2020

BASEL III PILLAR 3 DISCLOSURE

AS AT 30 SEPTEMBER 2020

APS 330: PUBLIC DISCLOSURE

Important notice

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

Version	Date Issued	Brief Outline of Change
1.0	9th November 2020	Version for publication.
1.1	9th October 2024	Values for Level 1 entity Capital Ratios have been adjusted along with inclusion of associated footnotes on page 21.

Table of Contents[1]

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

Chapter 1 - Introduction

Purpose of this document

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

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

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

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

Basel in ANZ

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.

Verification of disclosures

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

Comparison to ANZ's Financial Reporting

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

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

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

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

Chapter 2 – Risk appetite and governance

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

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

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

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

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

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

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

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

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

- **Technology risk** covers the risk of loss and/or non-compliance with laws resulting from inadequate or failed internal processes, people and systems or from external events impacting on Information Technology (IT) assets, including the compromise of an IT asset's confidentiality, integrity or availability. An IT asset is any instance of software or hardware (includes cloud computing) that is either owned by ANZ, or licensed to ANZ by an external entity. The scope of this risk includes IT assets that are managed and/or supported by a dedicated technology function within ANZ, service providers and/or ANZ business units outside of technology.

Risk Appetite Framework

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

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

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

Risk Management Governance

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

ANZ Board - is responsible for:
- Approving the operating plan for ANZ and endorsing ANZ's strategic direction;
- Overseeing ANZ's financial strength and the soundness of ANZ's financial management;
- Approving ANZ's internal capital adequacy assessment process (ICAAP), and associated documents;
- Overseeing the establishment and maintenance of an effective risk management framework;
- Overseeing the establishment by management of a sound risk management culture, including by identifying desirable changes to ANZ's risk culture and seeking the taking of steps to address those changes;
- Approving the ANZ Remuneration Policy and the design of significant incentive plans;
- Approving significant changes to organisational and governance structures;
- Approving relevant ANZ policies in accordance with the Board's delegations framework; and
- Appointing and reviewing the performance (including remuneration and incentives) and succession of, the ANZ CEO and certain senior executive appointees of the Board (Board Appointees).

Risk Committee - assists the Board of Directors in:
- Approving ANZ's risk management framework, including risk appetite and risk management strategy;
- Overseeing management's implementation of ANZ's risk management strategy and ongoing effectiveness in seeking to ensure that ANZ remains appropriately within its risk appetite;
- Advising the Board on ANZ's overall current and future risk position relative to its appetite and risk management strategy;
- Overseeing compliance by ANZ with applicable legal and regulatory obligations and significant internal polices relating to the operation of ANZ's business;
- Approving and overseeing the effectiveness of ANZ's policies and procedures relating to anti-money laundering; and
- Determining the scope of ANZ's approach to risk and governance culture and overseeing its impact on organisational behaviour.

Audit Committee - assists the Board of Directors in:
- Overseeing ANZ's compliance with its financial reporting and professional accounting requirements;
- Overseeing and reviewing ANZ's financial reporting principles and policies, controls and procedures;
- Overseeing the work of internal and external audit, including by regularly reviewing internal and external audit plans to ensure they meet regulatory requirements and cover all material risks and financial reporting requirements;
- Overseeing the adequacy and independence of the internal and external audit functions;
- Regularly reviewing the findings of audits, and seeking to ensure that issues are being managed and rectified in an appropriate and timely manner; and
- Seeking to ensure that ANZ maintains, and communicates to employees, policies and procedures for employees to submit, confidentially, information about accounting, internal control, compliance, audit and other matters about which the employee has concerns.

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

- Monitoring and providing guidance as appropriate on matters relating to ANZ's digital transformation, technology and technology-related innovation strategies; and
- Monitoring the delivery of the key programs that form part of ANZ's digital transformation, technology and technology-related innovation strategies.

Human Resource Committee - assists the Board of Directors in:

- Reviewing the effectiveness of and, where appropriate, making recommendations to the Board regarding the ANZ Remuneration Policy, ANZ incentive plan and other significant business unit incentive plans, remuneration structures for senior executives and others specifically covered by the remuneration policy and employee equity plans;
- Making recommendations to the Board regarding appointments, terminations, remuneration (including variable remuneration arrangements incentives) and succession plans for the CEO and Board Appointees;
- Making initial and annual fit and proper assessments of the CEO and Board Appointees;
- Approving the remuneration of Non-Executive Directors (including the Chair of the Board);
- Overseeing the recruitment, retention and termination policies for executives;
- Overseeing ANZ's compliance with regulatory and legal disclosure requirements relating to remuneration and developing ANZ's strategy for shareholder and regulator engagement in relation to remuneration issues;
- Overseeing the Consequence Review Group (CRG) in carrying out its responsibilities under the CRG Charter, including annual reviews of the accountability and consequence framework and BEAR monitoring program; and
- Reviewing and monitoring strategies and actions being taken to measure monitor and transform culture.
- Reviewing ANZ's annual employee engagement survey results and action plan and cultural alignment with ANZ's strategy and values; and
- Monitoring the effectiveness of ANZ's approach to diversity and inclusion.

Ethics, Environment, Social and Governance Committee - assists the Board of Directors in:

- Reviewing and approving the proposed corporate sustainability objectives for ANZ, and reviewing progress in achieving them;
- Reviewing the development of and approving applicable corporate governance policies and principles;
- Reviewing ANZ’s Corporate Governance Statement; and
- Reviewing regular reports on customer complaints and other conduct related matters.

Nomination and Board Operations Committee - supports the Board of Directors in:

- Assisting the Board with all matters to do with the proper functioning of the Board, including in relation to its ongoing composition and overall Board operations; and
- Reviewing and approving the processes in place for evaluating the performance of the Board, its Standing Committees and each Director, including the Chairman of the Board but excluding ANZ CEO; and all other matters to do with the effective and efficient operation of the Board and its Standing Committees.

The above Committees are exclusively comprised of Non-Executive directors. Members, including the Chair are appointed by the Board and serve at the discretion of the Board and for such term or terms as the Board determines.

Processes and procedures relating to the operation of each of the board committees are documented in the committee charters and in the Board Committees’ Standing Rules.

Executive Management Committees are responsible for co-ordination of risk matters for each of the areas of risk management. The Executive Management 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 the Group's balance sheet, liquidity and funding positions and capital management activities.

Specifically, GALCO will co-ordinate, approve and, where it deems necessary, direct:

- Liquidity and funding activities, seek to ensure that these are managed consistently with the Group's strategy and within the Group's appetite for liquidity risk;
- The management of the Group's capital management framework seek to ensure that ANZ is adequately capitalised to cover its material risks and exposures in an efficient and effective manner; and
- Balance sheet management activities including appropriate management of non-traded related risks and exposures.

In all cases GALCO will act in accordance with the Group's risk appetite and limits defined by the Board, regulatory requirements, and international best practice.

The Committee's main objectives are to ensure balance sheet, liquidity and funding, and capital management activities are aligned with the following key values and strategies:

1. Add shareholder value by managing and positioning the balance sheet consistently with the Group's appetite for risk.
2. Maintain the Group's preferred AA credit rating.
3. Strive for world's best-practice corporate governance.

Credit and Market Risk Committee (CMRC)

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

Operational Risk Executive Committee (OREC)

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

Ethics and Responsible Business Committee (ERBC)

ERBC is a leadership and decision making body that exists to advance ANZ's purpose, namely to shape a world where people and communities thrive.

The Committee seeks to do this through careful consideration of the industries, customers and communities that ANZ serves, the products and services ANZ provides, and the manner in which ANZ provides them.

In doing so, the Committee seeks to ensure ANZ operates responsibly and achieves fair and balanced customer outcomes, adheres to the Banking Code of Practice, and considers evolving community standards and expectations, including the social and environmental impacts of our decisions.

The Committee is also accountable to the Board's Ethics, Environment, Social and Governance Committee in the effective discharge of its responsibilities.

Credit Ratings System Oversight Committee (CRSOC)

CRSOC is a sub-committee of CMRC responsible for the oversight and control of the Internal Ratings System for credit risk including credit model approvals and performance monitoring. The Committee meets at least 4 times a year, or more frequently as required.

Capital and Stress Testing Oversight Committee (CSTOC)

CSTOC is a sub-committee of GALCO responsible for the oversight and control of the Group's stress testing framework, modelling and processes, economic profit methodology and framework, capital allocation framework and other capital management (apart from Group ICAAP) and portfolio measurement related recommendations. The Committee meets a minimum of three times per year, with additional meetings at the discretion of the Chair.

Processes and procedures relating to the operation of each of the Executive Management Committees are documented in the committee charters.

Chapter 3 – Capital reporting and measurement

Capital reporting and measurement

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

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

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

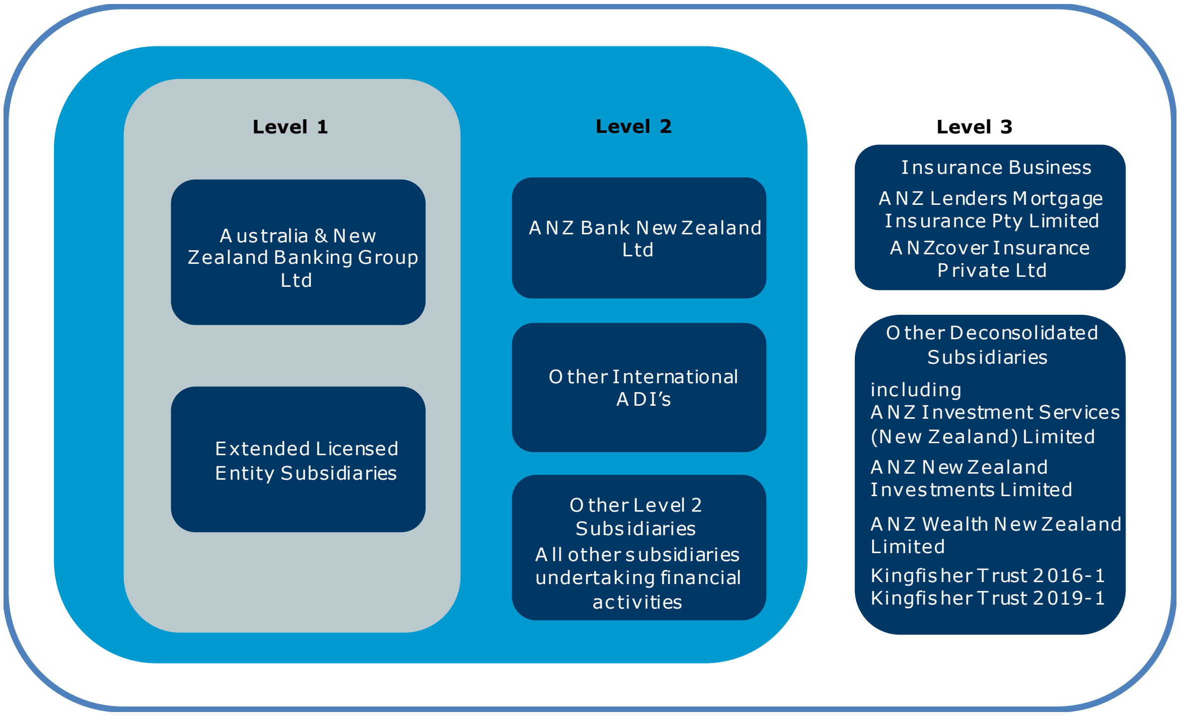
  - Insurance businesses (including friendly societies and health funds).
  - Acting as manager, responsible entity, approved trustee, trustee or similar role in relation to funds management.
  - Non-financial (commercial) operations.
  - Securitisation special purpose vehicles to which assets have been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

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

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

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

Refer to Note 25 Controlled Entities of ANZ's 2020 Annual Report for a list of all material subsidiaries and a brief description of their key activities.



Chapter 4 – Capital and Capital Adequacy

Table 1 Capital Disclosure template

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

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

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

Restrictions on Transfers of Capital within ANZ

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

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

With effect from 2 April 2020, RBNZ amended the conditions of registration for ANZ New Zealand, to (among other things) prohibit ANZ New Zealand from making distributions other than discretionary payments payable to holders of Additional Tier 1 capital instruments. These amendments were also applied to other New Zealand-incorporated registered banks to further support the stability of the New Zealand banking financial system during this period of economic uncertainty. These amendments prevent ANZ New Zealand from paying dividends to ANZ.

The RBNZ has also informed New Zealand-incorporated registered banks (including ANZ New Zealand) that they should not redeem capital instruments at this time. Accordingly, ANZ New Zealand was not permitted to redeem its NZ$500 million Capital Notes in May 2020, although it can continue making coupon payments on those Capital Notes. As ANZ New Zealand did not exercise its option to convert in May 2020, the terms of the Capital Notes provide for their conversion into a variable number of ANZ shares in May 2022 subject to certain conditions.

Table 1 Capital disclosure template

		Sep-20 $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	26,228	Table A
2	Retained earnings	33,240	
3	Accumulated other comprehensive income (and other reserves)	1,636	Table B
4	Directly issued capital subject to phase out from CET1 (only applicable to mutually-owned companies)	n/a	
5	Ordinary share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	3	Table C
6	Common Equity Tier 1 capital before regulatory adjustments	61,107	
	Common Equity Tier 1 capital : regulatory adjustments		
7	Prudential valuation adjustments	-	
8	Goodwill (net of related tax liability)	3,265	
9	Other intangibles other than mortgage servicing rights (net of related tax liability)	1,114	Table D
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	Table H
11	Cash-flow hedge reserve	1,038	
12	Shortfall of provisions to expected losses	43	Table E
13	Securitisation gain on sale	-	
14	Gains and losses due to changes in own credit risk on fair valued liabilities	(38)	
15	Defined benefit superannuation fund net assets	207	Table F
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	-	
17	Reciprocal cross-holdings in common equity	-	
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the ADI does not own more than 10% of the issued share capital (amount above 10% threshold)	-	
19	Significant investments in the ordinary shares of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	-	Table G
20	Mortgage service rights (amount above 10% threshold)	-	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	
22	Amount exceeding the 15% threshold	-	
23	of which: significant investments in the ordinary shares of financial entities	-	
24	of which: mortgage servicing rights	-	
25	of which: deferred tax assets arising from temporary differences	-	
26	National specific regulatory adjustments (sum of rows 26a - 26j)	6,776	
26a	of which: treasury shares	-	
26b	of which: offset to dividends declared under a dividend reinvestment plan (DRP), to the extent to that the dividends are used to purchase new ordinary shares issued by the ADI	-	
26c	of which: deferred fee income	15	
26d	of which: equity investment in financial institutions not reported in rows 18, 19 and 23	3,658	Table G
26e	of which: deferred tax assets not reported in rows 10, 21 and 25	2,128	Table H
26f	of which: capitalised expenses	922	Table I
26g	of which: investments in commercial (non-financial) entities that are deducted under APRA rules	37	Table J
26h	of which: covered bonds in excess of asset cover in pools	-	
26i	of which: undercapitalisation of a non-consolidated subsidiary	-	
26j	of which: other national specific reg ulatory adjustments not reported in rows 26a to 26i	16	
27	Regulatory adjustments applied to CET1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-	
28	Total regulatory adjustments to CET1	12,405	
29	Common Equity Tier 1 capital (CET1)	48,702	

Table 1 Capital disclosure template

		Sep-20 $M	Reconciliation Table Reference
	Additional Tier 1 Capital: instruments		
30	Directly issued qualifying Additional Tier 1 instruments	7,660	Table K
31	of which: classified as equity under applicable accounting standards	-	
32	of which: classified as liabilities under applicable accounting standards	7,660	Table K
33	Directly issued capital instruments subject to phase out from Additional Tier 1	-	
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	282	Table K
35	of which: instruments issued by subsidiaries subject to phase out	n/a	
36	**Additional Tier 1 capital before regulatory adjustments**	**7,942**	
	Additional Tier 1 Capital: regulatory adjustments		
37	Investments in own Additional Tier 1 instruments	-	
38	Reciprocal cross-holdings in Additional Tier 1 instruments	-	
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the ADI does not own more than 10% of the issued share capital (amount above 10% threshold)	-	
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, (net of eligible short positions)	155	Table K
41	National specific regulatory adjustments (sum of rows 41a - 41c)	8	
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	8	Table K
41c	of which: other national specific regulatory adjustments not reported in rows 41a and 41b	-	Table K
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 cover deductions	-	
43	Total regulatory adjustments to Additional Tier 1 capital	**163**	
44	Additional Tier 1 capital (AT1)	**7,779**	
45	Tier 1 Capital (T1=CET1+AT1)	**56,481**	
	Tier 2 Capital: instruments and provisions		
46	Directly issued qualifying Tier 2 instruments	11,855	
47	Directly issued capital instruments subject to phase out from Tier 2	422	Table L
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group T2)	59	Table L
49	of which: instruments issued by subsidiaries subject to phase out	-	
50	Provisions	1,813	Table L
51	Tier 2 capital before regulatory adjustments	**14,149**	
	Tier 2 Capital: regulatory adjustments		
52	Investments in own Tier 2 instruments	50	Table L
53	Reciprocal cross-holdings in Tier 2 instruments	-	
54	Investments in the Tier 2 capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the ADI does not own more than 10% of the issued share capital (amount above 10%	-	
55	Significant investments in the Tier 2 capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions	85	Table L
56	National specific regulatory adjustments (sums of rows 56a - 56c)	57	
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	57	Table L
56c	of which: other national specific regulatory adjustments not reported in rows 56a and 56b	-	
57	Total regulatory adjustment to Tier 2 capital	**192**	
58	Tier 2 capital (T2)	**13,957**	
59	Total capital (TC=T1+T2)	**70,438**	
60	Total risk-weighted assets based on APRA standards	**429,384**	

Table 1 Capital disclosure template

			Reconciliation Table Reference
	Capital ratios and buffers		
61	Common Equity Tier 1 (as a percentage of risk-weighted assets)	11.3%	
62	Tier 1 (as a percentage of risk-weighted assets)	13.2%	
63	Total capital (as a percentage of risk-weighted assets)	16.4%	
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIBs buffer requirement, expressed as a percentage of risk-weighted assets)	8.013%	
65	of which: capital conservation buffer requirement [3]	3.5%	
66	of which: ADI-specific countercyclical buffer requirements	0.013%	
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)	6.8%	
	National minima (if different from Basel III)		
69	National Common Equity Tier 1 minimum ratio (if different from Basel III minimum)	n/a	
70	National Tier 1 minimum ratio (if different from Basel III minimum)	n/a	
71	National total capital minimum ratio (if different from Basel III minimum)	n/a	
	Amount below thresholds for deductions (not risk-weighted)		
72	Non-significant investments in the capital of other financial entities	212	
73	Significant investments in the ordinary shares of financial entities	3,510	Table G
74	Mortgage servicing rights (net of related tax liability)	n/a	
75	Deferred tax assets arising from temporary differences (net of related tax liability)	2,128	Table H
	Applicable caps on the inclusion of provisions in Tier 2		
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	206	Table E
77	Cap on inclusion of provisions in Tier 2 under standardised approach	256	
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	1,606	
79	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	2,037	
	Capital instruments subject to phase-out arrangements (only application between 1 January 2018 to 1 January 2022)		
80	Current cap on CET1 instruments subject to phase out arrangements	n/a	
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	n/a	
82	Current cap on AT1 instruments subject to phase out arrangements	n/a	
83	Amount excluded from AT1 instruments due to cap (excess over cap after redemptions and maturities)	-	
84	Current cap on T2 instruments subject to phase out arrangements	n/a	
85	Amount excluded from T2 due to cap (excess over cap after redemption and maturities)	-	

Counter Cyclical Capital Buffer

Geographic breakdown of Private Sector Credit Exposures	Hong Kong $M	Luxembourg $M	Norway $M	Other $M	Total $M
RWA for all private sector credit exposures	$4,145	$41	$128	$329,138	$333,452
Jurisdictional buffer set by national authorities	1.00%	0.25%	1.00%	-	-
Countercyclical buffer requirement	0.012%	0.00003%	0.00038%	-	0.013%

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

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

Assets	**Balance Sheet as in published financial statements $M**	**Adjustments $M**	**Balance sheet under scope of regulatory consolidation $M**	**Template and Reconciliation Table Reference**
Cash and Cash Equivalents	107,923	(105)	107,818	
Settlement Balances owed to ANZ	7,541		7,541	
Collateral Paid	14,308		14,308	
Trading securities	50,913		50,913	
of which: Financial Institutions capital instruments			85	Table L
Derivative financial instruments	135,331		135,331	
Investment Securities	93,391	(567)	92,824	
of which: significant investment in financial institutions equity instruments			935	Table G
of which: non-significant investment in financial institutions equity instruments			148	Table G
of which: Other entities equity investments			30	Table J
of which: collectively assessed provision			(20)	
Net loans and advances	617,093	(1,793)	615,300	
of which: deferred fee income			15	Row 26c
of which: collectively assessed provision			(4,130)	Table E
of which: individual provisions			(851)	Table E
of which: capitalised brokerage			868	Table I
of which: CET1 margin lending adjustment			16	Row 26j
of which: AT1 margin lending adjustment			-	Table K
Regulatory deposits	801	-	801	
Due from controlled entities	-	1,881	1,881	
of which: Significant investments in the Tier 2 "capital of banking, financial and insurance entities" that are outside the scope of regulatory consolidation			85	Table L
Shares in controlled entities		644	644	
of which: Investment in deconsolidated financial subsidiaries			489	Table G
of which: AT1 significant investment in banking, financial and insurance entities that are outside the scope of regulatory consolidation			155	Table K
Investments in associates	2,164		2,164	
of which: Financial Institutions			2,157	Table G
of which: Other Entities			7	Table J
Current tax assets	161		161	
Deferred tax assets	2,124	(2)	2,122	Table H
Goodwill and other intangible assets	4,379	(72)	4,307	
of which: Goodwill			3,264	
of which: Software			1,039	Table D
Premises and equipment	3,013		3,013	
Other assets	3,144	(200)	2,944	
of which: Defined benefit superannuation fund net assets			274	Table F
Total Assets	**1,042,286**	**(214)**	**1,042,072**	

Liabilities	Balance Sheet as in published financial statements $M	Adjustments $M	Balance sheet under scope of regulatory consolidation $M	Template and Reconciliation Table Reference
Settlement Balances owed by ANZ	22,241	-	22,241	
Collateral Received	9,304	-	9,304	
Deposits and other borrowings	682,333	-	682,333	
Derivative financial instruments	134,711	-	134,711	
Due to controlled entities	-	2,366	2,366	
Current tax liabilities	349	(21)	328	
Deferred tax liabilities	80	-	80	Table H
of which: related to intangible assets			1	Table D
of which: related to capitalised expenses			5	Table I
of which: related to defined benefit super assets			67	Table F
Payables and other liabilities	9,128	(560)	8,568	
Employee Entitlements	596		596	
Provisions	2,579	(76)	2,503	
of which: individually assessed provision			40	Table E
of which: collectively assessed provision			858	Table E
Debt Issuances	119,668	(1,824)	117,844	
of which: Directly issued qualifying Additional Tier 1 instruments			7,734	Table K
of which: Additional Tier 1 Instruments			463	Table K
of which: Directly issued capital instruments subject to phase out from Tier 2			422	Table L
of which: Directly issued qualifying Tier 2 instruments			12,228	Table L
Total Liabilities	**980,989**	**(115)**	**980,874**	
Net Assets	**61,297**	**(99)**	**61,198**	

Shareholders' equity	Balance Sheet as in published financial statements $M	Adjustments $M	Balance sheet under scope of regulatory consolidation $M	Template and Reconciliation Table Reference
Ordinary Share Capital	26,531	(76)	26,455	Table A
of which: Share reserve			227	Tables A & B
Reserves	1,501	(8)	1,493	Table B
of which: Cash flow hedging reserves			1,038	Row 11
Retained earnings	33,255	(15)	33,240	Row 2
Share capital and reserves attributable to shareholders of the company	**61,287**	**(99)**	**61,188**	
Non-controlling interests	10		10	Table C
Total Shareholders' Equity	**61,297**	**(99)**	**61,198**	

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

Table A		Sep 20 $M	Table 1 Reference
	Issued capital	26,455	
Less	Reclassification to Reserves	(227)	Table B
	Regulatory Directly Issued qualifying ordinary shares	**26,228**	**Row 1**

Table B		Sep 20 $M	Table 1 Reference
	Reserves	1,493	
Add	Reclassification from Issued Capital	227	Table A
Less	Non qualifying reserves	(84)	
	Reserves for Regulatory capital purposes (amount allowed in group CET1)	**1,636**	**Row 3**

Table C		Sep 20 $M	Table 1 Reference
	Non-controlling interests	10	
Less	Surplus capital attributable to minority shareholders	(7)	
	Ordinary share capital issued by subsidiaries and held by third parties	**3**	**Row 5**

Table D		Sep 20 $M	Table 1 Reference
	Software	1,039	
Add	Other intangible assets	5	
Less	Associated deferred tax liabilities	(1)	
Add	Regulatory reclassification from significant investments in the ordinary shares of banking, financial and insurance entities outside the scope of regulatory consolidation	71	Table G
	Other intangibles other than mortgage servicing rights (net of related tax liability)	**1,114**	**Row 9**

Table E		Sep 20 $M	Table 1 Reference
	Qualifying collective provision		
	Collectively assessed provision on Loans and advances	(4,130)	
	Collectively assessed provision on Investment Securities	(20)	
	Collectively assessed provision on Undrawn commitments	(858)	
Less	Non-qualifying collectively assessed provision	484	
Less	Standardised collectively assessed provision	206	Row 76
Less	Non-defaulted expected loss	2,710	
	Non-Defaulted: Expected Loss - Eligible Provision Shortfall	-	
	Qualifying individual provision		
	Individually assessed provision on Loans and advances	(851)	
	Individually assessed provision on Undrawn and contingent facilities	(40)	
Add	Additional individually assessed provision for partial write offs	(302)	
Less	Standardised individually assessed provision	50	
Add	Collectively assessed provision on advanced defaulted	(455)	
Less	Defaulted expected loss	1,641	
	Defaulted: Expected Loss - Eligible Provision Shortfall	43	
	Gross deduction	**43**	**Row 12**

Table F		Sep 20 $M	Table 1 Reference
	Defined benefit superannuation fund net assets	274	
Less	Associated deferred tax liabilities	(67)	
	Defined benefit superannuation fund net assets	**207**	**Row 15**

Table G		Sep 20 $M	Table 1 Reference
	Investment in deconsolidated financial subsidiaries	489	
Less	Regulatory reclassification to Retained Earnings and Other Intangible Assets	(71)	Table D
Add	Investment in financial associates	2,157	
Add	Investment in financial institutions Investment Securities	935	
Less	Amount below 10% threshold of CET1	(3,510)	
	Significant investments in the ordinary shares of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold	-	Row 19
Add	Deduction amount below the 10% threshold of CET 1	3,510	Row 73
Add	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the ADI does not own more than 10% of the issued share capital - Investment Securities	148	
	Equity investment in financial institutions not reported in rows 18, 19 and 23	3,658	Row 26d
	Deduction for equity holdings in financial institutions - APRA regulations	**3,658**	

Table H			Table 1 Reference
	Deferred tax assets	2,122	
Add	Deferred tax liabilities	(80)	
	Deferred tax asset less deferred tax liabilities	2,042	
Less	Deferred tax assets that rely on future profitability	-	Row 10
Add	Deferred tax liabilities on intangible assets, capitalised expenses and defined benefit super assets	73	
Add	Impact of calculating the deduction on a jurisdictional basis	13	
	Deferred tax assets not reported in rows 10, 21 and 25 of the Common Disclosure Template	**2,128**	**Row 26e**

Table I		Sep 20 $M	Table 1 Reference
	Capitalised brokerage costs	868	
	Capitalised debt and capital issuance expenses	59	
Less	Associated deferred tax liabilities	(5)	
	Capitalised expenses	**922**	**Row 26f**

Table J		Sep 20 $M	Table 1 Reference
	Investments in non financial Investment Securities equities	30	
	Investments in non financial associates	7	
	Non financial equity exposures (loans)	-	
	Equity exposures to non financial entities	**37**	**Row 26g**

Table K		Sep 20 $M	Table 1 Reference
	Directly issued qualifying Additional Tier 1 Capital Instruments classified as liabilities	7,734	
Add	Issue costs	26	
Add	Fair value adjustment	(100)	
	Directly issued qualifying Additional Tier 1 Capital Instruments classified as liabilities	7,660	Row 30
	Additional Tier 1 instruments issued by subsidiaries held by third parties	463	
Add	Issue costs	-	
Less	Surplus capital attributable to third party holders	(181)	
Add	AT1 Instruments issued by subsidiaries and held by third parties (amounts allowed in Group AT1)	282	Row 34
	Additional Tier 1 capital before regulatory adjustments	**7,942**	**Row 36**
Less	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation	(155)	Row 40
	Investments in the capital of financial institutions that are outside the scope of regulatory consolidations not reported in rows 39 and 40	(8)	Row 41b
Less	Other national specific regulatory adjustments not reported	-	Row 41c
	Additional Tier 1 capital	**7,779**	**Row 44**

Table L		Sep 20 $M	Table 1 Reference
	Directly issued capital instruments subject to phase out from Tier 2	422	
Less	Amortisation of Tier 2 Capital Instruments subject to Phase out	-	
Less	Fair value adjustment	-	
	Directly issued capital instruments subject to phase out from Tier 2	**422**	**Row 47**
Add	Surplus capital attributable to third party holders	59	Row 48
Add	Directly issued qualifying Tier 2 instruments	12,228	
Add	Issue costs	18	
Add	Fair value adjustment	(391)	
Add	Provisions	1,813	Row 50
	Tier 2 capital before regulatory adjustments	14,149	Row 51
Less	Investments in own Tier 2 instruments (trading limit)	(50)	Row 52
Less	Significant investments in the Tier 2 capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions	(85)	Row 55
Less	Investments in the capital of financial institutions that are outside the scope of regulatory consolidation not reported in rows 54 and 55	(57)	Row 56b
	Tier 2 capital	**13,957**	**Row 58**

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

Entity	Activity	Total Assets $M	Total Liabilities $M
ACN 008 647 185 Pty Ltd	Holding Company	-	-
ANZ ILP Pty Ltd	Incorporated Legal Practice	2	-
ANZ Investment Services (New Zealand) Limited	Funds Management	37	9
ANZ Lenders Mortgage Insurance Pty. Limited	Mortgage insurance	973	512
ANZ Pensions (UK) Limited	Trustee/Nominee	-	-
ANZ New Zealand Investments Limited	Funds Management	121	30
ANZ New Zealand Investments Nominees Limited	Nominee	-	-
ANZ Wealth Australia Limited	Holding Company / Corporate	55	17
ANZ Wealth New Zealand Limited	Holding Company	120	-
ANZcover Insurance Private Ltd	Captive-Insurance	169	75
Kingfisher Trust 2016-1	Securitisation Trust	769	769
Kingfisher Trust 2019-1	Securitisation Trust	1,062	1,062
Looking Together Pty Ltd	Property Price Information	-	-
Shout for Good Pty. Ltd.	Corporate	1	1

Table 2 Main features of capital instruments

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

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

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

Table 6 Capital adequacy

Capital management

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

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

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

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

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

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

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

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

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

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

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

Regulatory environment

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

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

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

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

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

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

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

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

In addition to the prudential capital oversight that APRA conducts over the Company and the Group, the Company’s branch operations and major banking subsidiary operations are overseen by local regulators such as the Reserve Bank of New Zealand, the US Federal Reserve, the UK Prudential Regulation Authority, the Monetary Authority of Singapore, the Hong Kong Monetary Authority and the China Banking 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 development

There are a number of matters currently outstanding that may have an impact on ANZ’s regulatory capital in the future. Details of these matters are available in ANZ’s 2020 Full Year Results Announcement Group Results section, pages 49 and 50, available on ANZ’s website: anz.com/shareholder/centre/reporting/results-announcement.

Table 6 Capital adequacy - Capital Ratio and Risk Weighted Assets

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

Risk weighted assets	**Sep 20 $M**	**Mar 20 $M**	**Sep 19 $M**
Subject to Advanced Internal Rating Based (IRB) approach			
Corporate	139,415	150,290	136,885
Sovereign	7,545	6,915	6,199
Bank	12,734	18,615	15,968
Residential Mortgage	110,353	107,351	105,491
Qualifying Revolving Retail	4,337	4,956	5,255
Other Retail	21,794	25,080	26,258
Credit risk weighted assets subject to Advanced IRB approach	**296,178**	**313,207**	**296,056**
Credit risk Specialised Lending exposures subject to slotting approach[4]	**39,001**	**41,072**	**36,318**
Subject to Standardised approach			
Corporate	10,185	14,626	11,645
Sovereign	220	-	-
Residential Mortgage	210	228	216
Other Retail	33	46	50
Credit risk weighted assets subject to Standardised approach	**10,648**	**14,900**	**11,911**
Credit Valuation Adjustment and Qualifying Central Counterparties	**7,710**	**9,679**	**8,682**
Credit risk weighted assets relating to securitisation exposures	2,125	2,142	1,859
Other assets	4,375	4,997	3,280
Total credit risk weighted assets	**360,037**	**385,997**	**358,106**
Market risk weighted assets	8,237	7,102	5,307
Operational risk weighted assets	47,563	47,902	46,626
Interest rate risk in the banking book (IRRBB) risk weighted assets	13,547	8,011	6,922
Total risk weighted assets	**429,384**	**449,012**	**416,961**

Capital ratios (%)[5]			
Level 2 Common Equity Tier 1 capital ratio	**11.3%**	**10.8%**	**11.4%**
Level 2 Tier 1 capital ratio	**13.2%**	**12.5%**	**13.2%**
Level 2 Total capital ratio	**16.4%**	**15.5%**	**15.3%**
Level 1: Extended licensed Common Equity Tier 1 capital ratio[6]	**11.1%**	**10.6%**	**11.3%**
Level 1: Extended licensed entity Tier 1 capital ratio[6]	**13.1%**	**12.5%**	**13.3%**
Level 1: Extended licensed entity Total capital ratio[6]	**16.6%**	**15.8%**	**15.6%**
Other significant Authorised Deposit-taking Institution (ADI) or overseas bank subsidiary:			
ANZ Bank New Zealand Limited – Common Equity Tier 1 capital ratio	**11.7%**	**11.1%**	**10.8%**
ANZ Bank New Zealand Limited - Tier 1 capital ratio	**14.4%**	**13.9%**	**13.6%**
ANZ Bank New Zealand Limited - Total capital ratio	**14.4%**	**13.9%**	**13.6%**

[4] Specialised Lending exposures subject to slotting approach are those where the main servicing and repayment is from the asset being financed, and includes specified commercial property development/investment lending, project finance and object finance.

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

[6] On 9th October 2024, ANZ adjusted the following values for the period 30 September 2019 to 31 March 2024 to reflect the application of the $500 million Operational Risk capital overlay to both Level 1 and Level 2 regulatory consolidations.

- Basel III APRA Level 1 Capital Ratios with reporting period impacts of : CET1 (6 bps) and other Capital Ratios (between 7 and 9 bps).

Credit Risk Weighted Assets (CRWA)

Total CRWA decreased $26 billion (-6.7%) from March 2020 to $360 billion at September 2020. The decrease was driven by the Institutional business across Corporate and Bank asset classes mainly from volume driven reduction combined with the impact of foreign exchange movements across the portfolio.

Market Risk, Operational Risk and IRRBB RWA

IRRBB RWA increased $5.54 billion due to greater Repricing and Yield Curve risk arising from market volatility and deterioration in embedded gains.

Traded Market Risk RWA increased $1.14 billion over the half year due to increased volatility.

Chapter 5 – Credit risk

Table 7 Credit risk – General disclosures

Definition of credit risk

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

Regulatory approval to use the Advanced Internal Ratings-based approach

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

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

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

There are however several small portfolios (mainly retail, local corporates and non-bank financial institutions 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 Wholesale Credit Risk. The framework is top down, being defined by credit principles and policies. Credit policies, requirements and procedures cover all aspects of the credit life cycle such as transaction structuring, risk grading, initial approval, ongoing management and problem debt management, as well as specialist policy topics.

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

Organisation

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

The primary responsibility for prudent and profitable management of credit risk assets and customer relationships rests with the business units. An independent credit risk management function is staffed by risk specialists. Independence is achieved by having all credit risk staff ultimately report to the Chief Risk Officer (CRO), even where they are embedded in business units. Risk 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. In ANZ's wholesale businesses, Risk also provides independent credit assessment and approval on lending decisions.

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

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

Portfolio direction and performance

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

- Group and divisional level risk appetite strategies, business writing strategies and segment transaction guidelines are prepared by the businesses and set out appetite, planned portfolio growth, capital usage and risk/return profile, and also identify areas that may require attention to mitigate and improve risk management;
- Regular portfolio reviews; and
- Exposure concentration limits, covering single customers, 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 collectively assessed provision, economic capital, expected loss, regulatory risk weighted assets (RWA) and regulatory expected loss;
- Assessing impact of emerging issues, and conducting ad-hoc investigations and analysis;
- Validating rating/scoring tools and credit estimates; and
- Ongoing review and refinement of ANZ's credit risk measurement and policy framework.

Credit Risk Reporting

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

Periodic reporting assists in analysing the effectiveness of strategies and processes identifying emerging issues and monitoring of portfolio trends by all levels of management and the Board.

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

Exposure at default

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

Past due facilities

Facilities where a contractual payment has not been met or the customer is outside of contractual arrangements for a material length of time are deemed past due. Past due facilities include those operating in excess of approved arrangements or where scheduled repayments are outstanding, but do not include impaired assets.

Impaired assets[7]

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

Restructured items

Restructured items comprise facilities in which the original contractual terms have been modified for reasons related to the financial difficulties of the customer. Restructuring may consist of reduction of interest, principal or other payments legally due, or an extension in maturity materially beyond those typically offered to new facilities with similar risk.

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

Collectively Assessed Provisions for Credit Impairment

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

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

- Stage 1: At the origination of a financial asset, and where there has not been a significant increase in credit risk since origination, a provision equivalent to 12 months ECL is recognised. For instruments with a remaining maturity of less than 12 months, a provision calculated on the remaining term of the maturity is recognised.
- Stage 2: Where there has been a significant increase in credit risk (SICR) since origination, a provision equivalent to lifetime ECL is recognised.
- Stage 3: Where there is objective evidence of impairment, a provision equivalent to lifetime ECL is recognised.

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

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

Individually Assessed Provisions for Credit Impairment

Individually assessed provisions for credit impairment are calculated in accordance with AASB 9. They are assessed on a case-by-case basis for all individually managed impaired assets taking into consideration factors such as the realisable value of security (or other credit mitigants), the likely return available upon liquidation or bankruptcy, legal uncertainties, estimated costs involved in recovery, the market price of the exposure in secondary markets and the amount and timing of expected receipts and recoveries.

Write-offs

Facilities are written off against the related provision for impairment when they are assessed as partially or fully uncollectable, and after proceeds from the realisation of any collateral have been received. Where individually assessed provisions recognised in previous periods have subsequently decreased or are no longer required, such impairment losses are reversed in the current period income statement.

Definition of default

ANZ uses the following definition of default:

- ANZ considers that the customer is unlikely to pay its credit obligations in full, without recourse to actions such as realising security, or
- the customer is at least 90 days past due on a credit obligation, or
- the customer's overdraft or other revolving facility(ies) have been continuously outside approved limits for 90 or more consecutive days.

Specific Provision and General Reserve for Credit Losses

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

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

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

Table 7(b) part (i): Period end and average Exposure at Default [8]

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

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

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

	Mar 20				
Advanced IRB approach	**Risk Weighted Assets $M**	**Exposure at Default $M**	**Average Exposure at Default for half year $M**	**Individual provision charge for half year $M**	**Write-offs for half year $M**
Corporate	150,290	307,981	292,290	356	87
Sovereign	6,915	197,277	175,109	-	-
Bank	18,615	63,649	59,397	-	-
Residential Mortgage	107,351	380,082	376,729	30	47
Qualifying Revolving Retail	4,956	16,128	16,388	81	113
Other Retail	25,080	35,017	35,670	155	196
Total Advanced IRB approach	**313,207**	**1,000,134**	**955,583**	**622**	**443**
Specialised Lending	**41,072**	**48,436**	**45,892**	**9**	**-**
				-	-
Standardised approach				-	-
Corporate	14,626	15,971	14,484	(5)	24
Sovereign	-	-	-	-	-
Residential Mortgage	228	471	458	-	1
Other Retail	46	46	48	-	1
Total Standardised approach	**14,900**	**16,488**	**14,990**	**(5)**	**26**
Credit Valuation Adjustment and Qualifying Central Counterparties	**9,679**	**10,005**	**9,677**	-	-
Total	**378,858**	**1,075,063**	**1,026,142**	**626**	**469**

	Sep 19				
Advanced IRB approach	**Risk Weighted Assets $M**	**Exposure at Default $M**	**Average Exposure at Default for half year $M**	**Individual provision charge for half year $M**	**Write-offs for half year $M**
Corporate	136,885	276,599	267,302	75	89
Sovereign	6,199	152,940	151,300	-	-
Bank	15,968	55,145	55,087	-	-
Residential Mortgage	105,491	373,376	376,444	37	67
Qualifying Revolving Retail	5,255	16,647	17,118	87	126
Other Retail	26,258	36,322	37,432	187	264
Total Advanced IRB approach	**296,056**	**911,029**	**904,683**	**386**	**546**
Specialised Lending	**36,318**	**43,348**	**43,005**	**(2)**	**1**
				-	-
Standardised approach				-	-
Corporate	11,645	12,998	13,258	11	26
Sovereign	-	-	-	-	-
Residential Mortgage	216	445	581	3	1
Other Retail	50	49	65	-	4
Total Standardised approach	**11,911**	**13,492**	**13,904**	**14**	**31**
Credit Valuation Adjustment and Qualifying Central Counterparties	**8,682**	**9,348**	**10,939**	-	-
Total	**352,967**	**977,217**	**972,531**	**398**	**578**

Table 7(b) part (ii): Exposure at Default by portfolio type[9]

Portfolio Type	Sep 20 $M	Mar 20 $M	Sep 19 $M	Average for half year Sep 20 $M
Cash	71,926	96,865	55,083	84,396
Contingents liabilities, commitments, and other off-balance sheet exposures	171,397	170,345	160,293	170,870
Derivatives	50,963	61,962	53,716	56,463
Settlement Balances	133	225	26	179
Investment Securities	89,977	84,112	82,289	87,045
Net Loans, Advances & Acceptances	593,904	630,971	597,084	612,437
Other assets	8,728	4,939	4,627	6,834
Trading Securities	23,389	25,644	24,099	24,517
Total exposures	**1,010,417**	**1,075,063**	**977,217**	**1,042,741**

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

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

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

	Mar 20			
Portfolio Type	Australia $M	New Zealand $M	Asia Pacific, Europe and Americas $M	Total $M
Corporate	160,963	50,455	112,534	**323,952**
Sovereign	62,481	18,308	116,488	**197,277**
Bank	25,443	4,948	33,258	**63,649**
Residential Mortgage	289,578	90,504	471	**380,553**
Qualifying Revolving Retail	16,128	-	-	**16,128**
Other Retail	23,140	11,877	46	**35,063**
Qualifying Central Counterparties	4,088	2,123	3,794	**10,005**
Specialised Lending	35,087	13,210	139	**48,436**
Total exposures	**616,908**	**191,425**	**266,730**	**1,075,063**

	Sep 19			
Portfolio Type	Australia $M	New Zealand $M	Asia Pacific, Europe and Americas $M	Total $M
Corporate	148,488	47,747	93,362	**289,597**
Sovereign	53,287	12,984	86,669	**152,940**
Bank	23,630	4,108	27,407	**55,145**
Residential Mortgage	290,239	83,137	445	**373,821**
Qualifying Revolving Retail	16,647	-	-	**16,647**
Other Retail	24,734	11,588	49	**36,371**
Qualifying Central Counterparties	4,717	1,735	2,896	**9,348**
Specialised Lending	31,328	11,907	113	**43,348**
Total exposures	**593,070**	**173,206**	**210,941**	**977,217**

Table 7(d): Industry distribution of Exposure at Default[10] [11]

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

[10] 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.

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

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

Mar 20

Portfolio Type	Agriculture, Forestry, Fishing & Mining $M	Business Services $M	Construction $M	Electricity, Gas & Water Supply $M	Entertainment, Leisure & Tourism $M	Financial, Investment & Insurance $M	Government and Official Institutions $M	Manufacturing $M	Personal $M	Property Services $M	Wholesale Trade $M	Retail Trade $M	Transport & Storage $M	Other $M	Total $M
Corporate	48,913	11,537	5,921	12,257	14,453	62,027	4,211	51,565	630	23,986	29,290	14,635	20,836	23,691	**323,952**
Sovereign	821	-	16	667	10	120,719	71,117	1,925	-	1,652	4	-	179	167	**197,277**
Bank	-	1	-	4	1	63,596	-	2	-	1	9	3	32	-	**63,649**
Residential Mortgage	-	-	-	-	-	-	-	-	380,553	-	-	-	-	-	**380,553**
Qualifying Revolving Retail	-	-	-	-	-	-	-	-	16,128	-	-	-	-	-	**16,128**
Other Retail	2,644	2,538	3,617	90	1,927	561	14	1,488	11,632	1,044	1,091	3,419	1,191	3,807	**35,063**
Qualifying Central Counterparties	-	-	-	-	-	10,005	-	-	-	-	-	-	-	-	**10,005**
Specialised Lending	1,660	6	387	1,839	440	1	-	2	-	42,466	22	-	1,209	404	**48,436**
Total exposures	**54,038**	**14,082**	**9,941**	**14,857**	**16,831**	**256,909**	**75,342**	**54,982**	**408,943**	**69,149**	**30,416**	**18,057**	**23,447**	**28,069**	**1,075,063**
% of Total	*5.0%*	*1.3%*	*0.9%*	*1.4%*	*1.6%*	*23.9%*	*7.0%*	*5.1%*	*38.1%*	*6.4%*	*2.8%*	*1.7%*	*2.2%*	*2.6%*	*100.0%*

Sep 19

Portfolio Type	Agriculture, Forestry, Fishing & Mining $M	Business Services $M	Construction $M	Electricity, Gas & Water Supply $M	Entertainment, Leisure & Tourism $M	Financial, Investment & Insurance $M	Government and Official Institutions $M	Manufacturing $M	Personal $M	Property Services $M	Wholesale Trade $M	Retail Trade $M	Transport & Storage $M	Other $M	Total $M
Corporate	45,938	10,400	5,666	10,530	14,010	50,918	4,189	45,441	607	21,864	26,581	14,466	18,243	20,744	**289,597**
Sovereign	999	1	18	467	1	79,870	67,603	1,248	-	2,025	58	-	231	419	**152,940**
Bank	115	4	-	4	-	54,906	-	2	-	2	-	45	29	38	**55,145**
Residential Mortgage	-	-	-	-	-	-	-	-	373,821	-	-	-	-	-	**373,821**
Qualifying Revolving Retail	-	-	-	-	-	-	-	-	16,647	-	-	-	-	-	**16,647**
Other Retail	2,754	2,643	3,740	96	2,045	600	15	1,534	11,986	1,092	1,122	3,617	1,253	3,874	**36,371**
Qualifying Central Counterparties	-	-	-	-	-	9,348	-	-	-	-	-	-	-	-	**9,348**
Specialised Lending	1,394	3	372	1,835	366	1	-	-	-	37,769	22	-	1,161	425	**43,348**
Total exposures	**51,200**	**13,051**	**9,796**	**12,932**	**16,422**	**195,643**	**71,807**	**48,225**	**403,061**	**62,752**	**27,783**	**18,128**	**20,917**	**25,500**	**977,217**
% of Total	*5.2%*	*1.3%*	*1.0%*	*1.3%*	*1.7%*	*20.1%*	*7.4%*	*4.9%*	*41.3%*	*6.4%*	*2.8%*	*1.9%*	*2.1%*	*2.6%*	*100.0%*

Table 7(e): Residual contractual maturity of Exposure at Default[12]

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

Mar 20					
Portfolio Type	**< 12 mths $M**	**1 - 5 years $M**	**> 5 years $M**	**No Maturity Specified $M**	**Total $M**
Corporate	148,359	155,699	19,772	122	**323,952**
Sovereign	131,162	47,317	18,798	-	**197,277**
Bank	45,909	17,175	565	-	**63,649**
Residential Mortgage	292	978	352,414	26,869	**380,553**
Qualifying Revolving Retail	-	-	-	16,128	**16,128**
Other Retail	13,206	5,483	16,374	-	**35,063**
Qualifying Central Counterparties	7,004	1,774	638	589	**10,005**
Specialised Lending	17,573	27,986	2,839	38	**48,436**
Total exposures	**363,505**	**256,412**	**411,400**	**43,746**	**1,075,063**

Sep 19					
Portfolio Type	**< 12 mths $M**	**1 - 5 years $M**	**> 5 years $M**	**No Maturity Specified $M**	**Total $M**
Corporate	130,830	140,947	17,694	126	**289,597**
Sovereign	87,943	46,864	18,133	-	**152,940**
Bank	39,751	15,026	368	-	**55,145**
Residential Mortgage	278	832	345,496	27,215	**373,821**
Qualifying Revolving Retail	-	-	-	16,647	**16,647**
Other Retail	13,208	5,975	17,188	-	**36,371**
Qualifying Central Counterparties	6,522	1,584	808	434	**9,348**
Specialised Lending	17,866	23,243	2,197	42	**43,348**
Total exposures	**296,398**	**234,471**	**401,884**	**44,464**	**977,217**

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

Table 7(f) part (i): Impaired assets[13][14], Past due loans[15], Provisions and Write-offs by Industry sector

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

[13] Impaired derivatives are net of credit value adjustment (CVA) of $2 million, being a market value based assessment of the credit risk of the relevant counterparties (March 2020: $3 million; September 2019: $7 million).

[14] Impaired loans / facilities include restructured items of $254 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 2020: $226 million; September 2019: $267 million).

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

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

Mar 20						
Industry Sector	**Impaired derivatives $M**	**Impaired loans/ facilities $M**	**Past due loans ≥ 90 days $M**	**Individual provision balance $M**	**Individual provision charge for half year $M**	**Write-offs for half year $M**
Agriculture, Forestry, Fishing & Mining	-	519	116	104	(14)	8
Business Services	-	81	46	49	13	20
Construction	-	90	67	43	9	25
Electricity, gas and water supply	-	11	1	10	-	1
Entertainment Leisure & Tourism	-	120	64	55	30	17
Financial, Investment & Insurance	-	69	18	26	11	29
Government & Official Institutions	-	-	-	-	-	-
Manufacturing	-	74	38	42	20	28
Personal	-	786	2,822	254	183	273
Property Services	-	143	52	52	12	3
Retail Trade	-	292	88	115	76	23
Transport & Storage	1	116	25	39	17	7
Wholesale Trade	-	348	38	259	248	22
Other	-	81	114	45	21	13
Total	**1**	**2,730**	**3,489**	**1,093**	**626**	**469**

Sep 19						
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	-	538	133	107	23	18
Business Services	-	104	42	58	24	11
Construction	-	117	77	58	17	25
Electricity, gas and water supply	-	13	1	13	-	1
Entertainment Leisure & Tourism	-	101	59	42	22	24
Financial, Investment & Insurance	-	59	16	40	-	17
Government & Official Institutions	-	-	-	-	-	-
Manufacturing	-	71	44	37	8	36
Personal	-	712	2,974	265	219	358
Property Services	-	53	52	30	7	4
Retail Trade	-	112	98	58	26	24
Transport & Storage	-	71	22	28	10	10
Wholesale Trade	-	111	33	34	11	10
Other	-	87	73	44	31	40
Total	**-**	**2,149**	**3,624**	**814**	**398**	**578**

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

	Sep 20					
	Impaired derivatives $M	**Impaired loans/ facilities $M**	**Past due loans ≥ 90 days $M**	**Individual provision balance $M**	**Individual provision charge for half year $M**	**Write-offs for half year $M**
Portfolios subject to Advanced IRB approach						
Corporate	-	1,298	212	385	126	340
Sovereign	-	-	-	-	-	-
Bank	-	-	-	-	-	-
Residential Mortgage	-	549	3,004	136	39	32
Qualifying Revolving Retail	-	47	-	-	79	107
Other Retail	-	416	469	248	133	131
Total Advanced IRB approach	**-**	**2,310**	**3,685**	**769**	**377**	**610**
Specialised Lending	**-**	**79**	**31**	**14**	**3**	**2**
Portfolios subject to Standardised approach						
Corporate	1	135	28	106	12	18
Residential Mortgage	-	9	16	2	2	2
Other Retail	-	9	-	-	1	8
Total Standardised approach	**1**	**153**	**44**	**108**	**15**	**28**
Qualifying Central Counterparties	**-**	**-**	**-**	**-**	**-**	**-**
Total	**1**	**2,542**	**3,760**	**891**	**395**	**640**

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

Mar 20	Impaired derivatives $M	Impaired loans/ facilities $M	Past due loans ≥ 90 days $M	Individual provision balance $M	Individual provision charge for half year $M	Write-offs for half year $M
Portfolios subject to Advanced IRB approach						
Corporate	-	1,500	218	645	356	87
Sovereign	-	-	-	-	-	-
Bank	-	-	-	-	-	-
Residential Mortgage	-	504	2,791	128	30	47
Qualifying Revolving Retail	-	78	-	-	81	113
Other Retail	-	417	425	225	155	196
Total Advanced IRB approach	**-**	**2,499**	**3,434**	**998**	**622**	**443**
Specialised Lending	**-**	**71**	**27**	**14**	**9**	**-**
Portfolios subject to Standardised approach						
Corporate	1	139	14	74	(5)	24
Residential Mortgage	-	10	9	7	-	1
Other Retail	-	11	5	-	-	1
Total Standardised approach	**1**	**160**	**28**	**81**	**(5)**	**26**
Qualifying Central Counterparties	**-**	**-**	**-**	**-**	**-**	**-**
Total	**1**	**2,730**	**3,489**	**1,093**	**626**	**469**

Sep 19	Impaired derivatives $M	Impaired loans/ facilities $M	Past due loans ≥ 90 days $M	Individual provision balance $M	Individual provision charge for half year $M	Write-offs for half year $M
Portfolios subject to Advanced IRB approach						
Corporate	-	1,038	248	369	75	89
Sovereign	-	-	-	-	-	-
Bank	-	-	-	-	-	-
Residential Mortgage	-	438	2,943	137	37	67
Qualifying Revolving Retail	-	69	-	-	87	126
Other Retail	-	442	379	221	187	264
Total Advanced IRB approach	**-**	**1,987**	**3,570**	**727**	**386**	**546**
Specialised Lending	**-**	**31**	**33**	**5**	**(2)**	**1**
Portfolios subject to Standardised approach						
Corporate	-	106	14	75	11	26
Residential Mortgage	-	10	6	7	3	1
Other Retail	-	15	1	-	-	4
Total Standardised approach	**-**	**131**	**21**	**82**	**14**	**31**
Qualifying Central Counterparties	**-**	**-**	**-**	**-**	**-**	**-**
Total	**-**	**2,149**	**3,624**	**814**	**398**	**578**

Table 7(g): Impaired assets[16 17], Past due loans[18] and Provisions[19] by Geography

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

Mar 20					
Geographic region	**Impaired derivatives $M**	**Impaired loans/ facilities $M**	**Past due loans ≥ 90 days $M**	**Individual provision balance $M**	**Collective provision balance $M**
Australia	-	1,961	3,106	670	3,222
New Zealand	-	312	356	96	657
Asia Pacific, Europe and America	1	457	27	327	622
Total	**1**	**2,730**	**3,489**	**1,093**	**4,501**

Sep 19					
Geographic region	**Impaired derivatives $M**	**Impaired loans/ facilities $M**	**Past due loans ≥ 90 days $M**	**Individual provision balance $M**	**Collective provision balance $M**
Australia	-	1,678	3,312	598	2,470
New Zealand	-	301	292	101	451
Asia Pacific, Europe and America	-	170	20	115	455
Total	**-**	**2,149**	**3,624**	**814**	**3,376**

[16] Impaired derivatives are net of credit value adjustment (CVA) of $2 million, being a market value based assessment of the credit risk of the relevant counterparties (March 2020: $3 million; September 2019: $7 million).

[17] Impaired loans / facilities include restructured items of $254 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 2020: $226 million; September 2019: $267 million).

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

[19] Due to definitional differences, there is a variation in the split between ANZ's Individual Provision and Collective Provision for accounting purposes and the Specific Provision and General Reserve for Credit Losses (GRCL) for regulatory purposes. This does not impact total provisions, and essentially relates to the classification of collectively assessed provisions on defaulted accounts. The disclosures in this document are based on Individual Provision and Collective Provision, for ease of comparison with other published results.

Table 7(h): Provision for Credit Impairment

Collectively Assessed Provision	Half year Sep 20 $M	Half year Mar 20 $M	Half year Sep 19 $M
Balance at start of period	4,501	3,376	3,378
Charge/(Release) to Income Statement	669	1,048	4
Adjustment for exchange rate fluctuations and transfers	(114)	77	6
UDC Divestment	(48)	-	-
Asia divestment	-	-	(11)
less: Investment securities at FVOCI	-	-	1
Total Collectively Assessed Provision	**5,008**	**4,501**	**3,376**

Individually Assessed Provision	Half year Sep 20 $M	Half year Mar 20 $M	Half year Sep 19 $M
Balance at start of period	1,093	814	891
New and increased provisions	675	900	750
Write-backs	(165)	(170)	(233)
Adjustment for exchange rate fluctuations and transfers	(38)	28	2
Discount unwind	(12)	(10)	(12)
Bad debts written off	(640)	(469)	(578)
UDC Divestment	(22)	-	-
Asia divestment	-	-	(6)
Total Individually Assessed Provision	**891**	**1,093**	**814**
Total Provisions for Credit Impairment	**5,899**	**5,594**	**4,190**

Table 7(j): Specific Provision Balance and General Reserve for Credit Losses[20]

Sep 20

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

Mar 20

	Specific Provision Balance $M	General Reserve for Credit Losses $M	Total $M
Collectively Assessed Provision	473	4,028	4,501
Individually Assessed Provision	1,093	-	1,093
Total Provision for Credit Impairment	**1,566**	**4,028**	**5,594**

Sep 19

	Specific Provision Balance $M	General Reserve for Credit Losses $M	Total $M
Collectively Assessed Provision	435	2,941	3,376
Individually Assessed Provision	814	-	814
Total Provision for Credit Impairment	**1,249**	**2,941**	**4,190**

[20] Due to definitional differences, there is a variation in the split between ANZ's Individual Provision and Collective Provision for accounting purposes and the Specific Provision and General Reserve for Credit Losses (GRCL) for regulatory purposes. This does not impact total provisions, and essentially relates to the classification of collectively assessed provisions on defaulted accounts. The disclosures in this document are based on Individual Provision and Collective Provision, for ease of comparison with other published results.

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

Table 8(b): Exposure at Default by risk bucket[21]

Standardised approach exposures	**Sep 20 $M**	**Mar 20 $M**	**Sep 19 $M**
0%	-	4	1
20%	241	369	277
35%	195	210	195
50%	2,429	2,826	2,680
75%	-	-	-
100%	8,830	12,790	10,152
150%	329	277	184
>150%	-	12	3
Capital deductions	-	-	-
Total	**12,024**	**16,488**	**13,492**

Other Asset exposures			
0%	-	-	-
20%	708	649	767
35%	-	-	-
50%	-	-	-
75%	-	-	-
100%	4,234	4,867	3,127
150%	-	-	-
>150%	-	-	-
Capital deductions	-	-	-
Total	**4,942**	**5,516**	**3,894**

Specialised Lending exposures			
0%	158	165	181
70%	20,787	23,878	20,691
90%	22,235	20,864	19,869
115%	2,731	2,401	1,900
250%	519	1,128	707
Total	**46,430**	**48,436**	**43,348**

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

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

Portfolios subject to the Advanced IRB (AIRB) approach

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

IRB Asset Class	Borrower Type	Rating Approach
Corporate	Corporations, partnerships or proprietorships that do not fit into any other asset class	AIRB
Sovereign	Central governments Central banks Certain multilateral development banks	AIRB
Bank	Banks[22] 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[23] Project finance Object finance	AIRB – Supervisory Slotting[24]
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 Pacific, and local corporates in Asia) where currently available data does not enable development of advanced internal models for PD, LGD and EAD estimates. Under the Standardised approach, exposures are mapped to several regulatory risk weights, mainly based on the type of counterparty and its external rating. For these counterparties, external ratings by Standard & Poor's and Moody's Investors Service are used as inputs into the RWA calculation. As described in the section on the ANZ rating system, ANZ has mapped its master scale to the grading of these two External Credit Assessment Institutions (ECAIs).

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

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

The ANZ rating system

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

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

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

[23] 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.

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

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

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

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

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

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

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

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

Use of internal estimates other than for regulatory capital purposes

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

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

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

Controls surrounding the ratings system

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

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

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

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

Rating process by asset class

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

- Statistical models producing a PD or a LGD, which are developed from internal or external data on defaults.
- Statistical models producing an internal rating, which involve calibrating ANZ's models to external rating data where data on defaults is insufficient for statistical purposes (such as banks).
- Hybrid statistical and expert models producing an internal rating, which use a mixture of default data and expert input.
- Expert models/processes that produce an internal rating, including external rating agency replication models.

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

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

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

IRB Asset Class	Borrower type	Rating Approach
Corporate	Corporations, partnerships or proprietorships that do not fit into any other asset class	Mainly statistical models Some use of expert models and policy processes
Sovereign	Central governments Central banks Certain multilateral development banks Australian state governments	External rating and expert judgement
Bank	Banks In Australia only, other ADIs incorporated in Australia	Statistically-based models Review of all relevant and material information including external ratings
Residential Mortgages	Exposures secured by residential property	Statistical models
Qualifying Revolving Retail	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[25]

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.

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

Table 9(d): Non Retail Exposure at Default subject to Advanced Internal Ratings Based (IRB) approach[26] [27] [28]

	Sep 20							
	AAA < A+ $M	A+ < BBB $M	BBB < BB+ $M	BB+ < B+ $M	B+ < CCC $M	CCC $M	Default $M	Total $M
Exposure at Default								
Corporate	24,603	82,128	91,679	56,616	14,593	2,239	2,556	**274,414**
Sovereign	155,797	23,676	3,109	2,253	1,737	13	20	**186,605**
Bank	8,054	28,841	4,099	1,129	43	5	-	**42,171**
Total	**188,454**	**134,645**	**98,887**	**59,998**	**16,373**	**2,257**	**2,576**	**503,190**
% of Total	37.5%	26.7%	19.7%	11.9%	3.3%	0.4%	0.5%	100.0%
Undrawn commitments (included in above)								
Corporate	8,736	33,475	29,496	9,381	1,658	263	180	**83,189**
Sovereign	1,680	86	113	181	23	-	-	**2,083**
Bank	1	555	26	-	1	-	-	**583**
Total	**10,417**	**34,116**	**29,635**	**9,562**	**1,682**	**263**	**180**	**85,855**
Average Exposure at Default								
Corporate	15.011	10.685	2.206	0.856	0.300	0.473	0.830	**1.582**
Sovereign	168.430	215.233	37.458	18.775	48.251	1.636	2.479	**144.655**
Bank	6.820	7.889	5.654	7.953	1.190	0.235	-	**7.321**
Exposure-weighted average Loss Given Default (%)								
Corporate	58.4%	56.1%	46.7%	36.5%	31.6%	43.3%	40.8%	**47.6%**
Sovereign	6.3%	12.0%	35.6%	22.6%	54.8%	63.0%	11.6%	**8.2%**
Bank	57.4%	59.1%	64.3%	67.9%	69.7%	66.9%	-	**59.5%**
Exposure-weighted average risk weight (%)								
Corporate	19.0%	32.3%	53.1%	63.4%	79.6%	225.7%	135.4%	**49.5%**
Sovereign	1.4%	3.3%	33.6%	43.1%	148.7%	280.7%	-	**4.0%**
Bank	15.5%	25.4%	65.5%	120.4%	220.5%	422.3%	-	**30.2%**

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

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

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

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

Mar 20	AAA < A+ $M	A+ < BBB $M	BBB < BB+ $M	BB+ < B+ $M	B+ < CCC $M	CCC $M	Default $M	Total $M
Exposure at Default								
Corporate	34,797	97,236	96,962	58,955	15,175	2,436	2,420	**307,981**
Sovereign	160,894	31,038	2,212	1,037	2,082	14	-	**197,277**
Bank	20,510	36,251	5,767	1,087	27	7	-	**63,649**
Total	**216,201**	**164,525**	**104,941**	**61,079**	**17,284**	**2,457**	**2,420**	**568,907**
% of Total	38.0%	28.9%	18.4%	10.7%	3.0%	0.4%	0.4%	100.0%
Undrawn commitments (included in above)								
Corporate	9,265	36,315	22,743	8,587	1,743	311	67	**79,031**
Sovereign	1,515	19	1	20	24	-	-	**1,579**
Bank	-	519	33	3	1	-	-	**556**
Total	**10,780**	**36,853**	**22,777**	**8,610**	**1,768**	**311**	**67**	**81,166**
Average Exposure at Default								
Corporate	15.795	10.623	1.988	0.730	0.136	0.239	0.669	**1.160**
Sovereign	192.458	408.394	38.138	12.200	26.352	2.293	-	**172.596**
Bank	3.743	4.551	4.372	5.275	0.671	0.314	-	**4.264**
Exposure-weighted average Loss Given Default (%)								
Corporate	56.1%	56.8%	47.7%	37.0%	33.1%	40.5%	41.3%	**48.7%**
Sovereign	5.1%	13.2%	39.0%	42.7%	51.8%	54.5%	-	**7.4%**
Bank	63.4%	61.9%	65.4%	68.6%	72.0%	67.9%	-	**62.8%**
Exposure-weighted average risk weight (%)								
Corporate	17.2%	32.9%	53.5%	62.9%	84.9%	200.1%	127.0%	**48.8%**
Sovereign	0.8%	3.4%	37.5%	75.6%	139.6%	282.1%	-	**3.5%**
Bank	19.9%	26.1%	66.3%	121.2%	224.4%	416.2%	-	**29.3%**

Sep 19	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	28,676	83,292	88,656	56,847	14,923	2,151	2,054	**276,599**
Sovereign	121,380	26,556	2,315	898	1,768	22	1	**152,940**
Bank	17,972	31,295	4,321	1,529	24	4	-	**55,145**
Total	**168,028**	**141,143**	**95,292**	**59,274**	**16,715**	**2,177**	**2,055**	**484,684**
% of Total	34.8%	29.1%	19.7%	12.2%	3.4%	0.4%	0.4%	100.0%
Undrawn commitments (included in above)								
Corporate	7,689	32,168	22,657	8,018	1,620	205	58	**72,415**
Sovereign	1,194	54	1	10	4	-	-	**1,263**
Bank	47	442	28	-	2	-	-	**519**
Total	**8,930**	**32,664**	**22,686**	**8,028**	**1,626**	**205**	**58**	**74,197**
Average Exposure at Default								
Corporate	12.281	10.124	1.790	0.698	0.133	0.217	0.730	**1.039**
Sovereign	166.960	491.771	38.586	11.662	21.047	5.615	0.204	**151.426**
Bank	6.600	6.072	4.163	4.444	0.654	0.240	-	**5.922**
Exposure-weighted average Loss Given Default (%)								
Corporate	54.6%	56.5%	46.8%	36.8%	33.8%	39.2%	41.2%	**47.7%**
Sovereign	5.1%	12.9%	40.8%	42.5%	51.4%	58.3%	5.6%	**7.7%**
Bank	63.9%	61.7%	64.3%	68.5%	67.7%	72.5%	-	**62.8%**
Exposure-weighted average risk weight (%)								
Corporate	17.1%	32.9%	52.9%	62.6%	88.3%	190.5%	108.0%	**48.5%**
Sovereign	0.9%	3.3%	42.0%	80.8%	138.1%	318.9%	-	**4.1%**
Bank	19.5%	25.3%	63.7%	113.7%	183.3%	391.1%	0.0%	**29.0%**

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

	Sep 20							
	0.00% <0.11% $M	0.11% <0.30% $M	0.30% <0.51% $M	0.51% <3.49% $M	3.49% <10.09% $M	10.09% <100.00% $M	Default $M	Total $M
Exposure at Default								
Residential Mortgage	87,863	85,491	61,628	141,183	9,430	3,117	3,600	**392,312**
Qualifying Revolving Retail	5,305	3,405	1,176	3,371	983	565	41	**14,846**
Other Retail	732	4,075	1,784	15,508	6,538	2,138	1,156	**31,931**
Total	**93,900**	**92,971**	**64,588**	**160,062**	**16,951**	**5,820**	**4,797**	**439,089**
% of Total	21.4%	21.2%	14.7%	36.5%	3.8%	1.3%	1.1%	100.0%
Undrawn commitments (included in above)								
Residential Mortgage	21,988	5,682	1,656	6,792	32	29	1	**36,180**
Qualifying Revolving Retail	3,999	2,641	800	1,506	298	58	2	**9,304**
Other Retail	672	3,297	900	3,088	869	180	29	**9,035**
Total	**26,659**	**11,620**	**3,356**	**11,386**	**1,199**	**267**	**32**	**54,519**
Average Exposure at Default								
Residential Mortgage	0.260	0.220	0.270	0.280	0.310	0.310	0.280	**0.259**
Qualifying Revolving Retail	0.010	0.010	0.010	0.010	0.010	0.010	0.010	**0.009**
Other Retail	0.010	0.010	0.010	0.020	0.020	0.010	0.030	**0.016**
Exposure-weighted average Loss Given Default (%)								
Residential Mortgage	19.7%	17.7%	19.6%	20.8%	20.2%	20.0%	19.7%	**19.7%**
Qualifying Revolving Retail	72.6%	76.0%	74.7%	78.8%	82.1%	81.1%	75.7%	**75.9%**
Other Retail	57.7%	64.3%	44.3%	41.1%	42.3%	53.5%	42.1%	**45.7%**
Exposure-weighted average risk weight (%)								
Residential Mortgage	4.4%	10.8%	19.3%	40.8%	96.8%	144.7%	170.1%	**26.1%**
Qualifying Revolving Retail	3.4%	7.8%	15.6%	43.4%	102.1%	211.1%	117.5%	**29.2%**
Other Retail	37.6%	44.0%	34.4%	54.6%	79.2%	141.8%	190.1%	**67.5%**

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

Mar 20	0.00% <0.11% $M	0.11% <0.30% $M	0.30% <0.51% $M	0.51% <3.49% $M	3.49% <10.09% $M	10.09% <100.00% $M	Default $M	Total $M
Exposure at Default								
Residential Mortgage	72,103	98,989	63,456	132,126	6,725	3,336	3,347	**380,082**
Qualifying Revolving Retail	5,464	3,607	1,242	3,872	1,245	624	74	**16,128**
Other Retail	1,132	5,585	1,943	19,367	4,056	1,959	975	**35,017**
Total	**78,699**	**108,181**	**66,641**	**155,365**	**12,026**	**5,919**	**4,396**	**431,227**
% of Total	18.3%	25.1%	15.5%	35.9%	2.8%	1.4%	1.0%	100.0%
Undrawn commitments (included in above)								
Residential Mortgage	15,431	7,705	3,061	7,497	33	29	-	**33,756**
Qualifying Revolving Retail	4,013	2,694	758	1,414	304	68	2	**9,253**
Other Retail	871	3,652	1,262	2,919	487	80	10	**9,281**
Total	**20,315**	**14,051**	**5,081**	**11,830**	**824**	**177**	**12**	**52,290**
Average Exposure at Default								
Residential Mortgage	0.258	0.230	0.265	0.271	0.349	0.330	0.270	**0.257**
Qualifying Revolving Retail	0.009	0.008	0.008	0.010	0.010	0.007	0.009	**0.009**
Other Retail	0.008	0.017	0.011	0.024	0.008	0.012	0.025	**0.016**
Exposure-weighted average Loss Given Default (%)								
Residential Mortgage	19.7%	18.0%	19.3%	20.8%	20.3%	20.0%	19.8%	**19.6%**
Qualifying Revolving Retail	72.9%	76.8%	75.0%	78.9%	82.2%	81.3%	75.7%	**76.4%**
Other Retail	55.0%	54.7%	71.7%	46.6%	68.2%	54.0%	46.0%	**52.5%**
Exposure-weighted average risk weight (%)								
Residential Mortgage	5.8%	11.1%	19.0%	39.7%	93.9%	127.3%	178.0%	**25.3%**
Qualifying Revolving Retail	3.4%	7.8%	15.7%	44.2%	102.1%	203.6%	54.9%	**30.7%**
Other Retail	29.6%	37.0%	53.8%	59.4%	118.2%	166.3%	212.1%	**71.6%**

Sep 19	0.00% <0.11% $M	0.11% <0.30% $M	0.30% <0.51% $M	0.51% <3.49% $M	3.49% <10.09% $M	10.09% <100.00% $M	Default $M	Total $M
Exposure at Default								
Residential Mortgage	71,738	98,315	59,839	129,754	6,916	3,383	3,431	**373,376**
Qualifying Revolving Retail	5,635	3,681	1,317	3,996	1,334	617	67	**16,647**
Other Retail	1,050	5,289	2,307	20,070	4,672	1,969	965	**36,322**
Total	**78,423**	**107,285**	**63,463**	**153,820**	**12,922**	**5,969**	**4,463**	**426,345**
% of Total	18.4%	25.2%	14.9%	36.1%	3.0%	1.4%	1.0%	100.0%
Undrawn commitments (included in above)								
Residential Mortgage	15,322	7,393	2,870	7,233	33	32	-	**32,883**
Qualifying Revolving Retail	4,106	2,757	819	1,463	290	53	2	**9,490**
Other Retail	803	3,354	1,488	2,666	488	76	9	**8,884**
Total	**20,231**	**13,504**	**5,177**	**11,362**	**811**	**161**	**11**	**51,257**
Average Exposure at Default								
Residential Mortgage	0.253	0.228	0.255	0.262	0.343	0.326	0.274	**0.251**
Qualifying Revolving Retail	0.009	0.008	0.008	0.010	0.010	0.006	0.009	**0.009**
Other Retail	0.008	0.016	0.011	0.024	0.009	0.011	0.027	**0.016**
Exposure-weighted average Loss Given Default (%)								
Residential Mortgage	19.7%	18.3%	19.2%	20.8%	20.3%	20.0%	19.9%	**19.6%**
Qualifying Revolving Retail	75.6%	80.1%	77.7%	81.3%	84.9%	82.6%	83.5%	**79.2%**
Other Retail	55.9%	54.0%	73.6%	45.4%	67.3%	54.8%	45.6%	**52.1%**
Exposure-weighted average risk weight (%)								
Residential Mortgage	5.9%	11.3%	19.0%	39.6%	93.9%	127.1%	197.0%	**25.6%**
Qualifying Revolving Retail	3.5%	8.1%	16.2%	45.0%	105.5%	203.0%	230.7%	**32.0%**
Other Retail	14.4%	22.7%	51.4%	59.1%	116.5%	170.9%	236.9%	**70.2%**

Table 9(e): Actual Losses by portfolio type

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

	Half year Mar 20	
Basel Asset Class	**Individual provision charge $M**	**Write-offs $M**
Corporate	356	87
Sovereign	-	-
Bank	-	-
Residential Mortgage	30	47
Qualifying Revolving Retail	81	113
Other Retail	155	196
Total Advanced IRB	**622**	**443**
Specialised Lending	9	-
Standardised approach	(5)	26
Total	**626**	**469**

	Half year Sep 19	
Basel Asset Class	**Individual provision charge $M**	**Write-offs $M**
Corporate	75	89
Sovereign	-	-
Bank	-	-
Residential Mortgage	37	67
Qualifying Revolving Retail	87	126
Other Retail	187	264
Total Advanced IRB	**386**	**546**
Specialised Lending	(2)	1
Standardised approach	14	31
Total	**398**	**578**

Factors impacting the loss experience

The individually assessed credit impairment charge decreased by $231 million driven by a single name impairment in the March 2020 half in the AIRB Corporate asset class.

Write-offs increased $171 million over the half predominantly driven by a small number of single named exposures in AIRB Corporate.

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

Portfolio Type	Sep 20				
	Average Estimated PD %	Average Actual PD %	Average estimated to actual EAD ratio	Average Estimated LGD %	Average Actual LGD %
Corporate	2.04	1.85	1.14	41.72	34.47
Sovereign	0.41	-	n/a	n/a	n/a
Bank	0.64	0.07	1.02	46.00	58.30
Specialised Lending	n/a	1.94	1.06	n/a	26.30
Residential Mortgage	0.77	0.85	1.01	20.4	1.6
Qualifying Revolving Retail	2.13	1.74	1.09	77.4	69.0
Other Retail	4.05	3.05	1.05	52.4	41.4

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

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

Wholesale Portfolios

The estimated PD is based on the average of the internally estimated long-run PDs for obligors that are not in default at the beginning of each financial year over the period of observation being 2009 to 2019. The actual PD is based on the number of defaulted obligors up to August 2020 compared to the total number of obligors measured.

The EAD ratio compares internally estimated EAD prior to default to realised EAD for defaulted obligors over the 11 years of observation being 2009 to August 2020. A ratio greater than 1.0 signifies that on average, the actual defaulted exposures are lower than the estimated exposures at the time of default.

The estimated LGD is the downturn LGD for accounts that defaulted at the beginning of each year during the observation period being 2009 to September 2018. The actual LGD is based on the average realised losses over the period for the accounts observed at the beginning and defaulted during the observation period. For non-retail portfolios, the estimated and actual LGDs are based on accounts that defaulted up to September 2018. Defaults occurring after September 2018 have been excluded from the analysis to allow sufficient time for workout period. Actual LGD for defaults where workouts were not finalised have been estimated to approximate the final actual loss.

Retail Portfolios

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

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

The estimated LGD is the downturn LGD for accounts that defaulted at the beginning of each year during the observation period being 2014 to 2018. The actual LGD is based on the average realised losses over the period for the accounts observed at the beginning and defaulted during the observation period. Defaults occurring after September 2019 have been excluded from the analysis to allow sufficient time for workout period.

Table 10 Credit risk mitigation disclosures

Main types of collateral taken by ANZ

Collateral is used to mitigate credit risk, as the secondary source of repayment in case the counterparty cannot meet its contractual repayment obligations.[29] Types of collateral typically taken by ANZ include:

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

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

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

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

Policies and processes for collateral valuation and management

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

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

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

Guarantee support

Within wholesale lending, guarantee support for lending proposals is an integral component in transaction structuring for ANZ. The guarantee of a financially stronger party can help improve the PD or LGD 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 grading purposes.

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

Use of credit derivatives for risk mitigation

ANZ 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. Standard, legally enforceable documentation applies.

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

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

The use of netting

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

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

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

Transaction structuring to mitigate credit risk

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

Concentrations of credit risk mitigation

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

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

Additional credit risk mitigation for markets derivatives

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

Table 10(b): Credit risk mitigation on Standardised approach portfolios – collateral [30] [31]

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

Mar 20	Exposure at Default $M	Eligible Financial Collateral $M	Other Eligible Collateral $M	% Coverage
Standardised approach				
Corporate	15,971	5,269	-	24.8%
Sovereign	-	-	-	-
Residential Mortgage	471	-	-	-
Other Retail	46	-	-	-
Total	**16,488**	**5,269**	**-**	**24.2%**

Sep 19	Exposure at Default $M	Eligible Financial Collateral $M	Other Eligible Collateral $M	% Coverage
Standardised approach				
Corporate	12,998	7,389	-	36.2%
Sovereign	-	-	-	-
Residential Mortgage	445	-	-	-
Other Retail	49	-	-	-
Total	**13,492**	**7,389**	**-**	**35.4%**

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

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

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

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

	Mar 20			
	Exposure at Default $M	**Exposures covered by Guarantees $M**	**Exposures covered by Credit Derivatives $M**	**% Coverage**
Advanced IRB				
Corporate (incl. Specialised Lending)	356,417	3,810	1,197	1.4%
Sovereign	197,277	5,652	-	2.9%
Bank	63,649	-	-	-
Residential Mortgage	380,082	-	-	-
Qualifying Revolving Retail	16,128	-	-	-
Other Retail	35,017	-	-	-
Total	**1,048,570**	**9,462**	**1,197**	**1.0%**
Standardised approach				
Corporate	15,971	39	-	0.2%
Sovereign	-	-	-	-
Residential Mortgage	471	-	-	-
Other Retail	46	-	-	-
Total	**16,488**	**39**	**-**	**0.2%**
Qualifying Central Counterparties	**10,005**	-	-	**-**

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

	Sep 19			
	Exposure at Default $M	**Exposures covered by Guarantees $M**	**Exposures covered by Credit Derivatives $M**	**% Coverage**
Advanced IRB				
Corporate (incl. Specialised Lending)	319,947	4,217	1,029	1.6%
Sovereign	152,940	5,957	-	3.9%
Bank	55,145	-	-	-
Residential Mortgage	373,376	-	-	-
Qualifying Revolving Retail	16,647	-	-	-
Other Retail	36,322	-	-	-
Total	**954,377**	**10,174**	**1,029**	**1.2%**
Standardised approach				
Corporate	12,998	23	-	0.2%
Sovereign	-	-	-	-
Residential Mortgage	445	-	-	-
Other Retail	49	-	-	-
Total	**13,492**	**23**	**-**	**0.2%**
Qualifying Central Counterparties	**9,348**	**-**	**-**	**-**

Table 11 General disclosures for derivatives and counterparty credit risk

Definition of Counterparty Credit Risk

Counterparty credit risk in derivative transactions arises from the risk of counterparty default before settlement date of derivative contracts and the counterparty is unable to fulfil present and future contractual payment obligations. The amount at risk may change over time as a function of the underlying market parameters up to the positive value of the contract in 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 (OTC) derivative instruments provided by ANZ to manage price movement risk associated with their core business activity.
- Professional counterparties – ANZ may hedge price movement risks by entering into transactions with professional counterparties that conduct two way (buy and sell) business.

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

Counterparty credit risk governance

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

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

Counterparty credit risk measurement and reporting

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

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

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

Exposure at default for regulatory capital

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

Credit valuation adjustment (CVA)

Over the life of a derivative instrument, ANZ uses a CVA model to adjust fair value to take into account the impact of counterparty credit quality. The methodology calculates the present value of expected losses over the life of the financial instrument as a function of PD, LGD, and expected credit risk exposure.

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

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

Wrong way risk

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

Counterparty credit risk mitigation and credit enhancements

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

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

In the event of a downgrading of ANZ's rating by one notch from AA- to A+, as at 30 September 2020, ANZ would not be required to lodge additional collateral with its counterparties.

Table 11(b): Counterparty credit risk – net derivative credit exposure[32]

	Sep 20 $M	Mar 20 $M	Sep 19 $M
Gross positive fair value of contracts	135,331	173,677	120,667
Netting benefits	(118,097)	(144,910)	(103,509)
Netted current credit exposure	17,234	28,767	17,158
Collateral held	(6,287)	(13,732)	(6,277)
Net derivatives credit exposure	**10,947**	**15,035**	**10,881**

Counterparty credit risk exposure - by portfolio type

Portfolio Type	Sep 20 $M	Mar 20 $M	Sep 19 $M
Corporate	20,222	27,804	23,276
Sovereign	5,212	3,826	2,863
Bank	14,645	18,600	16,733
Qualifying Central Counterparties	9,223	10,005	9,348
Specialised Lending	1,661	1,727	1,496
Total exposures	**50,963**	**61,962**	**53,716**

Notional Value of Credit Derivative Hedges

Product Type	Sep 20 $M	Mar 20 $M	Sep 19 $M
Credit Default Swaps	343	351	344
Interest Rate Swaps	-	-	-
Currency Swaps	-	-	-
Other	-	-	-
Total exposures	**343**	**351**	**344**

[32] Prior period comparatives have been restated due to duplication of netting benefits.

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

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

Mar 20	Protection Bought $M	Protection Sold $M	Total $M
Credit derivative products used for own credit portfolio			
Credit default swaps	5,073	2,321	7,394
Total notional value	**5,073**	**2,321**	**7,394**
Credit derivative products used for intermediation			
Credit default swaps	351	355	706
Total return swaps	-	-	-
Total notional value	**351**	**355**	**706**
Total credit derivative notional value	**5,424**	**2,676**	**8,100**

Sep 19	Protection Bought $M	Protection Sold $M	Total $M
Credit derivative products used for own credit portfolio			
Credit default swaps	7,091	4,940	12,031
Total notional value	**7,091**	**4,940**	**12,031**
Credit derivative products used for intermediation			
Credit default swaps	344	344	688
Total return swaps	-	-	-
Total notional value	**344**	**344**	**688**
Total credit derivative notional value	**7,435**	**5,284**	**12,719**

Chapter 6 – Securitisation

Table 12 Securitisation disclosures

Definition of securitisation

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

Securitisation of ANZ originated assets

Securitisations may be categorised as:

- Traditional securitisations, where legal ownership of the underlying asset pool is transferred to investors, with principal and interest paid from realisation of or regular cash flows from the assets. The Special Purpose Vehicle (SPV) assets are insulated from bankruptcy of the seller or servicer.
- Synthetic securitisations, where credit risk is transferred to a third party but legal ownership of the underlying assets remain with the originator e.g. by using credit derivatives or guarantees.

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

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

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

Third Party Securitisation Activities

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

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

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

Governance and Risk Management

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

- Appropriate risk management systems to identify, measure, monitor and manage the risks arising from its involvement in securitisation exposures;
- Impact of ANZ's involvement in securitisation exposures on its risk profile; and

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

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

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

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

Risk reporting of securitisation exposures

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

The use and treatment of Credit Risk Mitigation (CRM) techniques with respect to securitisation exposures is assessed on a case-by-case basis in a manner consistent with the bank-wide CRM methodology[33].

Regulatory capital approaches

For securitisation exposures held in ANZ's banking book[34], ANZ adopts a Standardised approach (as outlined in APS 120: Securitisation) to determine the credit risk regulatory capital charge via a hierarchy of approaches.

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

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

In relation to securitisation of ANZ originated assets, where:

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

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

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

[33] 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.

[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.

Accounting policies

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

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

For full details of the principal accounting policies governing ANZ's securitisation activities are outlined in ANZ's 2020 Annual Report, Notes to the Financial Statements. These include the valuation, derecognition, consolidation and income recognition principles outlined in the accounting policies and key judgements and estimates disclosures in each relevant note. Note 27 – Structured Entities and Note 28 – Transfers of Financial Assets also provides details about the nature of ANZ's securitisation activities and certain accounting policies as they specifically apply to these activities. The impact of the application of these policies to securitisation activities have not changed since the prior year.

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

To the extent that ANZ has entered into contractual arrangements that could require it to provide financial support for securitised assets e.g. liquidity facilities, these are recognised in accordance with the accounting policies set out in ANZ's 2020 Annual Report.

Banking Book

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

	Sep 20		
Traditional securitisations			
Underlying asset	**ANZ Originated $M**	**ANZ Self Securitised $M**	**ANZ Sponsored $M**
Residential mortgage	1,793	85,239	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
Commercial loans	-	-	-
Other	-	-	-
Total	**1,793**	**85,239**	**-**

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

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

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

Mar 20			
Traditional securitisations			
Underlying asset	**ANZ Originated $M**	**ANZ Self Securitised $M**	**ANZ Sponsored $M**
Residential mortgage	2,108	133,650	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
Commercial loans	-	-	-
Other	-	-	-
Total	**2,108**	**133,650**	**-**
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	2,108	133,650	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
Commercial loans	-	-	-
Other	-	-	-
Total	**2,108**	**133,650**	**-**

Sep 19			
Traditional securitisations			
Underlying asset	**ANZ Originated $M**	**ANZ Self Securitised $M**	**ANZ Sponsored $M**
Residential mortgage	2,369	70,863	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
Commercial loans	-	-	-
Other	-	-	-
Total	**2,369**	**70,863**	**-**
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	2,369	70,863	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
Commercial loans	-	-	-
Other	-	-	-
Total	**2,369**	**70,863**	**-**

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

	Sep 20				
Underlying asset	**ANZ originated $M**	**ANZ Self Securitised $M**	**Impaired $M**	**Past due $M**	**Losses recognised for the six month ended $M**
Residential mortgage	1,793	85,239	0	214	-
Credit cards and other personal loans	-	-	-	-	-
Auto and equipment finance	-	-	-	-	-
Commercial loans	-	-	-	-	-
Other	-	-	-	-	-
Total	**1,793**	**85,239**	**0**	**214**	**-**

	Mar 20				
Underlying asset	**ANZ originated $M**	**ANZ Self Securitised $M**	**Impaired $M**	**Past due $M**	**Losses recognised for the six month ended $M**
Residential mortgage	2,108	133,650	-	65	-
Credit cards and other personal loans	-	-	-	-	-
Auto and equipment finance	-	-	-	-	-
Commercial loans	-	-	-	-	-
Other	-	-	-	-	-
Total	**2,108**	**133,650**	**-**	**65**	**-**

	Sep 19				
Underlying asset	**ANZ originated $M**	**ANZ Self Securitised $M**	**Impaired $M**	**Past due $M**	**Losses recognised for the six month ended $M**
Residential mortgage	2,369	70,863	-	71	-
Credit cards and other personal loans	-	-	-	-	-
Auto and equipment finance	-	-	-	-	-
Commercial loans	-	-	-	-	-
Other	-	-	-	-	-
Total	**2,369**	**70,863**	**-**	**71**	**-**

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 [35]

	Sep 20			
	Original value securitised			
Securitisation activity by underlying asset type	**ANZ Originated $M**	**ANZ Self Securitised $M**	**ANZ Sponsored $M**	**Recognised gain or loss on sale $M**
Residential mortgage	(315)	(48,411)	-	-
Credit cards and other personal loans	-	-	-	-
Auto and equipment finance	-	-	-	-
Commercial loans	-	-	-	-
Other	-	-	-	-
Total	**(315)**	**(48,411)**	**-**	**-**

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

	Mar 20			
	Original value securitised			
Securitisation activity by underlying asset type	**ANZ Originated $M**	**ANZ Self Securitised $M**	**ANZ Sponsored $M**	**Recognised gain or loss on sale $M**
Residential mortgage	(261)	62,787	-	-
Credit cards and other personal loans	-	-	-	-
Auto and equipment finance	-	-	-	-
Commercial loans	-	-	-	-
Other	-	-	-	-
Total	**(261)**	**62,787**	**-**	**-**

Securitisation activity by facility provided	**Notional amount $M**
Liquidity facilities	-
Funding facilities	1,210
Underwriting facilities	-
Lending facilities	-
Credit enhancements	-
Holdings of securities (excluding trading book)	474
Other	268
Total	**1,952**

[35] Activity represents net movement in outstandings.

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

	Sep 19			
	Original value securitised			
Securitisation activity by underlying asset type	**ANZ Originated $M**	**ANZ Self Securitised $M**	**ANZ Sponsored $M**	**Recognised gain or loss on sale $M**
Residential mortgage	1,277	(591)	-	-
Credit cards and other personal loans	-	-	-	-
Auto and equipment finance	-	-	-	-
Commercial loans	-	-	-	-
Other	-	-	-	-
Total	**1,277**	**(591)**	**-**	**-**

Securitisation activity by facility provided	**Notional amount $M**
Liquidity facilities	15
Funding facilities	1,135
Underwriting facilities	-
Lending facilities	-
Credit enhancements	-
Holdings of securities (excluding trading book)	163
Other	153
Total	**1,466**

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

Securitisation exposure type - On balance sheet	Sep 20 $M	Mar 20 $M	Sep 19 $M
Liquidity facilities	-	-	-
Funding facilities	8,480	8,799	7,679
Underwriting facilities	-	-	-
Lending facilities	-	-	-
Credit enhancements	-	-	-
Holdings of securities (excluding trading book)	2,280	2,397	1,923
Protection provided	-	-	-
Other	330	432	437
Total	**11,090**	**11,628**	**10,039**

Securitisation exposure type - Off Balance Sheet	Sep 20 $M	Mar 20 $M	Sep 19 $M
Liquidity facilities	19	22	25
Funding facilities	2,112	1,818	1,598
Underwriting facilities	-	-	-
Lending facilities	-	-	-
Credit enhancements	-	-	-
Holdings of securities (excluding trading book)	-	-	-
Protection provided	-	-	-
Other	-	-	-
Total	**2,131**	**1,840**	**1,623**

Total Securitisation exposure type	Sep 20 $M	Mar 20 $M	Sep 19 $M
Liquidity facilities	19	22	25
Funding facilities	10,592	10,617	9,278
Underwriting facilities	-	-	-
Lending facilities	-	-	-
Credit enhancements	-	-	-
Holdings of securities (excluding trading book)	2,280	2,397	1,923
Protection provided	-	-	-
Other	330	432	437
Total	**13,221**	**13,468**	**11,662**

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

	Sep 20		Mar 20		Sep 19	
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%	13,221	2,125	13,468	2,142	11,662	1,859
>25 ≤ 35%	-	-	-	-	-	-
>35 ≤ 50%	-	-	-	-	-	-
>50 ≤ 75%	-	-	-	-	-	-
>75 ≤ 100%	-	-	-	-	-	-
>100 ≤ 650%	-	-	-	-	-	-
1250% (Deduction)	-	-	-	-	-	-
Total	**13,221**	**2,125**	**13,468**	**2,142**	**11,662**	**1,859**

	Sep 20		Mar 20		Sep 19	
Resecuritisation risk weights	**Regulatory credit exposure $M**	**Risk weighted assets $M**	**Regulatory credit exposure $M**	**Risk weighted assets $M**	**Regulatory credit exposure $M**	**Risk weighted assets $M**
≤ 25%	-	-	-	-	-	-
>25 ≤ 35%	-	-	-	-	-	-
>35 ≤ 50%	-	-	-	-	-	-
>50 ≤ 75%	-	-	-	-	-	-
>75 ≤ 100%	-	-	-	-	-	-
>100 ≤ 650%	-	-	-	-	-	-
1250% (Deduction)	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**

	Sep 20		Mar 20		Sep 19	
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%	13,221	2,125	13,468	2,142	11,662	1,859
>25 ≤ 35%	-	-	-	-	-	-
>35 ≤ 50%	-	-	-	-	-	-
>50 ≤ 75%	-	-	-	-	-	-
>75 ≤ 100%	-	-	-	-	-	-
>100 ≤ 650%	-	-	-	-	-	-
1250% (Deduction)	-	-	-	-	-	-
Total	**13,221**	**2,125**	**13,468**	**2,142**	**11,662**	**1,859**

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

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

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

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

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

ANZ does not have any retained or purchased Resecuritisation exposures.

Trading Book

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ANZ does not have any Securitisation exposures deducted from Capital.

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

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

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

ANZ does not have any retained or purchased Resecuritisation exposures.

Chapter 7 – Market risk

Table 13 Market risk – Standard approach

ANZ uses the standard model approach to measure market risk capital for specific risk[36] (APRA does not currently permit Australian banks to use an internal model approach for this).

Table 13(b): Market risk – Standard approach [37]

	Sep 20	Mar 20	Sep 19
	$M	$M	$M
Interest rate risk	138	186	142
Equity position risk	-	-	-
Foreign exchange risk	-	-	-
Commodity risk	-	-	-
Total	**138**	**186**	**142**
Risk Weighted Assets equivalent	**1,725**	**2,325**	**1,775**

[36] 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.

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

Table 14 Market risk – Internal models approach

Definition and scope of market risk

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

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

Regulatory approval to use the Internal Models Approach

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

Governance of market risk

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

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

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

Traded Market Risk

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

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

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

Non-Traded Market Risk

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

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

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

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

Measurement of Traded Market Risk

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

ANZ's key tools to measure and manage traded market risk on a daily basis are VaR, sensitivity measures and stress tests. VaR is calculated using a historical simulation with a 500 day observation period for standard VaR, and a one-year stressed period for stressed VaR. Traded VaR is calculated at a 99% confidence level for both standard VaR and Stressed VaR. Standard VaR is calculated over both a one-day and a ten-day holding period, while Stressed VaR is calculated over a ten-day holding period.

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

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

Comparison of VaR estimates to gains/losses

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

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

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

Table 14(f): Value at Risk (VaR) and stressed VaR over the reporting period [38]

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

	Six months ended Mar 20			
99% 1 Day Value at Risk (VaR)	**Mean $M**	**Maximum $M**	**Minimum $M**	**Period end $M**
Foreign Exchange	2.8	6.1	1.2	2.7
Interest Rate	5.2	8.9	3.3	4.9
Credit	4.2	5.5	1.8	3.1
Commodity	2.2	3.4	1.3	1.4
Equity	-	-	-	-

	Six months ended Sep 19			
99% 1 Day Value at Risk (VaR)	**Mean $M**	**Maximum $M**	**Minimum $M**	**Period end $M**
Foreign Exchange	3.4	8.1	1.2	1.4
Interest Rate	5.0	7.0	3.7	3.8
Credit	3.8	5.4	2.3	5.1
Commodity	2.2	2.9	1.5	1.6
Equity	-	-	-	-

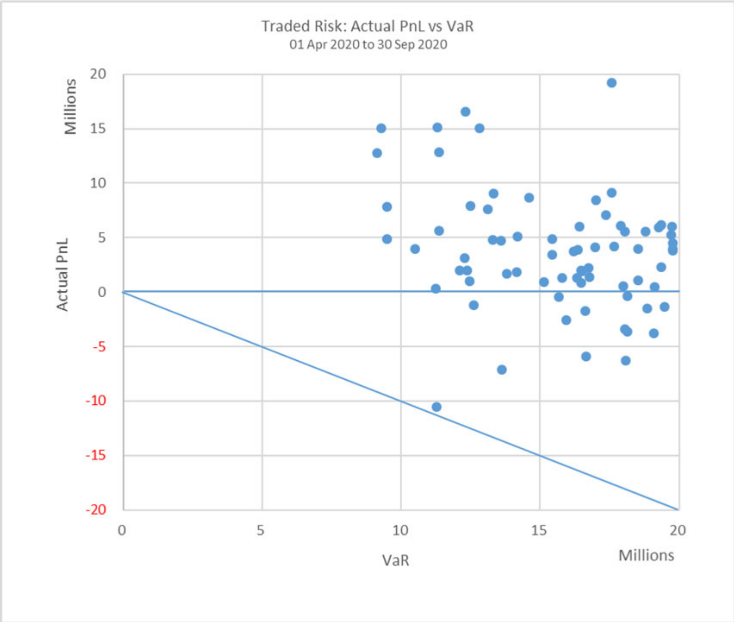
	Six months ended Sep 20			
99% 10 Day Stressed VaR	**Mean $M**	**Maximum $M**	**Minimum $M**	**Period end $M**
Foreign Exchange	29.6	54.9	11.4	32.7
Interest Rate	65.7	111.3	37.7	59.1
Credit	48.8	77.0	32.5	41.3
Commodity	11.8	18.5	5.0	16.3
Equity	-	-	-	-

	Six months ended Mar 20			
99% 10 Day Stressed VaR	**Mean $M**	**Maximum $M**	**Minimum $M**	**Period end $M**
Foreign Exchange	48.6	146.8	15.6	33.8
Interest Rate	63.9	181.4	33.8	87.1
Credit	41.5	59.0	24.8	32.9
Commodity	11.5	16.3	6.7	6.7
Equity	-	-	-	-

	Six months ended Sep 19			
99% 10 Day Stressed VaR	**Mean $M**	**Maximum $M**	**Minimum $M**	**Period end $M**
Foreign Exchange	70.7	133.5	24.0	24.0
Interest Rate	42.3	65.5	26.1	54.9
Credit	48.0	59.6	37.6	53.7
Commodity	11.0	16.4	7.3	11.1
Equity	-	-	-	-

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

Comparison of VaR estimates with actual gains/losses experienced



Reporting of Traded Market Risk

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

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

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

Mitigation of market risk

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

Commodities risk

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

Foreign exchange risk

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

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

Structural exposures from foreign investments and capital management activities are managed in accordance with policies approved by the Board Risk Committee, with the main objective of ensuring that ANZ's capital ratio is largely protected from changes in foreign exchange. As at 30 September 2020, ANZ's investment in ANZ Bank New Zealand Limited is the main source of the structural foreign exchange exposure.

Chapter 8 – Operational risk

Table 15 Operational risk

Definition of operational risk

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

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

- **Compliance Risk:** ANZ uses the same policies, governance, management and systems for Operational Risk and Compliance Risk. These are described below.
- **Reputation Risk:** ANZ uses some additional policies, governance, management and systems for managing Reputation Risk.
- **Technology Risk:** ANZ uses some additional policies, governance, management and systems for managing Technology Risk.

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

Operational risk governance and structure

The primary responsibilities for operational risk are vested by the Operational Risk Approach in the Board Risk Committee and Operational Risk Executive Committee.

The Board Risk Committee:

- approve the Operational Risk Approach
- identify, act on and monitor Operational Risk, at a group level
- promote a culture that supports the organisation to identify, act on and monitor Operational Risk

Operational Risk Executive Committee:

- endorse the Operational Risk Approach
- monitor the implementation of the Operational Risk Approach, at a group level
- assist the Board Risk Committee to identify, act on and monitor Operational Risk, at a group level
- promote a culture that supports the organisation to identify, act on and monitor Operational Risk

Risk management framework

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

First line

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

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

Second line

Operational Risk functions (Division and Group) form the second line of defence.

Division Risk is accountable for:

- undertaking review and challenge of business activities and ensuring that the strategy is maintained across the division.

Group Operational Risk is accountable for:

- developing and maintaining relevant policies and procedures to ensure continuing appropriateness of the I.AM - Operational Risk and Compliance Framework and to support its consistent execution, and

- setting and monitoring compliance with the Group Operational Risk, Risk Appetite Statements (RAS).

Third line

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

- providing independent and objective assurance to management and the ANZ Board regarding compliance with policy and regulatory requirements;

- performing objective assessments across all geographies, divisions, lines of business and processes, and

- undertaking independent review of the adequacy of the I.AM - Operational Risk and Compliance Framework.

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

Operational Risk Framework

ANZ's I.AM - Operational Risk and Compliance Framework is delivered through:

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

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

Operational risk mitigation

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

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

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

Operational risk reporting

ANZ's I.AM - Operational Risk and Compliance Framework includes a global, web-based Risk, Compliance and IT Governance tool that provides ANZ the source of truth and provides greater transparency and integrity of Risk, Controls, Obligations and Events information across ANZ.

OREC's role is to monitor and oversight at an enterprise level the state of Operational Risk and compliance management and to instigate any necessary corrective actions.

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

Operational risk management

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

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

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

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

ANZ's advanced measurement approach

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

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

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

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

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

Definition of compliance risk

Compliance Risk is a subset of Operational Risk. It covers the risk of failure to act in accordance with laws, regulations, industry standards and codes, internal policies and procedures and principles of good governance as applicable to ANZ's businesses.

Compliance

The consequences of Compliance failure may include significant legal or regulatory sanctions, material financial loss (fines, civil penalties, damages) diminished reputation or restrictions on the ability of ANZ to do business.
In order for the Business to be able to identify and manage Compliance Risk, they must identify their Regulatory Obligations and their impacted business activities, and maintain and monitor key controls.

Compliance specific approaches include:

- Centralised management of key obligations via a Global Obligations Library, enabling ANZ's change management capability in relation to new and revised obligations.
- An emphasis on the identification of changing regulations and the business environment, to enable proactive assessment of emerging compliance risks.
- Recognition of incident management as a separate element to enhance ANZ's ability to identify, manage and report on incidents/breaches in a timely manner.

Management of the Whistle-blower Protection Policy

ANZ ensures there is an effective and fit for purpose channel, allowing employees and contractors to make confidential, anonymous submissions regarding concerns relating to accounting, internal control, compliance, audit and other matters.

Chapter 9 – Equities

Table 16 Equities – Disclosures for banking book positions

Definition and categorisation of equity investments held in the banking book

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

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

Valuation of and accounting for equity investments in the banking book

In line with Group Accounting Policy the accounting treatment of equity investments depends on whether ANZ has significant influence over the investee.

Investments in associates

Where significant influence exists, the investment is classified as an Investment in Associate in the financial statements. ANZ adopts the equity method of accounting for associates. ANZ's share of the profit or loss of associates is included in the consolidated income statement. The associate investments are recognised at cost plus ANZ's share of post-acquisition net assets. Interests in associates are reviewed semi-annually for impairment, using either market value, or a discounted cash flow methodology to assess value in-use (VIU). As at 31 March 2020, neither the market values of the investments in AMMB Holdings Berhad (AmBank) and PT Bank Pan Indonesia (PT Panin) (based on share price) nor VIU calculation supported the carrying value of either investment. Accordingly, the Group recorded an impairment charge of $815 million ($595 million for AmBank and $220 million for PT Panin). As at 30 September 2020 the carrying value of these investments were supported by VIU assessments.

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

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

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

Equity investments	Balance sheet value	Fair value
Mar 20 $M		
Value of listed (publicly traded) equities	3,344	2,498
Value of unlisted (privately held) equities	137	137
Total	**3,481**	**2,635**

Equity investments	Balance sheet value	Fair value
Sep 19 $M		
Value of listed (publicly traded) equities	4,043	3,459
Value of unlisted (privately held) equities	135	135
Total	**4,178**	**3,594**

Table 16(d) and 16(e): Equities – gains (losses)[39]

Realised gains (losses) on equity investments	Half Year Sep-20 $M	Half Year Mar 20 $M	Half Year Sep 19 $M
Cumulative realised gains (losses) from disposals and liquidations in the reporting period	(2)	-	-
Cumulative realised losses from impairment and writedowns in the reporting period	-	(815)	-
	(2)	**(815)**	**-**

Unrealised gains (losses) on equity investments	Half Year Sep 20 $M	Half Year Mar 20 $M	Half Year Sep 19 $M
Total unrealised gains (losses)	(112)	(40)	(88)
Reversal of prior period unrealised gains (losses) from disposals and liquidations in the reporting period	-	-	-
Total unrealised gains (losses) included in Common Equity Tier 1, Tier 1 and/or Tier 2 capital	**(112)**	**(40)**	**(88)**

Table 16(f): Equities Risk Weighted Assets

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

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

Chapter 10 – Interest Rate Risk in the Banking Book

Table 17 Interest Rate Risk in the Banking Book

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

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

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

Regulatory capital approach

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

Governance

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

Market Risk is the independent function responsible for:

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

Risk Management framework

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

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

Measurement of interest rate risk in the banking book

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

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

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

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

Reporting of interest rate risk in the banking book

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

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

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

Embedded losses also contribute to make up the capital requirement and are calculated as the difference between the book value and the current economic value of banking book items not accounted for on a marked-to-market basis.

Results of standard shock scenario

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

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

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

	Change in Economic Value		
Standard Shock Scenario Stress Testing:	**Sep 20**	**Mar 20**	**Sep 19**
Interest rate shock applied	**$M**	**$M**	**$M**
AUD			
200 basis point parallel increase	(229)	(267)	(508)
200 basis point parallel decrease	227	262	527
NZD			
200 basis point parallel increase	(121)	(133)	(136)
200 basis point parallel decrease	101	116	126
USD			
200 basis point parallel increase	(45)	(84)	(34)
200 basis point parallel decrease	52	93	38
GBP			
200 basis point parallel increase	38	13	18
200 basis point parallel decrease	(38)	(13)	(19)
Other			
200 basis point parallel increase	(122)	(74)	(44)
200 basis point parallel decrease	132	82	50
IRRBB regulatory capital	**1,084**	**641**	**554**
IRRBB regulatory RWA	**13,547**	**8,011**	**6,922**

IRRBB stress testing methodology

Stress tests within ANZ include standard extraordinary forward looking and repricing term assumptions 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. Other stress tests include interest rate moves from historical periods of stress possible future stress test as well as stresses to assumptions made about the repricing term of exposures. The extraordinary rate move scenarios include rate changes over the stressed periods in financial market history. Forward looking stress tests include interest rate moves from plausible future severe scenarios. Stresses of the repricing term assumptions investigate scenarios where actual repricing terms are significantly different to those modelled.

Chapter 11 – Leverage and Liquidity Coverage Ratio

Leverage Ratio

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

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

At 30 September 2020, the Group's Leverage Ratio of 5.4% was above the 3% minimum currently required by the BCBS. Table 18 below shows the Group's Leverage Ratio calculation as at 30 September 2020 and Table 19 summarises the reconciliation of accounting assets and leverage ratio exposure measure at 30 September 2020.

Table 18 Leverage Ratio

		Sep 20 $M	Mar 20 $M	Sep 19 $M
	On-balance sheet exposures			
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	853,357	911,565	823,620
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	(11,527)	(12,154)	(12,976)
3	**Total on-balance sheet exposures (excluding derivatives and SFTs)**	**841,830**	**899,411**	**810,644**
	Derivative exposures			
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	11,287	16,277	11,565
5	Add-on amounts for PFE associated with all derivatives transactions	30,360	36,100	32,713
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	777	887	1,384
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	(10,499)	(10,850)	(11,893)
8	(Exempted CCP leg of client-cleared trade exposures)	-	-	-
9	Adjusted effective notional amount of written credit derivatives	979	2,001	3,906
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	(608)	(1,547)	(3,417)
11	**Total derivative exposures**	**32,296**	**42,868**	**34,258**
	Securities financing transaction exposures			
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	53,384	64,405	35,980
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	(1,206)	(1,143)	(1,426)
14	CCR exposure for SFT assets	6,238	4,181	2,369
15	Agent transaction exposures	-	-	-
16	**Total securities financing transaction exposures**	**58,416**	**67,443**	**36,923**
	Other off-balance sheet exposures			
17	Off-balance sheet exposure at gross notional amount	267,614	269,417	253,791
18	(Adjustments for conversion to credit equivalent amounts)	(153,486)	(154,740)	(146,391)
19	Off-balance sheet items	**114,128**	**114,677**	**107,400**
	Capital and Total Exposures			
20	**Tier 1 capital**	**56,481**	**56,295**	**55,221**
21	**Total exposures**	**1,046,670**	**1,124,399**	**989,225**
	Leverage ratio			
22	**Basel III leverage ratio**	**5.4%**	**5.0%**	**5.6%**

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

		Sep 20 $M	Mar 20 $M	Sep 19 $M
1	Total consolidated assets as per published financial statements	1,042,286	1,149,955	981,137
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation.	(214)	(308)	(871)
3	Adjustment for assets held on the balance sheet in a fiduciary capacity pursuant to the Australian Accounting Standards but excluded from the leverage ratio exposure measure	-	-	-
4	Adjustments for derivative financial instruments.	(103,034)	(130,809)	(86,409)
5	Adjustment for SFTs (i.e. repos and similar secured lending)	5,032	3,038	944
6	Adjustment for off-balance sheet exposures (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	114,128	114,677	107,400
7	Other adjustments	(11,528)	(12,154)	(12,976)
	Leverage ratio exposure	**1,046,670**	**1,124,399**	**989,225**

Table 20 Liquidity Coverage Ratio disclosure template

		Sep 20		Jun 20		Mar 20	
		Total Unweighted Value $M	Total Weighted Value $M	Total Unweighted Value $M	Total Weighted Value $M	Total Unweighted Value $M	Total Weighted Value $M
	Liquid assets, of which:						
1	High-quality liquid assets (HQLA)		172,617		176,310		178,751
2	Alternative liquid assets (ALA)		42,472		44,759		29,290
3	Reserve Bank of New Zealand (RBNZ) securities		146		300		4,511
	Cash outflows						
4	Retail deposits and deposits from small business customers	232,341	23,888	224,255	23,224	208,529	21,470
5	of which: stable deposits	101,925	5,096	96,360	4,818	82,549	4,127
6	of which: less stable deposits	130,416	18,792	127,895	18,406	125,980	17,343
7	Unsecured wholesale funding	234,284	118,912	252,193	131,113	232,218	127,180
8	of which: operational deposits (all counterparties) and deposits in networks for cooperative banks	87,824	21,385	87,016	21,108	71,606	17,398
9	of which: non-operational deposits (all counterparties)	134,334	85,401	152,462	97,290	149,352	98,522
10	of which: unsecured debt	12,126	12,126	12,715	12,715	11,260	11,260
11	Secured wholesale funding		333		1,968		1,140
12	Additional requirements	151,159	44,447	154,399	51,185	149,498	47,058
13	of which: outflows related to derivatives exposures and other collateral requirements	27,426	27,426	34,214	34,214	31,150	31,150
14	of which: outflows related to loss of funding on debt products	-	-	-	-	-	-
15	of which: credit and liquidity facilities	123,733	17,021	120,185	16,971	118,348	15,908
16	Other contractual funding obligations	8,569	-	9,724	-	11,345	-
17	Other contingent funding obligations	101,226	6,076	91,354	4,754	85,308	4,377
18	Total cash outflows		193,656		212,244		201,225
	Cash inflows						
19	Secured lending (e.g. reverse repos)	29,099	1,883	29,169	1,987	36,542	2,243
20	Inflows from fully performing exposures	25,704	17,135	32,161	22,437	30,416	19,071
21	Other cash inflows	20,226	20,226	27,079	27,079	24,345	24,345
22	Total cash inflows	75,029	39,244	88,409	51,503	91,303	45,659
23	Total liquid assets		215,235		221,369		212,552
24	Total net cash outflows		154,412		160,741		155,566
25	Liquidity Coverage Ratio (%)		139.4%		137.7%		136.6%
	Number of data points used (simple average)		66		65		64

Liquidity Coverage Ratio (LCR)

ANZ’s average LCR for the 3 months to 30 September 2020 was 139.4% with total liquid assets exceeding net outflows by an average of $60.8 billion.

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

The composition of the liquid asset portfolio has remained relatively stable through the quarter, with HQLA securities and cash making up on average 80% of total liquid assets.

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

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

Table 21 NSFR disclosure template

		Sep 20				
		Unweighted value by residual maturity				
	Available Stable Funding (ASF) Item	No maturity $M	< 6 months $M	6 months to < 1yr $M	≥ 1yr $M	Weighted value $M
1	Capital	61,092	-	-	19,777	80,869
2	of which: regulatory capital	61,092	-	-	19,777	80,869
3	of which: other capital instruments	-	-	-	-	-
4	Retail deposits and deposits from small business customers	217,118	67,846	7,384	2,820	271,673
5	of which: stable deposits	100,576	15,612	-	-	110,378
6	of which: less stable deposits	116,542	52,234	7,384	2,820	161,295
7	Wholesale funding	138,155	236,567	31,736	81,297	198,554
8	of which: operational deposits	90,600	-	-	-	45,300
9	of which: other wholesale funding	47,555	236,567	31,736	81,297	153,254
10	Liabilities with matching interdependent assets	-	-	-	-	-
11	Other liabilities	32,855	6,907	-	167	167
12	of which: NSFR derivative liabilities		6,907	-	-	
13	of which: All other liabilities and equity not included in the above categories	32,855	-	-	167	167
14	**Total ASF**					**551,263**
Required Stable Funding (RSF) Item						
15a	Total NSFR (HQLA)					8,039
15b	ALA					5,390
15c	RBNZ securities					911
16	Deposits held at other financial institutions for operational purposes	-	-	-	-	-
17	Performing loans and securities	13,213	120,938	46,418	430,581	390,428
18	of which: Performing loans to financial institutions secured by Level 1 HQLA	-	47,823	1	-	4,783
19	of which: Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	346	19,773	5,961	16,908	23,201
20	of which: Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and public sector entities (PSEs)	11,897	45,374	32,139	115,093	146,281
21	of which: With a risk weight of less than or equal to 35% under APS 112	10	1,134	319	2,069	2,077
22	of which: Performing residential mortgages	-	6,879	7,837	295,543	211,973
23	of which: With a risk weight equal to 35% under APS 112	-	6,126	7,003	260,647	181,518
24	of which: Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	970	1,089	480	3,037	4,190
25	Assets with matching interdependent liabilities	-	-	-	-	-
26	Other assets:	24,648	32,568	874	3,917	32,712
27	of which: Physical traded commodities, including gold	3,369				2,863
28	of which: Assets posted as initial margin for derivative contracts and contributions to default funds of central counterparties (CCPs)		2,264	-	-	1,924
29	of which: NSFR derivative assets		11,287	-	-	4,380
30	of which: NSFR derivative liabilities before deduction of variation margin posted		17,501	-	-	3,500
31	of which: All other assets not included in the above categories	21,280	1,516	874	3,917	20,045
32	Off-balance sheet items		-	-	197,302	7,750
33	**Total RSF**					**445,230**
34	**Net Stable Funding Ratio (%)**					**123.81%**

ANZ's NSFR as at 30 September 2020 was 123.8%, up 4.3% in the quarter since June 2020.

The main sources of Available Stable Funding (ASF) at September 2020 were deposits from Retail and SME customers, at 49%, with other wholesale funding (including Term Funding Facilities) at 28% and capital at 15% of the total ASF.

The majority of ANZ's Required Stable Funding (RSF) at September 2020 was driven by mortgages at 48% and other lending to non-FI customers at 33% of the total RSF.

Table 21 NSFR disclosure template (continued)

		Jun 20				
		Unweighted value by residual maturity				
		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	Weighted value
	Available Stable Funding (ASF) Item	$M	$M	$M	$M	$M
1	Capital	61,129	-	-	18,924	80,053
2	of which: regulatory capital	61,129	-	-	18,924	80,053
3	of which: other capital instruments	-	-	-	-	-
4	Retail deposits and deposits from small business customers	203,516	69,808	7,042	2,883	260,700
5	of which: stable deposits	93,906	15,847	-	-	104,266
6	of which: less stable deposits	109,610	53,961	7,042	2,883	156,434
7	Wholesale funding	136,191	271,627	30,492	77,408	201,098
8	of which: operational deposits	87,102	-	-	-	43,551
9	of which: other wholesale funding	49,089	271,627	30,492	77,408	157,547
10	Liabilities with matching interdependent assets	-	-	-	-	-
11	Other liabilities	29,191	7,455	-	1,507	1,507
12	of which: NSFR derivative liabilities		7,455	-	-	
13	of which: All other liabilities and equity not included in the above categories	29,191	-	-	1,507	1,507
14	**Total ASF**					**543,358**
	Required Stable Funding (RSF) Item					
15(a)	Total NSFR (HQLA)					7,845
15(b)	ALA					5,451
15(c)	RBNZ securities					706
16	Deposits held at other financial institutions for operational purposes	-	-	-	-	-
17	Performing loans and securities	14,277	131,534	47,201	426,652	393,035
18	of which: Performing loans to financial institutions secured by Level 1 HQLA	-	46,092	-	-	4,609
19	of which: Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	449	27,844	8,603	12,133	21,059
20	of which: Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and public sector entities (PSEs)	12,870	50,611	30,159	123,968	156,872
21	of which: With a risk weight of less than or equal to 35% under APS 112	7	699	796	3,744	3,186
22	of which: Performing residential mortgages	-	6,111	8,034	287,971	206,847
23	of which: With a risk weight equal to 35% under APS 112	-	5,447	7,190	252,714	176,125
24	of which: Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	958	876	405	2,580	3,648
25	Assets with matching interdependent liabilities	-	-	-	-	-
26	Other assets:	30,311	33,772	2,021	4,728	39,754
27	of which: Physical traded commodities, including gold	3,053				2,595
28	of which: Assets posted as initial margin for derivative contracts and contributions to default funds of central counterparties (CCPs)		2,449	-	-	2,082
29	of which: NSFR derivative assets		11,225	-	-	3,770
30	of which: NSFR derivative liabilities before deduction of variation margin posted		19,936	-	-	3,987
31	of which: All other assets not included in the above categories	27,258	161	2,021	4,728	27,320
32	Off-balance sheet items		-	-	200,855	7,771
33	**Total RSF**					**454,562**
34	**Net Stable Funding Ratio (%)**					**119.53%**

Glossary

ADI	Authorised Deposit-taking Institution.
Basel III Credit Valuation adjustment (CVA) capital charge	CVA charge is an additional capital requirement under Basel III for bilateral derivative exposures. Derivatives not cleared through a central exchange/counterparty are subject to this additional capital charge and also receive normal CRWA treatment under Basel II principles.
Collectively Assessed Provision for Credit Impairment	Collectively assessed provisions for credit impairment represent the Expected Credit Loss (ECL) calculated in accordance with AASB 9 Financial Instruments (AASB 9). These incorporate forward looking information and do not require an actual loss event to have occurred for an impairment provision to be recognised.
Credit exposure	The aggregate of all claims, commitments and contingent liabilities arising from on- and off-balance sheet transactions (in the banking book and trading book) with the counterparty or group of related counterparties.
Credit risk	The risk of financial loss resulting from a counterparty failing to fulfil its obligations, or from a decrease in credit quality of a counterparty resulting in a loss in value.
Credit Valuation Adjustment (CVA)	Over the life of a derivative instrument, ANZ uses a CVA model to adjust fair value to take into account the impact of counterparty credit quality. The methodology calculates the present value of expected losses over the life of the financial instrument as a function of probability of default, loss given default, expected credit risk exposure and an asset correlation factor. Impaired derivatives are also subject to a CVA.
Days past due	The number of days a credit obligation is overdue, commencing on the date that the arrears or excess occurs and accruing for each completed calendar day thereafter.
Exposure at Default (EAD)	Exposure At Default is defined as the expected facility exposure at the date of default.
Impaired assets (IA)	Facilities are classified as impaired when there is doubt as to whether the contractual amounts due, including interest and other payments, will be met in a timely manner. Impaired assets include impaired facilities, and impaired derivatives. Impaired derivatives have a credit valuation adjustment (CVA), which is a market assessment of the credit risk of the relevant counterparties.
Impaired loans (IL)	Impaired loans comprise of drawn facilities where the customer's status is defined as impaired.
Individual provision charge (IPC)	Individual provision charge is the amount of expected credit losses on financial instruments assessed for impairment on an individual basis (as opposed to on a collective basis). It takes into account expected cash flows over the lives of those financial instruments.
Individually Assessed Provisions for Credit Impairment	Individually assessed provisions for credit impairment are calculated in accordance with AASB 9 Financial Instruments (AASB 9). They are assessed on a case-by-case basis for all individually managed impaired assets taking into consideration factors such as the realisable value of security (or other credit mitigants), the likely return available upon liquidation or bankruptcy, legal uncertainties, estimated costs involved in recovery, the market price of the exposure in secondary markets and the amount and timing of expected receipts and recoveries.

Internationally Comparable Basel III Capital Ratio	The Internationally Comparable Basel III CET1 ratios are ANZ's interpretation of the regulations documented in the Basel Committee publications; "Basel 3: A global regulatory framework for more resilient banks and banking systems" (June 2011) and "International Convergence of Capital Measurement and Capital Standards" (June 2006). They also include differences identified in APRA's information paper entitled International Capital Comparison Study (13 July 2015).
Market risk	The risk to ANZ's earnings arising from changes in interest rates, foreign exchange rates, credit spreads, volatility, correlations or from fluctuations in bond, commodity or equity prices. ANZ has grouped market risk into two broad categories to facilitate the measurement, reporting and control of market risk: Traded market risk - the risk of loss from changes in the value of financial instruments due to movements in price factors for both physical and derivative trading positions. Trading positions arise from transactions where ANZ acts as principal with customers, financial exchanges or inter-bank counterparties. Non-traded market risk (or balance sheet risk) - comprises interest rate risk in the banking book and the risk to the AUD denominated value of ANZ's capital and earnings due to foreign exchange rate movements.
Operational risk	The risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events including legal risk but excluding reputation risk.
Past due facilities	Facilities where a contractual payment has not been met or the customer is outside of contractual arrangements are deemed past due. Past due facilities include those operating in excess of approved arrangements or where scheduled repayments are outstanding but do not include impaired assets.
Qualifying Central Counterparties (QCCP)	QCCP is a central counterparty which is an entity that interposes itself between counterparties to derivative contracts. Trades with QCCP attract a more favorable risk weight calculation.
Recoveries	Payments received and taken to profit for the current period for the amounts written off in prior financial periods.
Restructured items	Restructured items comprise facilities in which the original contractual terms have been modified for reasons related to the financial difficulties of the customer. Restructuring may consist of reduction of interest, principal or other payments legally due, or an extension in maturity materially beyond those typically offered to new facilities with similar risk.
Risk Weighted Assets (RWA)	Assets (both on and off-balance sheet) are risk weighted according to each asset's inherent potential for default and what the likely losses would be in the case of default. In the case of non-asset backed risks (i.e. market and operational risk), RWA is determined by multiplying the capital requirements for those risks by 12.5.
Securitisation risk	The risk of credit related losses greater than expected due to a securitisation failing to operate as anticipated, or of the values and risks accepted or transferred, not emerging as expected.
Write-Offs	Facilities are written off against the related provision for impairment when they are assessed as partially or fully uncollectable, and after proceeds from the realisation of any collateral have been received. Where individual provisions recognised in previous periods have subsequently decreased or are no longer required, such impairment losses are reversed in the current period income statement.

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