**65.8%**
Exposure-weighted average risk weight (%)								
Corporate	20.0%	37.0%	53.0%	74.0%	126.0%	192.0%	132.0%	**59.0%**
Sovereign	0.4%	2.0%	46.8%	109.7%	195.1%	222.5%	-	**5.8%**
Bank	19.8%	31.4%	90.1%	135.9%	245.3%	334.0%	-	**32.2%**

Sep 12	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	9,294	50,101	67,989	66,079	3,652	1,886	3,480	**202,481**
Sovereign	61,151	1,728	459	3,188	62	2	-	**66,590**
Bank	81,721	10,621	5,033	1,530	1	2	-	**98,908**
Total	**152,166**	**62,450**	**73,481**	**70,797**	**3,715**	**1,890**	**3,480**	**367,979**
% of Total	41.4%	17.0%	20.0%	19.2%	1.0%	0.5%	0.9%	100.0%
Undrawn commitments (included in above)								
Corporate	3,835	17,252	18,027	11,484	399	138	100	**51,235**
Sovereign	639	327	42	61	-	-	-	**1,069**
Bank	66	76	17	13	-	-	-	**172**
Total	**4,540**	**17,655**	**18,086**	**11,558**	**399**	**138**	**100**	**52,476**
Average Exposure at Default								
Corporate	0.171	2.671	1.079	0.375	0.560	0.276	1.003	**0.600**
Sovereign	54.544	27.858	8.592	13.344	4.776	0.245	-	**44.416**
Bank	7.125	2.754	3.011	1.454	0.291	0.076	-	**5.034**
Exposure-weighted average Loss Given Default (%)								
Corporate	56.5%	59.7%	46.8%	38.5%	37.5%	40.4%	37.2%	**46.8%**
Sovereign	2.5%	4.8%	29.4%	54.1%	58.9%	55.5%	-	**5.4%**
Bank	64.5%	65.7%	72.8%	73.5%	62.7%	65.8%	-	**65.8%**
Exposure-weighted average risk weight (%)								
Corporate	18.5%	36.1%	52.2%	72.8%	117.1%	179.1%	140.9%	**58.3%**
Sovereign	0.5%	1.8%	30.2%	110.7%	207.7%	469.8%	-	**6.4%**
Bank	14.7%	22.9%	72.9%	118.7%	232.1%	329.9%	-	**25.2%**

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

	Sep 13							
	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% <100.0% $M	Default $M	Total $M
Exposure at Default								
Residential Mortgage	2,749	178,322	21,116	58,390	8,455	4,053	1,670	**274,755**
Qualifying Revolving Retail	11,246	219	1,904	4,797	1,962	889	157	**21,174**
Other Retail	950	3,866	3,039	20,226	6,991	1,279	683	**37,034**
Total	**14,945**	**182,407**	**26,059**	**83,413**	**17,408**	**6,221**	**2,510**	**332,963**
% of Total	4.5%	54.8%	7.8%	25.0%	5.2%	1.9%	0.8%	100.0%
Undrawn commitments (included in above)								
Residential Mortgage	1,077	19,487	1,077	3,468	222	66	2	**25,399**
Qualifying Revolving Retail	8,758	218	1,223	2,085	586	106	22	**12,998**
Other Retail	446	1,633	1,495	2,305	273	44	7	**6,203**
Total	**10,281**	**21,338**	**3,795**	**7,858**	**1,081**	**216**	**31**	**44,600**
Average Exposure at Default								
Residential Mortgage	0.026	0.224	0.160	0.195	0.233	0.255	0.192	**0.197**
Qualifying Revolving Retail	0.011	0.006	0.010	0.009	0.009	0.008	0.009	**0.010**
Other Retail	0.013	0.012	0.013	0.017	0.010	0.008	0.014	**0.014**
Exposure-weighted average Loss Given Default (%)								
Residential Mortgage	16.3%	19.5%	19.0%	23.4%	20.9%	20.0%	22.5%	**20.3%**
Qualifying Revolving Retail	73.2%	73.2%	73.2%	73.2%	73.2%	73.2%	73.2%	**73.2%**
Other Retail	51.3%	51.5%	59.5%	46.1%	53.3%	62.0%	52.3%	**49.8%**
Exposure-weighted average risk weight (%)								
Residential Mortgage	4.1%	6.3%	13.7%	32.1%	76.1%	108.6%	221.7%	**17.3%**
Qualifying Revolving Retail	4.9%	11.5%	14.2%	39.2%	108.4%	207.3%	364.6%	**34.1%**
Other Retail	13.2%	22.5%	43.0%	59.9%	83.8%	145.2%	206.7%	**40.6%**

	Mar 13							
	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% <100.0% $M	Default $M	Total $M
Exposure at Default								
Residential Mortgage	2,541	171,246	18,914	53,456	7,985	3,812	1,599	**259,553**
Qualifying Revolving Retail	11,148	167	1,859	4,697	1,940	974	166	**20,951**
Other Retail	870	3,462	2,812	19,288	6,780	1,304	671	**35,187**
Total	**14,559**	**174,875**	**23,585**	**77,441**	**16,705**	**6,090**	**2,436**	**315,691**
% of Total	4.6%	55.4%	7.5%	24.5%	5.3%	1.9%	0.8%	100.0%
Undrawn commitments (included in above)								
Residential Mortgage	943	18,524	991	3,199	179	69	3	**23,908**
Qualifying Revolving Retail	8,702	166	1,189	2,058	577	113	20	**12,825**
Other Retail	409	1,482	1,416	2,097	250	45	7	**5,706**
Total	**10,054**	**20,172**	**3,596**	**7,354**	**1,006**	**227**	**30**	**42,439**
Average Exposure at Default								
Residential Mortgage	0.025	0.219	0.145	0.180	0.226	0.250	0.177	**0.189**
Qualifying Revolving Retail	0.011	0.006	0.010	0.009	0.009	0.008	0.008	**0.010**
Other Retail	0.009	0.008	0.011	0.017	0.010	0.007	0.012	**0.013**
Exposure-weighted average Loss Given Default (%)								
Residential Mortgage	16.6%	19.6%	18.7%	23.1%	20.9%	20.0%	23.4%	**20.3%**
Qualifying Revolving Retail	73.2%	73.2%	73.2%	73.2%	73.2%	73.2%	73.2%	**73.2%**
Other Retail	50.3%	51.1%	60.0%	45.1%	52.9%	63.0%	53.7%	**49.2%**
Exposure-weighted average risk weight (%)								
Residential Mortgage	4.2%	6.4%	13.5%	32.1%	76.3%	108.8%	225.9%	**16.2%**
Qualifying Revolving Retail	4.8%	11.3%	14.0%	38.5%	107.1%	206.8%	339.7%	**32.8%**
Other Retail	12.9%	22.4%	43.5%	58.7%	83.0%	146.8%	228.5%	**61.9%**

	Sep 12							
	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% <100.0% $M	Default $M	Total $M
Exposure at Default								
Residential Mortgage	2,392	165,193	18,283	52,735	7,404	3,318	1,514	**250,839**
Qualifying Revolving Retail	11,068	121	1,891	4,932	1,778	962	160	**20,912**
Other Retail	747	3,190	1,849	18,362	5,988	904	914	**31,954**
Total	**14,207**	**168,504**	**22,023**	**76,029**	**15,170**	**5,184**	**2,588**	**303,705**
% of Total	4.7%	55.4%	7.3%	25.0%	5.0%	1.7%	0.9%	100.0%
Undrawn commitments (included in above)								
Residential Mortgage	882	17,887	992	2,909	179	65	2	**22,916**
Qualifying Revolving Retail	8,705	121	1,227	2,182	510	114	19	**12,878**
Other Retail	659	2,208	1,162	2,457	195	46	5	**6,732**
Total	**10,246**	**20,216**	**3,381**	**7,548**	**884**	**225**	**26**	**42,526**
Average Exposure at Default								
Residential Mortgage	0.025	0.214	0.141	0.176	0.223	0.242	0.182	**0.186**
Qualifying Revolving Retail	0.011	0.006	0.010	0.009	0.009	0.008	0.009	**0.010**
Other Retail	0.007	0.007	0.008	0.015	0.010	0.006	0.022	**0.012**
Exposure-weighted average Loss Given Default (%)								
Residential Mortgage	16.6%	19.6%	18.6%	22.8%	21.1%	20.0%	24.1%	**20.2%**
Qualifying Revolving Retail	73.2%	73.2%	73.2%	73.2%	73.2%	73.2%	73.2%	**73.2%**
Other Retail	57.0%	51.8%	59.1%	43.8%	50.6%	63.9%	58.3%	**47.8%**
Exposure-weighted average risk weight (%)								
Residential Mortgage	4.3%	6.5%	13.5%	31.8%	77.8%	109.4%	225.3%	**17.1%**
Qualifying Revolving Retail	4.9%	11.4%	14.1%	38.9%	105.8%	206.8%	329.4%	**33.9%**
Other Retail	14.9%	22.7%	40.0%	57.3%	79.5%	155.2%	254.6%	**66.2%**

Table 9(e): Actual Losses by portfolio type

	Half year Sep 13	
Basel Asset Class	Individual provision charge $M	Write-offs $M
Corporate	225	240
Sovereign	-	-
Bank	-	-
Residential Mortgage	23	51
Qualifying Revolving Retail	115	152
Other Retail	166	188
Total Advanced IRB	**529**	**631**
Specialised Lending	6	51
Standardised approach	37	111
Total	**572**	**793**

	Half year Mar 13	
Basel Asset Class	Individual provision charge $M	Write-offs $M
Corporate	243	303
Sovereign	-	-
Bank	-	-
Residential Mortgage	35	31
Qualifying Revolving Retail	112	146
Other Retail	138	150
Total Advanced IRB	**528**	**630**
Specialised Lending	39	170
Standardised approach	28	64
Total	**595**	**864**

	Half year Sep 12	
Basel Asset Class	Individual provision charge $M	Write-offs $M
Corporate	450	387
Sovereign	-	-
Bank	-	-
Residential Mortgage	34	36
Qualifying Revolving Retail	134	161
Other Retail	131	125
Total Advanced IRB	**749**	**709**
Specialised Lending	137	79
Standardised approach	29	53
Total	**915**	**841**

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

	Sep 13				
Portfolio Type	Average Estimated PD %	Average Actual PD %	Average estimated to actual EAD ratio	Average Estimated LGD %	Average Actual LGD %
Corporate	1.49	1.09	1.12	41.5	30.0
Sovereign	0.40	nil	n/a	n/a	nil
Bank	0.49	0.08	-	46.0	58.3
Specialised Lending	n/a	2.54	1.14	n/a	25.8
Residential Mortgage	0.85	0.83	1.00	20.7	3.9
Qualifying Revolving Retail	2.73	2.11	1.04	73.2	71.7
Other Retail	3.29	3.55	1.05	48.1	44.6

APS 330 Table 9f 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 was no Sovereign defaults observed in ANZ Sovereign exposures for the observation period.

The estimated PD is based on the average of the internally estimated long-run PD's for obligors that are not in default at the beginning of each financial year over the period of observation being 2009 to March 2013. The actual PD is based on the number of defaulted obligors compared to the total number of obligors measured at the beginning of each financial year over the period of observation being 2009 to March 2013.

The EAD ratio compares internally estimated EAD prior to default to realised EAD for defaulted obligors over the four years of observation being 2009 to 2013 financial years. 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 internal estimates of downturn LGD for accounts that defaulted at the beginning of each year during the observation period being 2009 to 2012 financial years. The actual LGD is based on the average realised losses over the period for the accounts observed at beginning and defaulted during the observation period. For non-retail portfolios, the estimated and actual LGDs are based on accounts that defaulted in 2009 to 2011 financial years. For retail portfolios, the estimated and actual LGDs are based on accounts that defaulted in 2009 to 2012 financial years. For non-retail portfolios, defaults occurring in the 2012 and 2013 have been excluded from the analysis, to allow sufficient time for workout period. For retail portfolios, defaults occurring in 2013 have been excluded. For non-retail portfolios, actual LGD for defaults where workouts were not finalised have been estimated to approximate the final actual loss. For the retail portfolios, defaults with non-finalised workout have been excluded from the analysis.

In assessing the accuracy of the credit risk estimates, it should be noted that the period of analysis does not cover a full economic cycle.

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.[31] Types of collateral typically taken by ANZ include:

- Security over residential, commercial, industrial or rural property.
- Charges over business assets.
- Security over specific plant and equipment.
- Charges over listed shares, bonds or securities.
- Charges over cash deposits.
- Guarantees and pledges.

In some cases, such as where the customer risk profile is considered very sound or by the nature of the product (for instance, small limit products such as credit cards), a transaction may not be supported by collateral.

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. 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 would be expected to incur in a forced sale. The discounted value is used in the determination of a SI for LGD purposes.

Policies and processes for collateral valuation and management

ANZ has well established policies, requirements and processes around collateral valuation and management. 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), the 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

Guarantee support for lending proposals are an integral component in transaction structuring for ANZ. The guarantee of a financially strong 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.

Use of credit derivatives for risk mitigation

ANZ uses 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. A CDS entails the payment by one party in

[31] 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.

exchange for credit default protection payment if a credit default event on a reference asset occurs. 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.

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.

Table 10(b): Credit risk mitigation on Standardised approach portfolios – collateral [32]

	Sep 13			
	Exposure $M	Eligible Financial Collateral $M	Other Eligible Collateral $M	% Coverage
Standardised approach				
Corporate	19,756	267	-	1.4%
Residential Mortgage	5,191	3	-	0.1%
Qualifying Revolving Retail	1,721	-	-	0.0%
Other Retail	980	-	-	0.0%
Total	**27,648**	**270**	**-**	**1.0%**

	Mar 13			
	Exposure $M	Eligible Financial Collateral $M	Other Eligible Collateral $M	% Coverage
Standardised approach				
Corporate	16,989	370	-	2.2%
Residential Mortgage	4,206	1	-	0.0%
Qualifying Revolving Retail	2,062	-	-	0.0%
Other Retail	1,242	-	-	0.0%
Total	**24,499**	**371**	**-**	**1.5%**

	Sep 12			
	Exposure $M	Eligible Financial Collateral $M	Other Eligible Collateral $M	% Coverage
Standardised approach				
Corporate	17,967	338	-	1.9%
Residential Mortgage	3,775	1	-	0.0%
Qualifying Revolving Retail	2,021	-	-	0.0%
Other Retail	1,146	-	-	0.0%
Total	**24,909**	**339**	**-**	**1.4%**

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

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

Sep 13	Exposure $M	Exposures covered by Guarantees $M	Exposures covered by Credit Derivatives $M	% Coverage
Advanced IRB				
Corporate (incl. Specialised Lending)	256,159	18,093	250	7.2%
Sovereign	73,846	247	-	0.3%
Bank	102,636	8,131	-	7.9%
Residential Mortgage	274,755	-	-	0.0%
Qualifying Revolving Retail	21,174	-	-	0.0%
Other Retail	37,034	-	-	0.0%
Total	**765,604**	**26,471**	**250**	**3.5%**
Standardised approach				
Corporate	19,756	-	-	0.0%
Residential Mortgage	5,191	-	-	0.0%
Qualifying Revolving Retail	1,721	-	-	0.0%
Other Retail	980	-	-	0.0%
Total	**27,648**	**-**	**-**	**0.0%**

Mar 13	Exposure $M	Exposures covered by Guarantees $M	Exposures covered by Credit Derivatives $M	% Coverage
Advanced IRB				
Corporate (incl. Specialised Lending)	240,008	16,406	142	6.9%
Sovereign	77,998	241	-	0.3%
Bank	102,372	6,717	-	6.6%
Residential Mortgage	259,553	-	-	0.0%
Qualifying Revolving Retail	20,951	-	-	0.0%
Other Retail	35,187	-	-	0.0%
Total	**736,069**	**23,364**	**142**	**3.2%**
Standardised approach				
Corporate	16,989	-	-	0.0%
Residential Mortgage	4,206	-	-	0.0%
Qualifying Revolving Retail	2,062	-	-	0.0%
Other Retail	1,242	-	-	0.0%
Total	**24,499**	**-**	**-**	**0.0%**

	Sep 12			
	Exposure $M	Exposures covered by Guarantees $M	Exposures covered by Credit Derivatives $M	% Coverage
Advanced IRB				
Corporate (incl. Specialised Lending)	234,097	16,259	150	7.0%
Sovereign	66,590	227	-	0.3%
Bank	98,908	6,417	-	6.5%
Residential Mortgage	250,839	-	-	0.0%
Qualifying Revolving Retail	20,912	-	-	0.0%
Other Retail	31,954	-	-	0.0%
Total	**703,300**	**22,903**	**150**	**3.3%**
Standardised approach				
Corporate	17,967	-	-	0.0%
Residential Mortgage	3,775	-	-	0.0%
Qualifying Revolving Retail	2,021	-	-	0.0%
Other Retail	1,146	-	-	0.0%
Total	**24,909**	**-**	**-**	**0.0%**

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 the derivative contracts and the counterparty will not be able to fulfill 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 favour 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 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. 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 Counterparty Credit 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 worst case exposure of derivative transactions at future time points.

ANZ is moving from PCRE based on add-on methodology to a more sophisticated PFE Monte Carlo based approach to assess possible exposure movements for certain derivative products.

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.

PFE and PCRE models are also used by credit officers to establish credit limits on an uncommitted and unadvised basis, to ensure the potential volatility of the transaction value is recognised. Counterparty credit risk exposure is calculated daily and excesses above approved limits are reported to account controllers and risk officers for action.

Credit value 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, expected credit risk exposure and an asset correlation factor.

Impaired derivatives are also subject to a CVA.

In January 2013 APRA introduced the new Basel III credit value adjustment risk capital charge which requires banks to hold additional risk based capital to cover the risk of mark to market losses associated with deterioration in counterparty credit worthiness when entering into derivatives transactions. The effect is that banks are required to increase the amount of capital provisioned for deterioration in the counterparty credit worthiness when entering into a derivatives trade.

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. ANZ's credit policies and independent transaction evaluation by Credit Risk are central to managing wrong way risk.

Counterparty credit risk mitigation and credit enhancements

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

- A bilateral netting master agreement (e.g. an 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) that governs the amount of collateral required to be posted or received by ANZ throughout the life of the contract. Some agreements are linked to external credit ratings which means in the event of a party's (ANZ or a counterparty) external rating being downgraded, it would likely be required to lodge collateral.
- Use of right to break clauses in master agreement or in trade confirmation to reduce 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 being included in documentation.
- Linking covenants and events of default in existing loan facility agreement to master agreement.
- Use of credit derivatives to hedge counterparty credit risk exposure.
- Settlement through Continuous Linked Settlement (CLS) to eliminate settlement risk for foreign exchange transactions with CLS members.
- Clearing certain derivative transactions through central counterparty clearing houses.

In the event of a downgrading of ANZ's rating by one notch from AA- to A+, as at 30 September 2013, ANZ would be required to lodge USD460 million additional collateral with its counterparties. This represents a small percentage of ANZ's overall liquidity portfolio.

Chapter 7 – Securitisation

Table 12 Securitisation disclosures

Definition of securitisation and resecuritisation

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,[33] 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. A resecuritisation exposure is a securitisation exposure in which the risk associated with an underlying pool of exposures is tranched and at least one of the underlying exposures is a securitisation exposure.

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.

Regulatory capital approaches used in ANZ's securitisation activities

For securitisation exposures held in ANZ's banking book[34], ANZ applies an IRB approach (as outlined in APS 120) to determine the regulatory capital charge.

Chapter 8 outlines regulatory capital treatment for securitisation exposures held in ANZ's trading book.

Securitisation activities

ANZ's key securitisation activities are:

- Securitisation of third-party originated assets, including residential mortgages, auto and equipment loans and trade receivables.
- Investment in securities – ANZ may purchase notes issued by securitisation programs.
- Securitisation of ANZ originated assets (including self securitisation) as a funding and liquidity management tool, which may or may not involve the transfer of credit risk i.e. may or may not provide regulatory capital relief.
- Provision of facilities and services to securitisations or resecuritisations (where the underlying assets may be ANZ or third-party originated) e.g. structuring and arranging services, providing funding and/or swaps to securitization vehicles and (via ANZ Capel Court Limited) trust management services.

Similar to other exposures, securitisation exposures are subject to credit, market, operational and legal risks. Roles and responsibilities are clearly outlined in ANZ's established risk management framework of 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 its securitisation exposures.

Historically, ANZ utilised a conduit structure to facilitate the securitising of third party originated assets via the issuance of asset backed commercial paper (ABCP). The conduit is no longer issuing ABCP due to changes in regulatory and market conditions. Funding is instead provided on third party originated exposures via balance sheet funded arrangements where such arrangements satisfy ANZ's credit, due diligence and other business requirements.
ANZ has no affiliated entities that ANZ manages or advises and that invests in securitisation exposures that ANZ has securitised or in SPV's that ANZ sponsors.

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[33] APRA's definition of securitisation includes certain cases where only one tranche or class of creditors is serviced by the cash flow from the pool of assets.

[34] 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.

Governance of securitisation activities

Governance of securitisation activities is overseen by the Board and executive committees described in Chapter 3, and managed in accordance with the credit risk and market risk frameworks described in Chapters 6 and 8.

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, ANZ has a specialist securitisation team with independent risk personnel overseeing operations. Credit decisions require joint risk and business approval. The securitisation team must be involved in all non-trading securitisation transactions across ANZ, which ensures consistent expert treatment. When ANZ invests in instruments issued by securitisation programs, the relevant business area manages these exposures until the securitisation or resecuritisation exposures are repaid in full or traded.

Risk measurement and reporting of securitisation exposures

In accordance with APS 120, ANZ has a hierarchy of approaches available to quantify the credit risk of banking book securitisation exposures. The most common approaches used are the Ratings Based Approach (specifically utilising the external ratings of ECAI's) and the Internal Assessment Approach (IAA).

When utilising the IAA, ANZ uses a rating agency-type methodology which specifies certain stress factors, takes into account historical performance of assets and other (asset-specific) considerations such as underwriting standards. IAA methodology is applied in accordance with APRA's requirements and it forms part of ANZ's overall securitisation risk-grading framework.

All facilities provided to or investments in securitisation programs (across both the banking and trading books) undergo initial and ongoing due diligence. This due diligence is completed with input from the Risk function and includes analysing the structure of the transaction and monitoring of the performance of the underlying assets of the transaction. In addition, such exposures are formally reviewed at least annually, including the risk grade.

The type and frequency of internal reporting on ANZ's securitisation exposures is as follows:

- Facilities provided to securitisation programs are reported using standard credit reporting systems, distinguished by appropriate product codes. The regular reporting frequency for most of these systems is monthly.
- Investments in securitisations are reported through the banking book or the trading book on a monthly basis.

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.[35]

Accounting policies

The principal accounting policies governing ANZ's securitisation activities are outlined in ANZ's 2013 Annual Report, Notes to the Financial Statements. These include the valuation, derecognition, consolidation and income recognition principles outlined in Note 1 – Significant Accounting Policies and the critical judgments applied to these policies outlined in Note 2 – Critical Estimates and Judgments Used in Applying Accounting Policies. ANZ applies these group accounting policies to its securitisation activities, as appropriate. The policies as they apply to ANZ's securitisation activities have not changed since the prior period. Note 40 – Securitisations and Covered Bonds also provides details about the nature of ANZ's securitisation activities and certain accounting policies as they specifically apply to these activities.

Any SPV used in ANZ's securitisation activities are assessed for control under the requirements of AASB Interpretation 112 Consolidation – Special Purpose Entities. Where control is determined to exist, the SPV is consolidated into ANZ's financial statements. Financial instruments held or issued either by SPVs consolidated by ANZ or those held or issued to a non-consolidated SPV are recognised and valued using the principles of AASB 139 Financial Instruments: Recognition and Measurement.

For synthetic securitisations, any transferred credit exposure is recognised through the fair value measurement of the segregated embedded or stand-alone credit derivative established within the structure.

[35] 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.

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 2013 Annual Report.

Use of external rating agencies

Where the use of external rating agencies is relevant, ANZ applies the ratings or the rating methodologies provided by Standard & Poor's, Moody's Investor Services and/or Fitch Ratings as appropriate.

Significant changes in quantitative information

Since the last reporting period, securitisation exposures have increased by $850 million, largely due to an increase in funding facilities provided to securitisation programs.

Banking Book

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

	Sep 13		
Traditional securitisations			
Underlying asset	ANZ Originated $M	ANZ Self Securitised $M	ANZ Sponsored $M
Residential mortgage	-	46,597	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
Commercial loans	-	-	-
Other	-	-	-
Total	**-**	**46,597**	**-**
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	-	46,597	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
Commercial loans	-	-	-
Other	-	-	-
Total	**-**	**46,597**	**-**

Mar 13

Traditional securitisations

Underlying asset	ANZ Originated $M	ANZ Self Securitised $M	ANZ Sponsored $M
Residential mortgage	-	46,141	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
Commercial loans	-	-	-
Other	-	-	-
Total	**-**	**46,141**	**-**

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	-	46,141	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
Commercial loans	-	-	-
Other	-	-	-
Total	**-**	**46,141**	**-**

Sep 12

Traditional securitisations

Underlying asset	ANZ Originated $M	ANZ Self Securitised $M	ANZ Sponsored $M
Residential mortgage	-	45,499	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
Commercial loans	-	-	-
Other	-	-	-
Total	**-**	**45,499**	**-**

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	-	45,499	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
Commercial loans	-	-	-
Other	-	-	-
Total	**-**	**45,499**	**-**

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

	Sep 13				
Underlying asset	ANZ Originated $M	ANZ Self Securitised $M	Impaired $M	Past due $M	Losses recognised for the six month ended $M
Residential mortgage	-	46,597	1	103	0
Credit cards and other personal loans	-	-	-	-	-
Auto and equipment finance	-	-	-	-	-
Commercial loans	-	-	-	-	-
Other	-	-	-	-	-
Total	**-**	**46,597**	**1**	**103**	**0**

	Mar 13				
Underlying asset	ANZ Originated $M	ANZ Self Securitised $M	Impaired $M	Past due $M	Losses recognised for the six month ended $M
Residential mortgage	-	46,141	-	66	-
Credit cards and other personal loans	-	-	-	-	-
Auto and equipment finance	-	-	-	-	-
Commercial loans	-	-	-	-	-
Other	-	-	-	-	-
Total	**-**	**46,141**	**-**	**66**	**-**

	Sep 12				
Underlying asset	ANZ Originated $M	ANZ Self Securitised $M	Impaired $M	Past due $M	Losses recognised for the six month ended $M
Residential mortgage	-	45,499	-	50	-
Credit cards and other personal loans	-	-	-	-	-
Auto and equipment finance	-	-	-	-	-
Commercial loans	-	-	-	-	-
Other	-	-	-	-	-
Total	**-**	**45,499**	**-**	**50**	**-**

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 [36]

Sep 13

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	-	456	-	-
Credit cards and other personal loans	-	-	-	-
Auto and equipment finance	-	-	-	-
Commercial loans	-	-	-	-
Other	-	-	-	-
Total	**-**	**456**	**-**	**-**

Securitisation activity by facility provided	Notional amount $M
Liquidity facilities	-
Funding facilities	661
Underwriting facilities	-
Lending facilities	-
Credit enhancements	-
Holdings of securities (excluding trading book)	150
Other	589
Total	**1,400**

Mar 13

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	-	642	-	-
Credit cards and other personal loans	-	-	-	-
Auto and equipment finance	-	-	-	-
Commercial loans	-	-	-	-
Other	-	-	-	-
Total	**-**	**642**	**-**	**-**

Securitisation activity by facility provided				Notional amount $M
Liquidity facilities	-	-	-	-
Funding facilities	-	-	-	190
Underwriting facilities	-	-	-	-
Lending facilities	-	-	-	-
Credit enhancements	-	-	-	-
Holdings of securities (excluding trading book)	-	-	-	444
Other	-	-	-	-
Total	**-**	**-**	**-**	**634**

[36] Activity represents net movement in outstandings.

Securitisation activity by underlying asset type	Sep 12 Original value securitised ANZ Originated $M	ANZ Self Securitised $M	ANZ Sponsored $M	Recognised gain or loss on sale $M
Residential mortgage	-	11,640	-	-
Credit cards and other personal loans	-	-	-	-
Auto and equipment finance	-	-	-	-
Commercial loans	-	-	-	-
Other	-	-	-	-
Total	**-**	**11,640**	**-**	**-**

Securitisation activity by facility provided				Notional amount $M
Liquidity facilities	-	-	-	-
Funding facilities	-	-	-	396
Underwriting facilities	-	-	-	-
Lending facilities	-	-	-	-
Credit enhancements	-	-	-	-
Holdings of securities (excluding trading book)	-	-	-	609
Other	-	-	-	-
Total	**-**	**-**	**-**	**1,005**

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

Securitisation exposure type - On balance sheet	Sep 13 $M	Mar 13 $M	Sep 12 $M
Liquidity facilities	-	-	128
Funding facilities	5,806	5,232	5,007
Underwriting facilities	-	-	-
Lending facilities	-	-	-
Credit enhancements	-	-	-
Holdings of securities (excluding trading book)	3,040	2,889	2,925
Protection provided	-	-	-
Other	589	-	-
Total	**9,435**	**8,121**	**8,060**

Securitisation exposure type - Off balance sheet	Sep 13 $M	Mar 13 $M	Sep 12 $M
Liquidity facilities	113	121	233
Funding facilities	-	-	60
Underwriting facilities	-	-	-
Lending facilities	-	-	-
Credit enhancements	-	-	-
Holdings of securities (excluding trading book)	-	-	-
Protection provided	-		-
Other	-	-	-
Total	**113**	**121**	**293**

Total Securitisation exposure type	Sep 13 $M	Mar 13 $M	Sep 12 $M
Liquidity facilities	113	121	361
Funding facilities	5,806	5,232	5,067
Underwriting facilities	-	-	-
Lending facilities	-	-	-
Credit enhancements	-	-	-
Holdings of securities (excluding trading book)	3,040	2,889	2,925
Protection provided	-	-	-
Other	589	-	-
Total	**9,548**	**8,242**	**8,353**

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

	Sep 13		Mar 13		Sep 12	
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%	8,919	938	7,676	841	7,610	820
>25 ≤ 35%	-	-	-	-	-	-
>35 ≤ 50%	-	-	-	-	-	-
>50 ≤ 75%	155	81	148	77	154	80
>75 ≤ 100%	88	88	80	80	108	108
>100 ≤ 650%	33	50	33	50	38	57
1250% (Deduction)	119	1,488	114	1,426	160	-
Total	**9,314**	**2,645**	**8,051**	**2,474**	**8,070**	**1,065**

	Sep 13		Mar 13		Sep 12	
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%	195	39	146	29	151	30
>25 ≤ 35%	-	-	-	-	86	30
>35 ≤ 50%	-	-	-	-	-	-
>50 ≤ 75%	-	-	-	-	-	-
>75 ≤ 100%	40	40	45	45	45	45
>100 ≤ 650%	-	-	-	-	-	-
1250% (Deduction)	-	-	-	-	-	-
Total	**235**	**79**	**191**	**74**	**282**	**105**

	Sep 13		Mar 13		Sep 12	
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%	9,114	977	7,822	870	7,761	850
>25 ≤ 35%	-	-	-	-	86	30
>35 ≤ 50%	-	-	-	-	-	-
>50 ≤ 75%	155	81	148	77	154	80
>75 ≤ 100%	128	128	125	125	153	153
>100 ≤ 650%	33	50	33	50	38	57
1250% (Deduction)	119	1,488	114	1,426	160	-
Total	**9,549**	**2,724**	**8,242**	**2,548**	**8,352**	**1,170**

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

No longer required under Basel III, defaulted exposures given a risk weight of 1250% no longer deducted from capital.

	Sep 13		
Securitisation exposures deducted from Capital	Deductions from Tier I Capital $M	Deductions from Tier II Capital $M	Deductions from Total Capital $M
Residential mortgage	-	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
Commercial loans	-	-	-
Other	-	-	-
Total	**-**	**-**	**-**

	Mar 13		
Securitisation exposures deducted from Capital	Deductions from Tier I Capital $M	Deductions from Tier II Capital $M	Deductions from Total Capital $M
Residential mortgage	-	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
Commercial loans	-	-	-
Other	-	-	-
Total	**-**	**-**	**-**

	Sep 12		
Securitisation exposures deducted from Capital	Deductions from Tier I Capital $M	Deductions from Tier II Capital $M	Deductions from Total Capital $M
Residential mortgage	80	80	160
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
Commercial loans	-	-	-
Other	-	-	-
Total	**80**	**80**	**160**

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

	Sep 13		
Resecuritisation exposures retained or purchased	Exposures subject to CRM $M	Exposures not subject to CRM $M	Total $M
Residential mortgage	-	-	**-**
Credit cards and other personal loans	-	163	**163**
Auto and equipment finance	-	40	**40**
Commercial loans	-	-	**-**
Other	-	32	**32**
Total	**-**	**235**	**235**

Resecuritisation exposures by credit worthiness of guarantors	Exposures to Guarantors $M
Credit Rating Level 1	-
Credit Rating Level 2	-
Credit Rating Level 3	-
Credit Rating Level 4	-
Credit Rating Level 5 or below	-
No Guarantor	-
Total	**-**

	Mar 13		
Resecuritisation exposures retained or purchased	Exposures subject to CRM $M	Exposures not subject to CRM $M	Total $M
Residential mortgage	-	-	**-**
Credit cards and other personal loans	-	146	**146**
Auto and equipment finance	-	45	**45**
Commercial loans	-	-	**-**
Other	-	-	**-**
Total	**-**	**191**	**191**

Resecuritisation exposures by credit worthiness of guarantors	Exposures to Guarantors $M
Credit Rating Level 1	-
Credit Rating Level 2	-
Credit Rating Level 3	-
Credit Rating Level 4	-
Credit Rating Level 5 or below	-
No Guarantor	-
Total	**-**

	Sep 12		
Resecuritisation exposures retained or purchased	Exposures subject to CRM $M	Exposures not subject to CRM $M	Total $M
Residential mortgage	-	92	**92**
Credit cards and other personal loans	-	145	**145**
Auto and equipment finance	-	45	**45**
Commercial loans	-	-	**-**
Other	-	-	**-**
Total	**-**	**282**	**282**

Resecuritisation exposures by credit worthiness of guarantors	Exposures to Guarantors $M
Credit Rating Level 1	-
Credit Rating Level 2	-
Credit Rating Level 3	-
Credit Rating Level 4	-
Credit Rating Level 5 or below	-
No Guarantor	-
Total	**-**

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

Securitisation exposure type - On balance sheet	Sep 13 $M	Mar 13 $M	Sep 12 $M
Liquidity facilities	-	-	-
Funding facilities	-	-	-
Underwriting facilities	-	-	-
Lending facilities	-	-	-
Credit enhancements	-	-	-
Holdings of securities	21	17	10
Protection provided	-	-	-
Other	-	-	-
Total	**21**	**17**	**10**

Securitisation exposure type - Off balance sheet	Sep 13 $M	Mar 13 $M	Sep 12 $M
Liquidity facilities	-	-	-
Funding facilities	-	-	-
Underwriting facilities	-	-	-
Lending facilities	-	-	-
Credit enhancements	-	-	-
Holdings of securities	-	-	-
Protection provided	-	-	-
Other	-	-	-
Total	**-**	**-**	**-**

Total Securitisation exposure type	Sep 13 $M	Mar 13 $M	Sep 12 $M
Liquidity facilities	-	-	-
Funding facilities	-	-	-
Underwriting facilities	-	-	-
Lending facilities	-	-	-
Credit enhancements	-	-	-
Holdings of securities	21	17	10
Protection provided	-	-	-
Other	-	-	-
Total	**21**	**17**	**10**

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 APS120 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

	Sep 13		
Resecuritisation exposures retained or purchased	Exposures subject to CRM $M	Exposures not subject to CRM $M	Total $M
Residential mortgage	-	-	**-**
Credit cards and other personal loans	21	-	**21**
Auto and equipment finance	-	-	**-**
Commercial loans	-	-	**-**
Other	-	-	**-**
Total	**21**	**-**	**21**

Resecuritisation exposures by credit worthiness of guarantors	Exposures to Guarantors $M
Credit Rating Level 1	21
Credit Rating Level 2	-
Credit Rating Level 3	-
Credit Rating Level 4	-
Credit Rating Level 5 or below	-
No Guarantor	**-**
Total	**21**

	Mar 13		
Resecuritisation exposures retained or purchased	Exposures subject to CRM $M	Exposures not subject to CRM $M	Total $M
Residential mortgage	-	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
Commercial loans	-	-	-
Other	-	-	-
Total	**-**	**-**	**-**

Resecuritisation exposures by credit worthiness of guarantors	Exposures to Guarantors $M
Credit Rating Level 1	-
Credit Rating Level 2	-
Credit Rating Level 3	-
Credit Rating Level 4	-
Credit Rating Level 5 or below	-
No Guarantor	-
Total	**-**

	Sep 12		
Resecuritisation exposures retained or purchased	Exposures subject to CRM $M	Exposures not subject to CRM $M	Total $M
Residential mortgage	-	-	-
Credit cards and other personal loans	-	15	**15**
Auto and equipment finance	-	-	-
Commercial loans	-	-	-
Other	-	-	-
Total	**-**	**15**	**15**

Resecuritisation exposures by credit worthiness of guarantors	Exposures to Guarantors $M
Credit Rating Level 1	15
Credit Rating Level 2	-
Credit Rating Level 3	-
Credit Rating Level 4	-
Credit Rating Level 5 or below	-
No Guarantor	-
Total	**15**

Chapter 8 – Market risk

Table 13 Market risk – Standard approach

ANZ uses the standard model approach to measure market risk capital for interest rate risk – specific risk[37], equity specific risk and electricity trading risk factors. For internal purposes only ANZ also uses an internal model for electricity.

For interest rate risk – specific risk, ANZ's internal VaR model captures general interest rate and credit spread risk for all products, but not the credit spread risk associated with individual issuers of interest rate products.

Table 13(b): Market risk – Standard approach [38]

	Sep 13 $M	Mar 13 $M	Sep 12 $M
Interest rate risk	127	134	110
Equity position risk	7	7	4
Foreign exchange risk	-	-	-
Commodity risk	5	3	3
Total	**139**	**144**	**117**
Risk Weighted Assets equivalent	**1,738**	**1,800**	**1,463**

[37] 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.

[38] 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 may stem 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 and credit spreads, or from fluctuations in bond, commodity or equity prices.

Market risk management of IRRBB is described in Chapter 11 and therefore 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 for all trading portfolios except for specific interest rate risk, equity specific risk and electricity trading. ANZ uses the Standardised approach to market risk capital for these subsets.

Governance of market risk

The Board Risk Committee oversight of market risk is supported by the CMRC as described in Chapter 3.

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

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 Markets Risk function with specific responsibilities.
- Regular and effective reporting of market risk to executive management and the Board.

Measurement of 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 estimates, sensitivities 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 interest rate risk, equity specific risk and electricity trading, for which capital is calculated using the Standardised approach described in Table 13(b).

ANZ also undertakes a wide range of stress tests to the Group trading portfolio and to individual trading portfolios. Standard stress tests are applied daily and measure the potential loss impact arising from applying the largest market movements during the previous seven years 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 calculated monthly and potential losses are reported to the CMRC.

VaR and stress tests are also supplemented by cumulative loss limits and detailed control limits. Cumulative loss limits ensure that in the event of continued losses from a trading activity, the trading activity is stopped and senior management reviews before trading is 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 the comparison of calculated VaR exposures with profit and loss data to identify the frequency of instances when 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 understand if the issues 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.

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

The following table discloses the high, mean and low VaR values over the reporting period and at period end.

Table 14(e): Value at Risk (VaR) and stressed VaR over the reporting period [39]

	Six months ended 30 Sep 13			
99% 1 Day Value at Risk (VaR)	Mean $M	Maximum $M	Minimum $M	Period end $M
Foreign Exchange	4.9	8.0	2.3	3.0
Interest Rate	6.4	11.2	3.3	3.9
Credit	4.6	8.6	3.2	4.2
Commodity	1.7	2.2	1.2	1.4
Equity	1.4	3.4	0.6	1.4

	Six months ended 31 Mar 13			
99% 1 Day Value at Risk (VaR)	Mean $M	Maximum $M	Minimum $M	Period end $M
Foreign Exchange	5.4	12.6	3.3	6.3
Interest Rate	5.2	11.6	2.8	8.3
Credit	3.8	5.6	2.8	3.8
Commodity	2.5	4.1	1.3	2.3
Equity	1.8	2.9	1.0	1.3

	Six months ended 30 Sep 12			
99% 1 Day Value at Risk (VaR)	Mean $M	Maximum $M	Minimum $M	Period end $M
Foreign Exchange	5.5	10.0	3.5	3.5
Interest Rate	4.6	8.1	2.8	4.5
Credit	4.7	7.5	2.6	4.0
Commodity	2.9	4.2	1.4	1.7
Equity	1.3	2.7	0.7	1.2

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

99% 10 Day Stressed VaR	Six months ended 30 Sep 13 Mean $M	 Maximum $M	 Minimum $M	 Period end $M
Foreign Exchange	52.7	89.1	27.7	46.7
Interest Rate	44.2	81.6	25.7	37.3
Credit	17.8	26.8	11.7	20.8
Commodity	7.6	14.3	5.2	7.7
Equity	10.7	60.1	0.1	1.0

Reporting of market risk

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

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

Mitigation of market risk

The Market Risk team’s responsibilities, including the reporting and escalation processes described above, is fundamental to how market risk is managed. Market Risk has 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 of various commodities. All exposures are transferred to the trading book and centrally managed by the Global 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 relative values of various currencies.

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 2013, ANZ’s investment in ANZ Bank New Zealand Limited is the main source of the structural foreign exchange exposure.

Chapter 9 – Operational risk

Table 15 Operational risk

Definition of operational risk

Within ANZ, operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and 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.

The objective of operational risk management is to ensure that risks are identified, assessed, measured, evaluated, treated, monitored and reported in a structured environment with appropriate governance oversight. ANZ does not expect to eliminate all risks, but to ensure that the residual risk exposure is managed as low as reasonably practical based on a sound risk/reward analysis in the context of an international financial institution.

ANZ has been authorised by APRA to use the advanced measurement approach (AMA) for calculation of operational risk capital requirements under APS 115. This methodology applies across all of ANZ.

Operational risk governance and structure

The ANZ Board has delegated its powers to the Risk Committee to approve the ANZ Operational Risk Framework which is in accordance with Australian Prudential Standard APS 115 Capital Adequacy: Advanced Measurement Approaches to Operational Risk. Operational Risk Executive Committee (OREC) is the primary senior executive management forum responsible for the oversight of operational risk and the compliance risk control environment. OREC supports the Risk Committee in relation to the carrying out of its role in connection with operational risk and compliance. OREC reviews ANZ's operational risk profile and approved treatment plans for extreme risks.

Divisional Risk Committees and Business Unit Risk Forums manage and maintain oversight of operational risks supported by thresholds for escalation and monitoring. Day to day management of operational risk is the accountability of every employee. Business Units undertake operational risk activities as part of this accountability. This includes implementation of the operational risk framework and involvement in decision making processes concerning all material operational risk matters. Divisional risk personnel provide oversight of operational risk undertaken in the Business Units.

Group Operational Risk is responsible for exercising governance over operational risk through the management of the operational risk frameworks, policy development, framework assurance, operational risk measurement and capital allocations and reporting of operational risk issues to executive committees.

Three lines of defence

The three lines of defence are Business first line, Divisional and Group risk functions second line and Internal Audit the third line. The First and Second Lines of Defence have 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 Operational risk Measurement and Management Framework (ORMMF) and Compliance frameworks continue to meet organisational needs and regulatory requirements.

The Business has first line of defence responsibility for managing operational risk including obligations to:

- take primary accountability for the understanding of key risks and related control environment.
- undertake day-to-day management of risks, related decision-making and reporting.
- promote a strong risk culture of adhering to thresholds, managing risk exposure and making sustainable business decisions.
- ensure operational risk information is up to date and reflective of the true operational risk position.

Operational Risk functions (Divisional and Group) form the second line of defence accountable for:

Division

- providing independent oversight and guidance to enable consistent application of the ORMMF.
- coordinating, oversight and reporting on material operational risks and change initiatives.
- contributing to the identification of systemic issues and risk collation across the Division.

Group

- acting as the independent function responsible for overarching risk oversight across the bank.
- setting Group operational risk appetite statements.
- developing and maintaining relevant policies and procedures to support consistent execution and continuing appropriateness of ORMMF.
- monitoring and reporting compliance with ORMMF, consider and approve any exception requests.
- sourcing external loss data.
- leading scenario analysis and operational risk capital calculation process.
- acting as the central point of contact with regulators.
- providing global insight and commentary on consolidated bank wide view; and identifying group wide exposures and trends.

With Global Internal Audit being the third line of defence accountable for:

- providing independent and objective assurance to management and ANZ Board regarding compliance with policy and regulatory requirements.
- performing objective assessments across all geographies, Divisions, Lines of Business and processes.
- ensuring independent review of the adequacy of the ORMMF is undertaken.

Collectively Global Internal Audit, Operational Risk functions, Divisions and Business Units are responsible for monitoring and reporting to Executive Management, the Board, Regulators and others.

Operational risk principles

ANZ has developed a comprehensive framework to manage operational risk and compliance which includes the following operational risk management principles:

Principle	Description
Principle 1: Risk Governance	ANZ recognises operational risk as a primary risk category and has an effective and embedded operational risk governance structure. This includes a dedicated and independent operational risk management function and an executive committee for oversight of operational risk across ANZ, supported by organisation wide policies, procedures and systems.
Principle 2: Risk Culture	ANZ believes risk management is everyone's responsibility and encourages a culture of prompt escalation of risk to staff sufficiently senior to drive resolution. This culture is supported by clearly articulated roles and responsibilities to ensure effective measurement and management of operational risk.
Principle 3: Risk Appetite and Objective Setting	ANZ's Board is responsible for the overall operational risk profile and accordingly has an approved operational risk appetite, including thresholds for risk assessment and reporting that determines the risk boundaries within which the business must operate to set its strategy.
Principle 4: Risk and Control Assessment	ANZ periodically identifies and assesses its exposure to key operational risk within all existing and new products, processes, projects and systems, and assesses the key controls in place to manage these risks.
Principle 5: Loss and Incident Management	ANZ incorporates analysis of loss, incident and control failure into improving the underlying control environment by defining clearly articulated risk response strategies. This includes effective contingency and business continuity plans that enable it to operate on an ongoing basis and limit losses in the event of severe business disruption.
Principle 6: Capital Calculation	ANZ holds capital commensurate with its operational risk, and maintains comprehensive and well documented operational risk capital processes for calculating its operational risk capital, including monitoring for material changes to capital exposure.
Principle 7: Risk Monitoring and Reporting	ANZ maintains a comprehensive and sustainable approach for monitoring and reporting relevant operational risk data, and monitors material changes to operational risk exposure, including Key Risk Indicators (KRIs), to support the proactive management of operational risk across the Group.
Principle 8: Assurance and Continuous Improvement	ANZ has appropriate review processes to continuously evaluate the effectiveness and relevance of its operational risk measurement and management processes to meet organisational needs and regulatory requirements.
Principle 9: Risk Based Decision Making	ANZ ensures effective integration of day to day operational risk management with outputs from the operational risk measurement processes, to support risk based decision making.

ANZ's operational risk framework is delivered through:

- Level 1 ANZ Board Operational Risk Policy (the Principles) – approved by the Board Risk Committee, sets the operational risk principles for governing the overall measurement and management of operational risk across ANZ.
- Level 2 Global Operational Risk Measurement and Management Policy (the Policy) – approved by the Board Risk Committee, outlines the core standards, roles and responsibilities and minimum requirements of the way in which operational risk is measured and managed, in line with Level 1 ANZ Board Operational Risk Policy and APS 115.

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

Operational risk management

Risk and Controls are managed as part of business as usual right across the organisation. 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 the key risks. These are the risks that if they materialised, would adversely affect the achievement of business objectives, ANZ's reputation, regulatory compliance or impact key processes (i.e. the risks that really matter, not all risks) and are typically inherent high and extreme risks.

Day-to-day management of operational risk is the responsibility of business unit line management and staff. This includes:

- Primary accountability for the understanding of key risks and related control environment.
- Analysis of identified risks, including assessing the inherent and residual risk after consideration of controls currently in place. This requires analysis of the potential consequences of failing to deal with the risks, the likelihood of the risks being realised and the effectiveness of the key controls in place to prevent or mitigate the risk.
- Evaluation of the risk to determine whether it is within Board approved risk appetite.
- Identification and implementation of risk treatment options to improve the key controls over the risk for those risks that are outside the risk appetite. When the preferred risk treatment option is selected the risk treatment plan is documented.
- Ensure operational risk information is up to date and reflective of the true operational risk position.
- Monitoring and review of treatment plans, operational risks and controls, including testing the key controls and reporting on the current operational risk profile.
- Promote a strong risk culture of adhering to thresholds, managing risk exposure and making sustainable risk decisions.
- Dedicated Divisional and Group Corporate Centre Risk Governance teams play a support, monitoring, oversight and challenge role with Global Internal Audit providing independent assurance and review.

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 mitigant for operational risk. ANZ's Advanced Measurement Approach (AMA) operational risk regulatory capital calculation does not utilise insurance as a risk mitigation.

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 operational risk management includes a system for capturing internal losses, case management and reporting. Operational risk and compliance events (including actual losses, near misses and breaches) are recorded and managed to ensure timely, complete and accurate reporting.

The Corporate Centre and Business Unit risk functions prepare reporting. OREC's role is to review and, if appropriate, approve the risk mitigation and monitor associated action plans.

ANZ's advanced measurement approach

Group Operational Risk is responsible for maintaining ANZ's AMA for operational risk measurement and capital allocation.

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 (including regulatory and economic capital), on at least a six

monthly basis. The capital is calculated using scaled external loss data, internal loss data and scenarios as a direct input and risk registers as an indirect input.

ANZ typically models capital at a divisional or geographic layer. Once calculated, the capital is allocated to lines of business according to risk exposure (key allocation drivers). Understanding the make up of the key allocation 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.

In the event of an 'off cycle' scenario review, a recalculation is performed within the relevant cell of the model, to judge the sensitivity of the change on capital. The outcomes of the off cycle calculation are shared with executive management and decisions are made as to whether to adjust capital or incorporate a scenario change in to the next capital update. This ensures that capital levels are responsive to material changes in risk levels across ANZ.

Capital modelling uses the following expected and unexpected losses as data inputs:

- Minimum of five years of historical internal losses captured and reported in the Bank-wide Operational Loss Database (BOLD).
- Relevant external losses, sourced from IBM First Op Data (includes losses >USD1 million) a recognised industry database. This data is suitably scaled using internally developed rules to ensure relevance to ANZ's size and operations.
- Scenario analysis, unexpected potential loss estimates for severe but plausible risk events.

ANZ does not use expected loss offsets for the purposes of regulatory capital modelling and does not recognise the risk-mitigating effect of insurance in determining operational risk capital.

Operational risk modelling is performed at the divisional or geographic level for applicable Basel risk event types. Operational risk capital is derived using probability distributions and calculated using Monte Carlo simulations using a mathematical method called a loss distribution approach.

Operational risk modelling is performed by a specialist central function. Operational risk capital is derived using probability distributions and calculated using Monte Carlo simulations at the division and event type level referred to as a modelling cell. The data inputs are combined for each cell using a loss distribution approach and include the following:

- Historical internal losses captured and reported in an internal loss database.
- Relevant external losses sourced from a reputable industry supplier. This data is suitably scaled using internally developed rules to ensure relevance to ANZ's size and operations.
- Scenario analysis data for severe but plausible risk events, elicited in workshops with risk and business professionals.

Capital outcomes include:

- Operational risk regulatory capital to meet the regulatory capital soundness standard based on a 99.9% confidence interval in accordance with APS 115.
- Economic Capital based on a 99.97% confidence interval.

Compliance

ANZ's Compliance Function is responsible for the development and maintenance of ANZ's Compliance Framework. Each division and business is responsible for embedding the Framework into its business operations, identifying all regulatory compliance obligations and escalating and managing incident when they occur.

Chapter 10 – Equities

Table 16 Equities – Disclosures for banking book positions

Definition and categorisation of equity investments held in the banking book

Equity risk is the potential loss that may be incurred on equity investments in the banking book. 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. These investments are undertaken only 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 Group Strategy to ensure that it is within expectations and the values of the investments are tested at least annually for impairment.
- Equity investments on which capital gains are expected - These transactions are originated and managed by dedicated equity finance teams. These transactions represent funding solutions for known customers of ANZ and are governed by specific policies. ANZ ensures that the investment in these entities does not constitute a controlling interest in the relevant business.
- 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.

Investments in associates

Where significant influence is assessed, 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 results 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. Interests in associates are reviewed annually for impairment, using either market value, or a discounted cash flow methodology to assess value in-use.

Available-for-Sale Investments

Where ANZ does not have significant influence over the investee, the investment is classified as Available-for-Sale (AFS). The investment is initially recognised at fair value plus transaction costs. Changes in the fair value of the investments are recognised in an equity reserve with any impairment recognised in the income statement. When the asset is sold the cumulative gain or loss relating to the asset held in the AFS revaluation reserve is transferred to the income statement.

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

Equity investments		**Sep 13** $M
	Balance sheet value	Fair value
Value of listed (publicly traded) equities	2,089	2,392
Value of unlisted (privately held) equities	2,146	2,180
Total	**4,235**	**4,572**

Equity investments		**Mar 13** $M
	Balance sheet value	Fair value
Value of listed (publicly traded) equities	1,998	2,305
Value of unlisted (privately held) equities	1,834	1,864
Total	**3,832**	**4,169**

Equity investments		**Sep 12** $M
	Balance sheet value	Fair value
Value of listed (publicly traded) equities	1,943	2,169
Value of unlisted (privately held) equities	1,694	1,731
Total	**3,637**	**3,900**

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

Realised gains (losses) on equity investments	**Half Year Sep 13** $M	**Half Year Mar 13** $M	**Half Year Sep 12** $M
Cumulative realised gains (losses) from disposals and liquidations in the reporting period	4	4	233
Cumulative realised losses from impairment and writedowns in the reporting period	(29)	(1)	(4)
Gain on dilution of shareholding		-	10
Total	**(25)**	**3**	**239**

Unrealised gains (losses) on equity investments	**Half Year Sep 13** $M	**Half Year Mar 13** $M	**Half Year Sep 12** $M
Total unrealised gains (losses)	4	4	9
Reversal of prior period unrealised gains (losses) from disposals and liquidations in the reporting period	-	(1)	(196)
Total unrealised gains (losses) included in Common Equity Tier 1, Tier 1 and/or Tier 2 capital	**4**	**3**	**-**

Table 16(f): Equities Risk Weighted Assets [40]

	Basel III		**Basel II**
Risk Weighted Assets	**Sep 13** $M	**Mar 13** $M	**Sep 12** $M
Equity investments subject to a 300% risk weight	n/a	n/a	174
Equity investments subject to a 400% risk weight	n/a	n/a	856
Total RWA - Equity	**n/a**	**n/a**	**1,030**

[40] Under Basel III, equity exposures in the banking book are no longer risk weighted, but are taken as capital deductions.

Chapter 11 – 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

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

- Repricing and yield curve risk - the risk to earnings or market 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.

Governance

The Board Risk Committee has established a risk appetite for IRRBB and delegated authority to the 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 Global 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.

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 Global 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 fair value of ANZ.
- An independent Market Risk function with specific responsibilities.
- 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% or 99% 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 and extraordinary 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.

Where relevant, IRRBB techniques recognise foreign currency effects as all measures are expressed in Australian dollars.

Basis and optionality risks are measured using Monte Carlo simulation techniques, to generate a theoretical worst outcome at a specified confidence level (typically 99%) 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.

IRRBB regulatory capital is calculated monthly.

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 of banking book items and the current economic value.

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 test by currency of the exposures outside the trading book.

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

	Change in Economic Value		
Standard Shock Scenario Stress Testing: Interest rate shock applied	**Sep 13** $M	**Mar 13** $M	**Sep 12** $M
AUD			
200 basis point parallel increase	(709)	(479)	(18)
200 basis point parallel decrease	773	524	20
NZD			
200 basis point parallel increase	(16)	(5)	(3)
200 basis point parallel decrease	10	1	(4)
USD			
200 basis point parallel increase	(34)	(37)	(1)
200 basis point parallel decrease	16	16	8
GBP			
200 basis point parallel increase	(3)	(2)	(6)
200 basis point parallel decrease	1	1	2
Other			
200 basis point parallel increase	47	41	17
200 basis point parallel decrease	5	(8)	1
IRRBB regulatory capital	**1,463**	**1,010**	**996**
IRRBB regulatory RWA	**18,287**	**12,629**	**12,455**

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 periods are each reported. Stresses of the repricing term assumptions investigate scenarios where actual repricing terms are vastly different to those modelled.

Chapter 12 – Liquidity risk

Liquidity risk is the risk that ANZ has insufficient capacity to fund increases in assets or is unable to meet its payment obligations as they fall due, including repaying depositors or maturing wholesale debt. The timing mismatch of cash flows and the related liquidity risk is inherent in all banking operations and is closely monitored by ANZ.

Governance

The management of ANZ's liquidity and funding risk is overseen by the Board Risk Committee and GALCO, in accordance with ANZ's liquidity policy framework.

Scenario modelling

The Global financial crisis highlighted the importance of differentiating between stressed and normal market conditions in a name-specific crisis and the different behaviour that offshore and domestic wholesale funding markets can exhibit during market stress events. ANZ's short term liquidity scenario modelling stresses cash flow projections against multiple 'survival horizons' over which the Group is required to remain cash flow positive. In addition, longer term scenarios are in place that measures the structural liquidity position of the balance sheet. Scenarios modelled are either prudential requirements or Board mandated scenarios. Under these scenarios, customer and wholesale balance sheet asset/liability flows are stressed.

Wholesale Funding

ANZ targets a diversified funding base, avoiding undue concentrations by investor type, maturity, market source and currency.

$23.7 billion of term wholesale debt (with a remaining term greater than one year as at 30 September 2013) was issued during FY13. In addition, $1.1 billion of ANZ Capital Notes and $0.4 billion of ANZ Wealth bonds were issued.

- Access to all major global wholesale funding markets remained available to ANZ during 2013.
- All wholesale funding needs were comfortably met.
- The weighted average tenor of new term debt was 4.3 years (4.6 years in 2012).
- The weighted average cost of new term debt issuance decreased in FY13 as a result of improved market conditions. Although average portfolio costs remain substantially above pre-crisis levels, they have started to decrease from these elevated levels during 2013.

Liquidity portfolio

The Group holds a diversified portfolio of cash and high credit quality securities that may be sold or pledged to provide same-day liquidity. This portfolio helps protect the Group's liquidity position by providing cash in a severely stressed environment. All assets held in the prime portfolio are securities eligible for repurchase under agreements with the applicable central bank (i.e. 'repo eligible').

The liquidity portfolio is well diversified by counterparty, currency and tenor. Under the liquidity policy framework, securities purchased for ANZ's liquidity portfolio must be of a similar or better credit quality to ANZ's external long-term or short-term credit ratings and continue to be repo eligible. Supplementing the prime liquid asset portfolio, the Group holds additional liquidity;

- central bank deposits with the US Federal Reserve, Bank of England, Bank of Japan and European Central Bank of $21.2 billion,
- Australian Commonwealth and State Government securities of $6.9 billion and gold and precious metals of $2.9 billion, and,
- cash and other securities to satisfy local country regulatory liquidity requirements which are not included in the liquid assets below.

Liquidity portfolio(Market Values[41])	**Sep 13** $bn
Australia	27.8
New Zealand	11.1
United States	2.1
United Kingdom	5.1
Singapore	3.1
Hong Kong	0.6
Japan	1.4
Total excluding internal Residential Mortgage Backed Securities	**51.2**
Internal Residential Mortgage Backed Securities (Australia)	35.7
Internal Residential Mortgage Backed Securities (New Zealand)	3.7
Total prime portfolio	**90.6**
Other eligible securities including gold and cash on deposit with central banks	31.0
Total	**121.6**

[41] Market value is post the repo discount applied by the applicable central bank.

Appendix 1 – ANZ Bank (Europe) Limited

ANZ Bank (Europe) Limited (ANZBEL) is a 100% owned and controlled subsidiary of ANZ. ANZBEL is regulated by the Prudential Regulatory Authority (PRA) and the Financial Conduct Authority (FCA), formerly the Financial Services Authority (FSA). ANZBEL is subject to similar Pillar 3 requirements as ANZ, under the FCA's Prudential Source Book for Banks, Building Societies and Investment Firms (BIPRU). The FCA has granted ANZBEL a Pillar 3 Disclosure waiver direction, which can be found on the FCA website: fca.org.uk/static/fca/documents/waivers/bipru-waivers.pdf

In line with the FCA waiver direction, ANZBEL will rely on disclosures in this document to satisfy most of its Pillar 3 disclosure obligations. The following FCA requirements are not mirrored in APS 330 or included in this disclosure document, and as such are required by the FCA to be reported on an individual basis in the annual ANZBEL Statutory Accounts:

- BIPRU 11.5.4R (4) - Disclosure of the firm’s minimum capital requirements covering position, foreign exchange, commodity, counterparty and concentration risks.
- BIPRU 11.5.12R – Disclosure: Market Risk.

Glossary

Collective provision (CP)	Collective provision is the provision for credit losses that are inherent in the portfolio but not able to be individually identified. A collective provision may only be recognised when a loss event has already occurred. Losses expected as a result of future events, no matter how likely, are not recognised.
Credit Default Swaps (CDS)	A sequence of payments by one party (often called the "Buyer") in exchange for an obligation of the other party (often called the "Seller") to make a payment to the buyer if a credit default event occurs in relation to a specified reference entity (and possibly a specified obligation of that reference entity).
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 the failure of ANZ's customers and counterparties to honour or perform fully the terms of a loan or contract.
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.
Equity risk	Is the potential loss that may be incurred on equity investments in the banking book.
Expected loss (EL)	Expected loss is determined based on the expected average annual loss of principal over the economic cycle for the current risk profile of the lending portfolio.
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 flow over the lives of those financial instruments.

Loss Given Default (LGD)	Loss Given Default 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.
Market risk	The risk to ANZ's earnings arising from changes in interest rates, currency exchange rates and credit spreads, 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 physical and derivative trading positions. Trading positions arise from transactions where ANZ acts as principal with clients or with the market. 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. 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.
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.
Probability of Default (PD)	Probability of Default is an estimate of the level of the risk of borrower default.
Recoveries	Payments received and taken to profit for the current period for the amounts written off in prior financial periods.
Regulatory Expected Loss	Regulatory Expected Loss is a measure of expected credit losses at the start of the year.
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 which are weighted for credit risk according to a set formula (APS 112/113).
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.
Slotting	Exposures where repayment is dependent on funds generated by the asset financed and with little/no recourse to any alternative source.
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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