

2017

**BASEL III
PILLAR 3
DISCLOSURE**

AS AT 30 SEPTEMBER 2017

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.

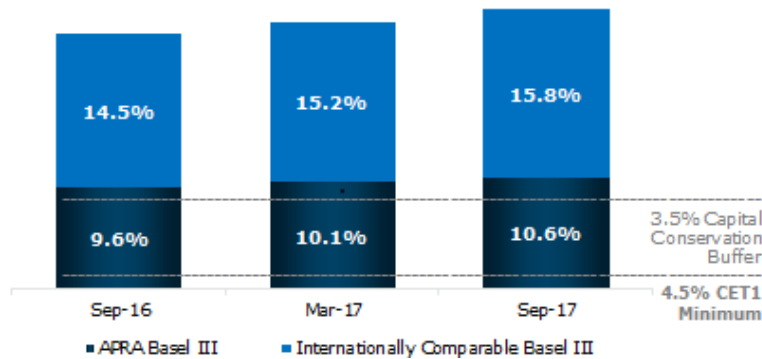
TABLE OF CONTENTS¹

Chapter 1 – Highlights	3
Chapter 2 – Introduction.....	5
Purpose of this document	5
Chapter 3 - Risk appetite and governance	6
Risk types	6
Risk appetite framework	7
Risk management governance	7
Chapter 4 – Capital reporting and measurement	9
Chapter 5 – Capital and capital adequacy.....	10
Table 1 Capital disclosure template	10
Table 2 Main features of capital instruments.....	22
Table 6 Capital adequacy	22
Chapter 6 – Credit risk	26
Table 7 Credit risk – General disclosures	26
Table 8 Credit risk – Disclosures for portfolios subject to the Standardised approach and supervisory risk weights in the IRB approach.....	42
Table 9 Credit risk – Disclosures for portfolios subject to Advanced IRB approaches	43
Table 10 Credit risk mitigation disclosures	53
Table 11 General disclosures for derivative and counterparty credit risk	58
Chapter 7 – Securitisation	62
Table 12 Banking Book - Securitisation disclosures.....	65
Trading Book - Securitisation disclosures	73
Chapter 8 – Market risk	76
Table 13 Market risk – Standard approach	76
Table 14 Market risk – Internal models approach	77
Chapter 9 - Operational risk	81
Table 15 Operational risk	81
Chapter 10 – Equities	87
Table 16 Equities – Disclosures for banking book positions.....	87
Chapter 11 – Interest Rate Risk in the Banking Book.....	89
Table 17 Interest Rate Risk in the Banking Book.....	89
Chapter 12 – Leverage and Liquidity Coverage Ratio	92
Glossary	95

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

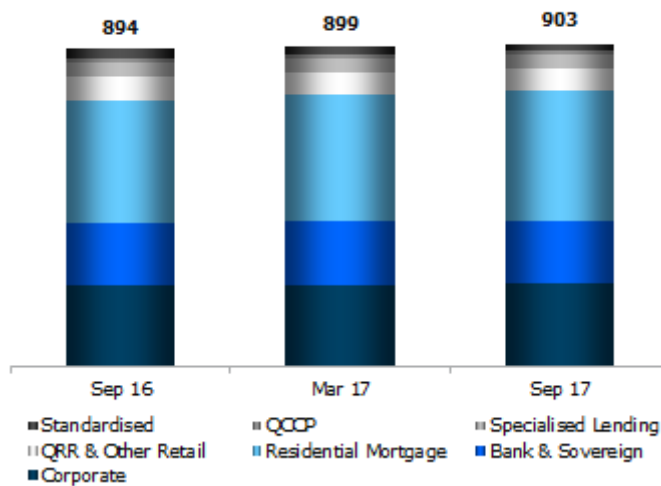
Chapter 1 – Highlights

Common Equity Tier 1 (CET1) Ratios*



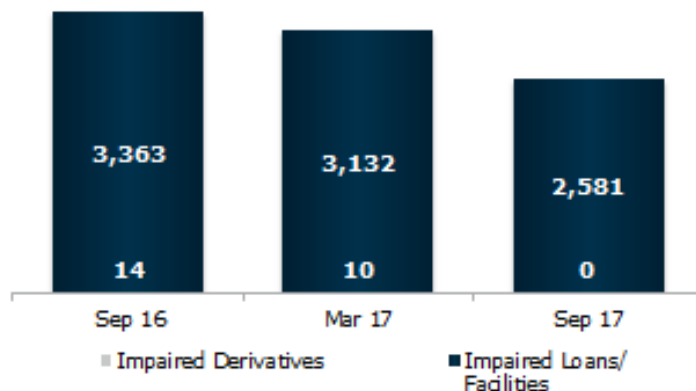
* Internationally Comparable methodology aligns with APRA’s information paper entitled International Capital Comparison Study (13 July 2015).

Exposure at Default* (\$bn)



*Exposure at Default is post Credit Risk Mitigation (CRM) and does not include Securitisation, Equities or Other Assets.

Impaired Assets (\$m)



Strong capital position at September 2017

- The CET1 ratio of 10.6% at 30 September 2017 positions ANZ well to achieve APRA’s “unquestionably strong” requirements well ahead of the 2020 implementation.

- Capital ratios have increased in the half to September 2017 mainly due to reduction in underlying credit RWA in Institutional, cash earnings generation, and benefit from partial settlement of the Asia Retail and Wealth sale. This was partly offset by payment of the Interim 2017 dividends and implementation of ANZ’s new Australian mortgages capital model.

- ANZ’s capital ratios are in excess of APRA’s Capital Conservation Buffer (CCB) requirements. The CCB incorporates an additional 1% Domestically Systemic Important Bank (D-SIB) CET1 requirement.

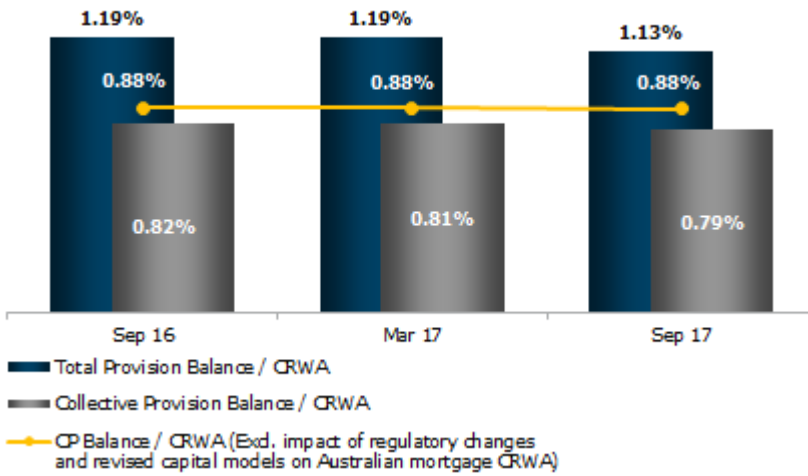
EAD up \$3.7bn to \$903bn for 2H17

- Underlying movement primarily driven by growth in Residential Mortgage asset class offset by reduction in Standardised portfolio from the partial completion of the Retail Asia and Wealth sale.

Impaired Assets down \$551m, -18% HoH

- Decrease in Impaired Assets HoH driven by Institutional and New Zealand divisions with higher repayments and upgrades on a small number of large exposures, combined with reductions in Retail Asia and Pacific division due to the partial completion of the Asia Retail and Wealth sale.

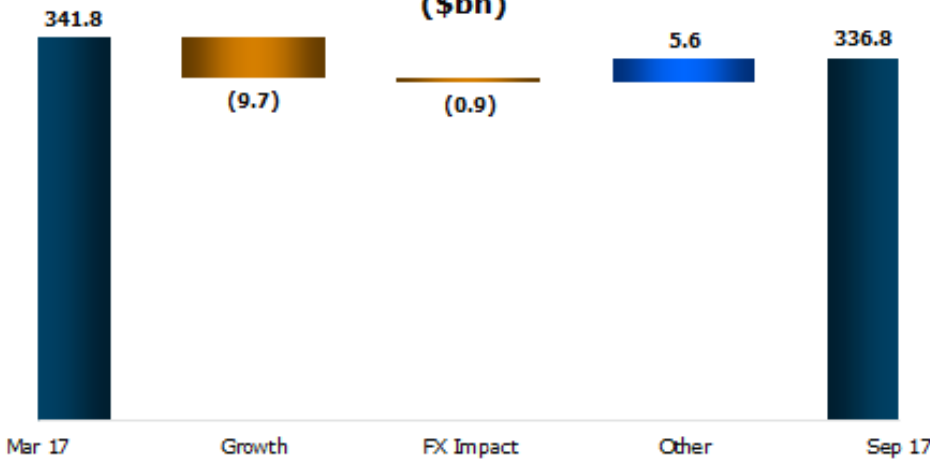
Provision Ratios (Provisions / Credit RWA)



Provision coverage remains sound

- The total provision ratio decreased by 6bps HoH to 1.13%. Collective Provision ratio decreased by 2bps to 0.79% and continues to provide adequate coverage.
- September 2016 to September 2017 reporting period includes the impact of regulatory changes and revised capital models on the Australian mortgages Credit RWA. Excluding these changes, CP balance as a % of Credit RWA increases to 88bps.

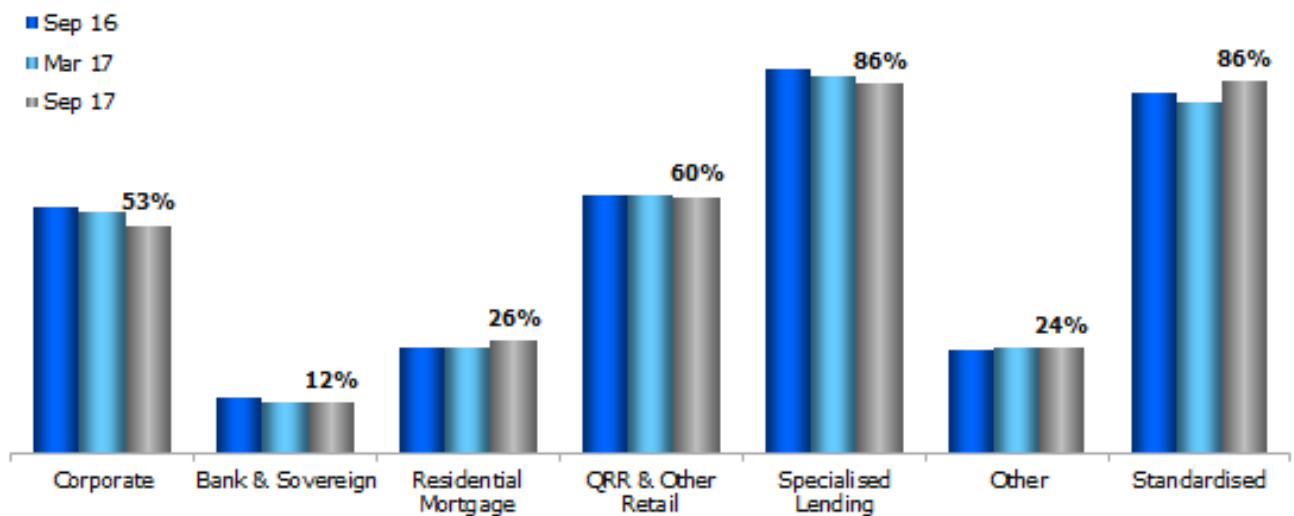
Movements in Credit Risk Weighted Assets (\$bn)



Credit Risk Weighted Assets (CRWA) decreased by \$5.0bn HoH.

- FX movements decreased CRWA by \$0.9bn, mainly driven by appreciation of AUD against US and NZ currencies.
- CRWA decreased by \$9.7bn driven by portfolio contraction in Institutional business and partial completion of Retail Asia and Wealth portfolio and partially offset by an increase in Australia Residential Mortgages.

Average Risk Weights (CRWA / EAD*)



*Exposure at Default is post Credit Risk Mitigation (CRM) and does not include Securitisation, Equities or Other Assets.

Chapter 2 - Introduction

Purpose of this document

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

APS 330 mandates the release to the investment community and general public of information relating to capital adequacy and risk management practices. APS 330 was established to implement Pillar 3 of the Basel Committee on Banking Supervision's framework for bank capital adequacy². 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 in accordance 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 3 – Risk appetite and governance

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

- **Credit risk** is the risk of financial loss resulting from a counterparty failing to fulfil its obligations, or from a decrease in credit quality of a counterparty resulting in a loss in value.
- **Market risk** stems from ANZ's trading and balance sheet activities and is the risk to ANZ's earnings arising from changes in interest rates, foreign exchange rates, credit spreads, volatility, correlations or from fluctuations in bond, commodity or equity prices.
- **Securitisation risk** is the risk of credit related losses greater than expected due to a securitisation failing to operate as anticipated, or of the values and risks accepted or transferred, not emerging as expected.
- **Operational risk** is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. This definition includes legal risk, and the risk of reputation loss, or damage arising from inadequate or failed internal processes, people and systems, but excludes strategic risk.
- **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 associates.
- **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 also 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.
- **Compliance risk** is defined as the probability and impact of an event that results in a failure to act in accordance with laws, regulations, industry standards and codes, internal policies and procedures and principles of good governance as applicable to ANZ's businesses.
- **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.
- **Reputation risk**³ is defined as the risk of loss caused by adverse perceptions of ANZ held by the public, the media, depositors, shareholders, investors, regulators, or rating agencies that directly or indirectly impact earnings, capital adequacy or value.
- **Insurance risk** is defined as the risk of unexpected losses resulting from worse than expected claims experience (variation in timing and amount of insurance claims due to incidence or non-incidence of death, sickness, disability or general insurance claims) and includes inadequate or inappropriate underwriting, claims management, reserving, insurance concentrations, reinsurance management, product design and pricing which will expose an insurer to financial loss and the consequent inability to meet its liabilities.
- **Reinsurance risk** - Reinsurance is an agreement in which one insurer ('the reinsurer') indemnifies another insurer for all or part of the risk of a policy originally issued and assumed by that other insurer. Reinsurance is a risk transfer tool between the insurer and reinsurer. The main risk that arises with reinsurance is counterparty credit risk. This is the risk that a reinsurer fails to meet their contractual obligations, i.e. to pay reinsurance claims when due. This risk is measured by assigning a counterparty credit rating or probability of default. Reinsurance counterparty credit risk is mitigated by restricting counterparty exposures on the basis of financial strength and concentration.
- **Strategic risks** are risks that affect or are created by an organisation's business strategy and strategic objectives. Where the strategy leads to an increase in other Key Material Risks (e.g. Credit Risk, Market Risk, Operational Risk) the risk management strategies associated with these risks form the primary controls.

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

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 clearly and concisely sets out the Board's expectations regarding the degree of risk that ANZ is prepared to accept in pursuit of its strategic objectives and business plan.

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 strategy, objectives and business plans with consideration of its shareholders' and customers' best interests.
- For each material risk, ANZ has set the maximum level of risk (risk tolerance) that it is willing to operate within, expressed as a risk limit and based on its risk appetite, risk profile and capital strength. Risk tolerances translate risk appetite into operational limits for the day-to-day management of material risks, where possible.
- The process for ensuring that risk tolerances are set at an appropriate level, based on an estimate of the impact in the event that a risk tolerance is breached, and the likelihood that each material risk is realised.
- The process for monitoring compliance with each risk tolerance and for taking appropriate action in the event that it is breached; and
- The timing and process for review of the risk appetite and risk tolerances.

Risk management governance

ANZ's Board has ultimate responsibility for establishing processes, and monitoring the effectiveness of the processes for risk management. There are five key committees focused on risks that impact regulatory capital.

<p>Risk Committee</p>	<p>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 purpose of the Risk Committee is to assist the Board of Directors in the effective discharge of its responsibilities for business, market, credit, equity and other investment, financial, operational, liquidity and reputational risk management and for the management of the Group's compliance obligations. The Risk Committee also assists the Board by providing an objective non-executive oversight of the implementation by management of ANZ's risk management framework and its related operation and by enabling an institution-wide view of ANZ's current and future risk position relative to its risk appetite and capital strength. The Committee meets at least four times annually.</p>
<p>Audit Committee</p>	<p>Assists the Board of Directors in reviewing: financial reporting principles and policies, controls and procedures; the effectiveness of ANZ's internal control and risk management framework; the integrity of ANZ's financial statements and the independent audit thereof and compliance with related legal and regulatory requirements; due diligence procedures; prudential supervision procedures and other regulatory requirements to the extent relating to financial reporting and for reviewing reports from major subsidiary audit committees. It is also responsible for the appointment and evaluation of the external auditor. The Committee meets at least four times annually.</p>
<p>Environment, Sustainability and Governance Committee</p>	<p>Amongst other matters, the Committee reviews the development of and approves all other corporate governance policies and principles applicable to ANZ and ensures an appropriate Board and Committee structure is in place. It ensures there is a robust and effective process for evaluating the performance of the Board, Board Committees and Non-Executive Directors. It also approves corporate sustainability objectives and reviews their progress in achieving them and provides advice to management on sustainability issues within ANZ. The Committee meets at least twice annually.</p>

Digital Business and Technology Committee	The purpose of the Committee is to assist the Board of Directors in the effective discharge of its responsibilities in connection with the oversight of ANZ's digital transformation, information technology, and technology-related innovation strategies. The Committee meets at least three times annually.
Human Resource Committee	Is responsible for, among other matters, reviewing and making recommendations to the Board on the design of executive remuneration structures and significant incentive plans and the Group's Remuneration Policy. It also approves most key executive appointments, reviews senior executive succession plans and monitors the effectiveness of ANZ's culture, employee engagement and diversity and inclusion programs. The Committee meets at least four times annually.

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. Internal Audit provides independent and objective assurance around ANZ's risk management and control effectiveness, and the Head of Internal Audit reports directly and solely to the Chair of the Audit Committee.

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 ANZ's balance sheet, liquidity and funding positions and capital management activities. The committee meets at least four times per year, or on an 'as required' basis.
Capital Management Policy Committee (CMPC)
CMPC is responsible for the oversight and control of the Group's capital and portfolio measurement framework, addressing economic and regulatory capital requirements and is also responsible for making capital management and portfolio measurement related recommendations to the Risk Committee and ANZ Board. The committee meets six times per year or on an 'as required' basis. CMPC is a sub-committee of GALCO.
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. The committee meets monthly, or on an 'as required' basis.
Credit Ratings System Oversight Committee (CRSOC)
CRSOC oversees and controls the internal ratings system for credit risk in the wholesale and retail sectors, including credit model approvals and performance monitoring. CRSOC is assisted in its rating systems governance role by the Wholesale Ratings Working Group and the Retail Ratings Working Group. The committee meets four times per year or more frequently on an 'as required' basis. CRSOC is a sub-committee of CMRC.
Operational Risk Executive Committee (OREC)
OREC is responsible for oversight of Operational Risk and Compliance Risk expected and unexpected risk profile and the related Control Environment. The committee meets at least four times per year, or on an 'as required' basis.
Responsible Business Committee (RBC)
The Responsible Business Committee (RBC) is a leadership and decision making body that exists to advance ANZ's purpose, through considering who we bank and how we bank them. The committee focuses on social, environmental and reputational risk matters.
Stress Testing Oversight Committee (STOC)
STOC is responsible for the oversight and control of the Group's stress testing framework, modelling and processes. The committee meets three times per year, or on an 'as required' basis. STOC is a sub-committee of CMPC.

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

Chapter 4 – Capital reporting and measurement

Capital reporting and measurement

To ensure that an Authorised Deposit-taking Institution (ADI) is adequately capitalised on both a 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.

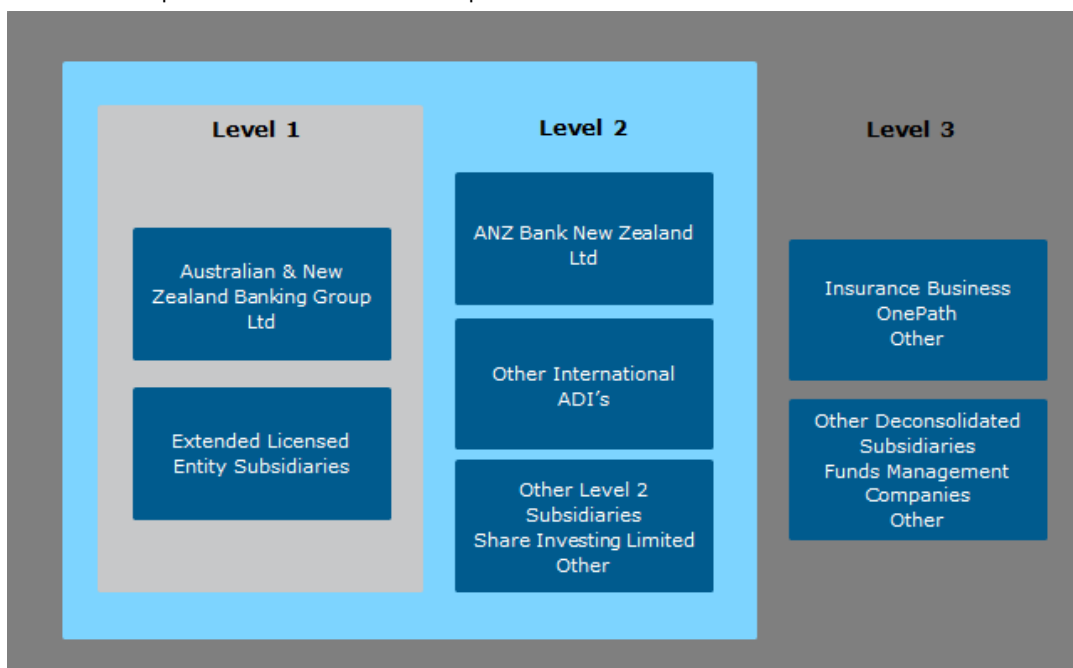
ANZ measures capital adequacy monthly and reports for prudential purposes on a Level 1 and Level 2 basis.

APRA is extending its prudential supervision framework to Conglomerate Groups via the Level 3 framework which will regulate a bancassurance group such as ANZ as a single economic entity with minimum capital requirements and additional monitoring of risk exposure levels.

In August 2016, APRA confirmed the deferral of capital requirements for Conglomerate Groups until 2019 at the earliest. The non-capital components of the Level 3 framework relating to group governance, intragroup transactions and other risk management and compliance requirements were effective from 1 July 2017 and have no material impact on the Group's capital position.

Based upon the current versions of the Level 3 standards covering capital adequacy, ANZ is not expecting any material impact on its operations.

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



Refer to Note 24 Controlled Entities of ANZ's 2017 Annual Report for a list of all material subsidiaries and a brief description of their key activities.

Chapter 5 – Capital and Capital Adequacy

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

Table 1 Capital disclosure template

	Sep 17 \$M	Reconciliation Table Reference
Common Equity Tier 1 Capital: instruments and reserves		
1	29,213	Table A
2	29,125	Table B
3	76	Table C
4	n/a	
5	51	Table D
6	58,465	
Common Equity Tier 1 capital : regulatory adjustments		
7	-	
8	3,553	Table E
9	3,926	Table F
10	-	Table J
11	131	
12	719	Table G
13	-	
14	(6)	
15	98	Table H
16	-	
17	-	
18	-	
19	1,634	Table I
20	n/a	
21	-	
22	-	
23	-	
24	n/a	
25	-	
26	7,074	
26a	-	
26b	-	
26c	(131)	
26d	5,028	Table I
26e	946	Table J
26f	1,149	Table K
26g	48	Table L
26h	-	
26i	-	
26j	34	
27	-	
28	17,129	
29	41,336	

	Sep 17 \$M	Reconciliation Table Reference
Additional Tier 1 Capital: instruments		
30	7,528	Table M
31	-	
32	7,528	Table M
33	573	Table M
34	293	Table M
35	n/a	
36	8,394	
Additional Tier 1 Capital: regulatory adjustments		
37	-	
38	-	
39	-	
40	405	Table M
41	1	
41a	-	
41b	-	
41c	1	Table M
42	-	
43	406	
44	7,988	Table M
45	49,324	
Tier 2 Capital: instruments and provisions		
46	6,206	Table N
47	1,583	Table N
48	815	
49	815	Table N
50	200	Table G
51	8,804	
Tier 2 Capital: regulatory adjustments		
52	10	Table N
53	-	
54	-	
55	85	Table N
56	40	
56a	-	
56b	40	Table N
56c	-	
57	135	
58	8,669	Table N
59	57,993	
60	391,113	

	Sep 17 \$M	Reconciliation Table Reference
Capital ratios and buffers		
61 Common Equity Tier 1 (as a percentage of risk-weighted assets)	10.6%	
62 Tier 1 (as a percentage of risk-weighted assets)	12.6%	
63 Total capital (as a percentage of risk-weighted assets)	14.8%	
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) - not applicable until	8.017%	
65 of which: capital conservation buffer requirement	3.5% ⁴	
66 of which: ADI-specific countercyclical buffer requirements	0.017%	
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)	6.1%	
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	64	
73 Significant investments in the ordinary shares of financial entities	5,004	Table I
74 Mortgage servicing rights (net of related tax liability)	n/a	
75 Deferred tax assets arising from temporary differences (net of related tax liability)	946	Table J
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)	200	
77 Cap on inclusion of provisions in Tier 2 under standardised approach	295	
78 Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	-	
79 Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	1,879	
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	2,991	
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	3,435	
85 Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-	

Counter Cyclical Capital Buffer

Geographic breakdown of Private Sector Credit Exposures	Hong Kong \$M	Sweden \$M	Norway \$M	Other \$M	Total \$M
RWA for all private sector credit exposures	3,064	388	425	306,265	310,142
Jurisdictional buffer set by national authorities	1.250%	2.000%	1.500%	0.000%	n/a
Countercyclical buffer requirement	0.012%	0.003%	0.002%	0.000%	0.017%

⁴ Includes 1.0% buffer applied by APRA to ADI's 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	68,048	30	68,078	
Settlement balances owed to ANZ	5,504	-	5,504	
Collateral Paid	8,987	-	8,987	
Trading securities	43,605	-	43,605	
of which: Financial Institutions capital instruments			40	Table N
of which: Investments in the capital of financial institutions			10	Table N
Derivative financial instruments	62,518	(2)	62,516	
Available-for-sale assets	69,384	(1,607)	67,777	
of which: significant investment in Financial institutions equity instruments			676	Table I
of which: non-significant investment in financial institutions equity instruments			23	Table I
of which: Other entities equity investments			38	Table L
Net loans and advances	574,331	(1,627)	572,704	
of which: deferred fee income			(131)	Row 26c
of which: collective provision			(2,662)	Table G
of which: individual provisions			(1,136)	Table G
of which: capitalised brokerage			1,057	Table K
of which: Other equity exposures			1	Table L
of which: CET1 margin lending adjustment			34	Row 26j
of which: AT1 margin lending adjustment			1	Table M
Regulatory deposits	2,015	-	2,015	
Assets held for sale	7,970	-	7,970	
of which: Goodwill			122	Table E
of which: Significant investment in financial institutions			1,868	Table I
Due from controlled entities	-	1,719	1,719	
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 N
Shares in controlled entities	-	4,747	4,747	
of which: Investment in deconsolidated financial subsidiaries			4,342	Table I
of which: AT1 significant investment in banking, financial and insurance entities that are outside the scope of regulatory consolidation			405	Table M
Investments in associates	2,248	(2)	2,246	
of which: Financial Institutions			2,237	Table I
of which: Other Entities			9	Table L
Current tax assets	30	-	30	
Deferred tax assets	675	97	772	Table J
Goodwill and other intangible assets	6,970	(1,846)	5,124	
of which: Goodwill			3,264	Table E
of which: Software			1,860	Table F
of which: other intangible assets			-	Table F
Investments backing policy liabilities	37,964	(37,964)	-	
Premises and equipment	1,965	(2)	1,963	
Other assets	5,112	(1,389)	3,723	
of which: Defined benefit superannuation fund net assets			122	
Total Assets	897,326	(37,846)	859,480	

	Balance Sheet as in published financial statements \$M	Adjustments \$M	Balance sheet under scope of regulatory consolidation \$M	Template and Reconciliation Table Reference
Liabilities				
Settlement balances owed by ANZ	9,914	(1)	9,913	
Collateral Received	5,919	-	5,919	
Deposits and other borrowings	595,611	5,270	600,881	
Derivative financial instruments	62,252	(1)	62,251	
Due to controlled entities	-	2,139	2,139	
Current tax liabilities	241	(29)	212	
Deferred tax liabilities	257	(317)	(60)	Table J
of which: related to intangible assets			34	Table F
of which: related to capitalised expenses			5	Table K
of which: related to defined benefit super assets			24	Table H
Liabilities held for sale	4,693	-	4,693	
Policy liabilities	37,448	(37,448)	-	
External unit holder liabilities (life insurance funds)	4,435	(4,435)	-	
Provisions	1,158	(53)	1,105	
Payables and other liabilities	8,350	(1,181)	7,169	
Debt Issuances	90,263	(1,547)	88,716	
Subordinated Debt	17,710	10	17,720	
of which: Directly issued qualifying Additional Tier 1 instruments			7,422	Table M
of which: Directly issued capital instruments subject to phase out from Additional Tier 1			573	Table M
of which: Additional Tier 1 Instruments			457	Table M
of which: Directly issued capital instruments subject to phase out from Tier 2			2,284	Table N
of which: Directly issued qualifying Tier 2 instruments			6,206	Table N
of which: instruments issued by subsidiaries subject to phase out			768	Table N
Total Liabilities	838,251	(37,593)	800,658	
Net Assets	59,075	(253)	58,822	

	Balance Sheet as in published financial statements \$M	Adjustments \$M	Balance sheet under scope of regulatory consolidation \$M	Template and Reconciliation Table Reference
Shareholders' equity				
Ordinary Share Capital	29,088	325	29,413	Table A
of which: Share reserve			200	Table A & C
Reserves	37	(85)	(48)	Table C
of which: Cash flow hedging reserves			131	Row 11
Retained earnings	29,834	(491)	29,343	Table B
Share capital and reserves attributable to shareholders of the Company	58,959	(251)	58,708	
Non-controlling interest	116	(2)	114	Table D
Total shareholders' equity	59,075	(253)	58,822	

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 17 \$M	Table 1 Reference
Issued capital	29,413	
less Reclassification to reserves	(200)	Table C
Regulatory Directly Issued qualifying ordinary shares	29,213	Row 1

Table B	Sep 17 \$M	Table 1 Reference
Retained earnings	29,343	
less Regulatory reclassification from significant investments in the ordinary shares of banking, financial and insurance entities outside the scope of regulatory consolidation	(218)	Table I
Retained earnings	29,125	Row 2

Table C	Sep 17 \$M	Table 1 Reference
Reserves	(48)	
add Reclassification from Issued Capital	200	Table A
less Non qualifying reserves	(76)	
Reserves for Regulatory capital purposes (amount allowed in group CET1)	76	Row 3

Table D	Sep 17 \$M	Table 1 Reference
Non-controlling interests	114	
less Surplus capital attributable to minority shareholders	(63)	
Ordinary share capital issued by subsidiaries and held by third parties	51	Row 5

Table E	Sep 17 \$M	Table 1 Reference
Goodwill	3,264	
add Goodwill reclassified to Assets held for Sale	122	
add Goodwill component of investments in financial associates	167	Table I
Goodwill (net of related tax liability)	3,553	Row 8

Table F	Sep 17 \$M	Table 1 Reference
Software	1,860	
Other intangible assets	-	
less Associated deferred tax liabilities	(34)	
add Regulatory reclassification from significant investments in the ordinary shares of banking, financial and insurance entities outside the scope of regulatory consolidation	2,100	Table I
Other intangibles other than mortgage servicing rights (net of related tax liability)	3,926	Row 9

Table G	Sep 17 \$M	Table 1 Reference
Qualifying collective provision		
Collective provision	(2,662)	
less Non-qualifying collective provision	352	
less Standardised collective provision	200	Row 50
less Non-defaulted expected loss	2,829	
Non-Defaulted: Expected Loss - Eligible Provision Shortfall	719	
Qualifying individual provision		
Individual provision	(1,136)	
add Additional individual provisions for partial write offs	(300)	
less Standardised individual provision	117	
add Collective provision on advanced defaulted	(320)	
less Defaulted expected loss	1,634	
Defaulted: Expected Loss - Eligible Provision Shortfall	-	
Gross deduction	719	Row 12
Table H	Sep 17 \$M	Table 1 Reference
Defined benefit superannuation fund net assets	122	
less Associated deferred tax liabilities	(24)	
Defined benefit superannuation fund net assets	98	Row 15
Table I	Sep 17 \$M	Table 1 Reference
Investment in deconsolidated financial subsidiaries	4,342	
less Regulatory reclassification to Retained Earnings and Other Intangible Assets	(2,318)	Tables B & F
add Investment in financial associates	4,105	
add Investment in financial institutions Available for Sale	676	
less Goodwill component of investments in financial associates	(167)	Table E
less Amount below 10% threshold of CET 1	(5,004)	Row 73
Significant investments in the ordinary shares of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	1,634	Row 19
add Amount below the 10% threshold of CET 1	5,004	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 - trading security exposures	-	
add Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the ADI does not own more than 10% of the issued share capital - Available for Sale exposures	23	
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the ADI does not own more than 10% of the issued share capital - Loan exposures	-	
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 - Undrawn	1	
Equity investment in financial institutions not reported in rows 18, 19 and 23	5,028	Row 26d
Deduction for equity holdings in financial institutions - APRA regulations	6,662	

Table J		Sep 17	Table 1
		\$M	Reference
	Deferred tax assets	772	
add	Deferred tax liabilities	60	
	DTL reclassified to Held for Sale	8	
	Deferred tax asset less deferred tax liabilities	840	
less	Deferred tax assets that rely on future profitability	-	Row 10
add	Deferred tax liabilities on intangible assets, capitalised expenses and defined benefit superannuation assets	63	
add	Impact of calculating the deduction on a jurisdictional basis	43	
Deferred tax assets not reported in rows 10, 21 and 25 of the Capital Disclosure Template		946	Row 26e

Table K		Sep 17	Table 1
		\$M	Reference
	Capitalised brokerage costs	1,057	
	Capitalised debt and capital issuance expenses	97	
less	Associated deferred tax liabilities	(5)	
Capitalised expenses		1,149	Row 26f

Table L		Sep 17	Table 1
		\$M	Reference
	Investments in non-financial Available for Sale equities	38	
	Investments in non-financial associates	9	
	Non-financial equity exposures (loans)	1	
Equity exposures to non-financial entities		48	Row 26g

Table M		Sep 17	Table 1
		\$M	Reference
	Directly issued qualifying Additional Tier 1 Capital Instruments classified as liabilities	7,422	
add	Issue costs	51	
less	Fair value adjustment	55	
	Directly issued qualifying Additional Tier 1 Capital Instruments classified as liabilities	7,528	Row 30
	Directly issued capital instruments subject to phase out from Additional Tier 1 – loan capital	573	
	Directly issued capital instruments subject to phase out from Additional Tier 1	573	Row 33
	Additional Tier 1 instruments issued by subsidiaries held by third parties	457	
add	Issue costs	3	
	Surplus capital attributable to third party holders	(167)	
add	AT1 Instruments issued by subsidiaries and held by third parties (amounts allowed in Group AT1)	293	Row34
Additional Tier 1 capital before regulatory adjustments		8,394	Row 36
less	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation	(405)	Row 40
	Other national specific regulatory adjustments not reported	(1)	Row 41
Additional Tier 1 capital		7,988	Row 44

Table N	Sep 17 \$M	Table 1 Reference
Directly issued capital instruments subject to phase out from Tier 2	2,284	
add Issue costs	21	
less Amortisation of Tier 2 Capital Instruments subject to Phase out	(676)	
less Fair value adjustment	(46)	
less Transition adjustment	-	
Directly issued capital instruments subject to phase out from Tier 2	1,583	Row 47
Instruments issued by subsidiaries subject to phase out from Tier 2	768	
add Additional Tier capital 1 attributable to third party holders	47	
Instruments issued by subsidiaries subject to phase out from Tier 2	815	Row 49
add Directly issued qualifying Tier 2 instruments	6,206	Row 46
add Provisions	200	Table G
Tier 2 capital before regulatory adjustments	8,804	Row 51
less Investments in own Tier 2 instruments (trading limit)	(10)	Row 52
less Significant investments in the Tier 2 capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions	(85)	Row 55
less Investments in the capital of financial institutions that are outside the scope of regulatory consolidation not reported in rows 54 and 55	(40)	Row 56b
Tier 2 capital	8,669	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 Manager	28	10
ANZ Lenders Mortgage Insurance Pty Limited	Mortgage insurance	1,177	745
ANZ Life Assurance Company Pty Ltd	Insurance	-	-
ANZ New Zealand Investments Limited	Funds Manager	98	25
ANZ New Zealand Investments Nominees Limited	Trustee/Nominee	-	-
ANZ Self Managed Super Ltd	Investment	-	-
ANZ Wealth Alternative Investments Management Pty Ltd	Investment	1,050	1,048
ANZ Wealth Australia Limited	Holding Company / Corporate	2,729	-
ANZ Wealth New Zealand Limited	Holding Company	473	-
ANZcover Insurance Private Ltd	Captive-Insurance	96	38
AUT Administration Pty Ltd	Corporate	-	-
Capricorn Financial Advisers Pty Ltd	Advice	-	-
Elders Financial Planning Pty Ltd	Advice	5	1
Financial Investment Network Group Pty Ltd	Advice	106	-
Financial Lifestyle Solutions Pty Limited	Advice	4	1
Financial Planning Hotline Pty Ltd	Advice	-	-
Financial Services Partners Holdings Pty Limited	Holding Company / Advice	2	-
Financial Services Partners Incentive Co Pty Limited	Advice	-	-
Financial Services Partners Management Pty Limited	Advice	-	-
Financial Services Partners Pty Ltd	Advice	3	3
FSP Funds Management Limited	Advice	-	-
FSP Group Pty Limited	Holding Company / Advice	26	1
FSP Portfolio Administration Limited	Advice	-	-
FSP Super Pty Limited	Advice	-	-
Integrated Networks Pty Limited	Holding Company / Advice	44	-
Kingfisher Trust 2016-1	Securitisation Trust	1,560	1,560
Looking Together Pty Ltd	Property Price Information	5	-
Mercantile Mutual Financial Services Pty Ltd	Investment	-	-
Millennium 3 Financial Services Group Pty Ltd	Advice	41	6
Millennium 3 Financial Services Pty Ltd	Advice	14	6
Millennium 3 Mortgage Platform Services Pty Limited	Advice	-	-
Millennium 3 Professional Services Pty Ltd	Advice	1	-
OASIS Asset Management Limited	Investment	9	1
OASIS Fund Management Limited	Superannuation	3	1
OneAnswer Nominees Limited	Trustee/Nominee	-	-
OnePath Administration Pty Ltd	Corporate	71	29
OnePath Custodians Pty Ltd	Superannuation	48	2
OnePath Financial Planning Pty Ltd	Advice	1	-
OnePath Funds Management Limited (RE)	Investment	46	16
OnePath General Insurance Pty Ltd	Insurance	121	77
OnePath Investment Holdings Pty Ltd	Investment	7	-
OnePath Life (NZ) Limited	Insurance	847	315
OnePath Life Australia Holdings Pty Ltd	Holding Company / Corporate	3,000	-
OnePath Life Limited	Insurance	41,002	38,446
Polaris Financial Solutions Pty Limited	Advice	-	1

Entity	Activity	Total Assets (\$M)	Total Liabilities (\$M)
RI Advice Group Pty Ltd	Advice	18	-
RI Central Coast Pty Ltd	Advice	-	-
RI Gold Coast Pty Ltd	Advice	-	-
RI Maroochydore Pty Ltd	Advice	-	-
RI Newcastle Pty Ltd	Advice	1	-
RI Parramatta Pty Ltd	Advice	-	-
RI Rockhampton & Gladstone Pty Ltd	Advice	-	-
RI Townsville Pty Ltd	Advice	-	-
Rieas Pty Ltd	Advice	-	-
Shout for Good Pty Ltd	Fund raising platform	-	-
Tandem Financial Advice Pty Limited	Advice	-	-
Union Investment Company Pty Limited	Advice	-	-

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 plans through ensuring that available capital exceeds the level of Economic Capital required to support the Ratings Agency 'default frequency' confidence level for a 'AA' credit rating category bank. Economic Capital is an internal estimate of capital levels required to support risk and unexpected losses above a desired target solvency level; and
- An appropriate balance between maximising shareholder returns and prudent capital management principles.

ANZ achieves these objectives through an Internal Capital Adequacy Assessment Process (ICAAP) whereby ANZ conducts detailed strategic and capital planning over a medium term time horizon.

Annually, ANZ conducts a detailed strategic planning process over a three year time horizon, the outcomes of which are embodied in the Strategic Plan. This process involves forecasting key economic variables which Divisions use to determine key financial data for their existing business. New strategic initiatives to be undertaken over the planning period and their financial impact are then determined. These processes are used for the following:

- Review capital ratios, targets, and levels of different classes of capital against ANZ's risk profile and risk appetite outlined in the Strategic Plan. ANZ's capital targets reflect the key policy objectives above, and the desire to ensure that under specific stressed economic scenarios that capital levels have sufficient capital to remain above both Economic Capital and PCR requirements;
- Stress tests are performed under different economic conditions to ensure a comprehensive review of ANZ's capital position both before and after mitigating actions. The stress tests determine the level of additional capital (i.e. the 'stress capital buffer') needed to absorb losses that may be experienced during an economic downturn; and
- Stress testing is integral to strengthening the predictive approach to risk management and is a key component in managing risks, asset writing strategies and business strategies. It creates greater understanding of the impacts on financial performance through 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 both Economic Capital and regulatory requirements; and
- Identify the level of organic capital generation and hence determine current and future capital issuance requirements for Level 1 and Level 2.

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

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

Regulatory environment

ANZ's regulatory capital calculation is governed by APRA's Prudential Standards which adopt a risk-based capital assessment framework based on the Basel III capital measurement standards. This risk-based approach requires eligible capital to be divided by total risk weighted assets (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:

- Additional Tier 1 capital instruments included within shareholders' equity are excluded;
- 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;
- Inclusion of qualifying treasury shares.

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

Deductions from the capital base comprise mainly deductions to the Common Equity Tier 1 component. These deductions are largely intangible assets, investments in insurance and funds management entities and associates, capitalised expenses (including loan and origination fees), and the amount of regulatory expected losses (EL) in excess of eligible provisions.

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

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

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

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

Regulatory 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 2017 Full Year Results Announcement Group Results section, pages 46 and 47, available on ANZ's website: [shareholder.anz.com/pages/results-announcement-archive.]

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.

	Sep 17 \$M	Mar 17 \$M	Sep 16 \$M
Risk weighted assets (RWA)			
Subject to Advanced Internal Rating Based (IRB) approach			
Corporate	121,915	127,544	130,799
Sovereign	7,555	6,718	6,634
Bank	13,080	14,267	14,884
Residential Mortgage	96,267	86,218	84,275
Qualifying Revolving Retail	7,059	7,513	7,334
Other Retail	31,077	31,004	31,360
Credit risk weighted assets subject to Advanced IRB approach	276,953	273,264	275,286
Credit risk Specialised Lending exposures subject to slotting approach⁵	31,845	33,896	36,100
Subject to Standardised approach			
Corporate	13,365	16,264	20,459
Residential Mortgage	950	2,354	2,493
Other Retail	2,000	3,131	3,277
Credit risk weighted assets subject to Standardised approach	16,315	21,749	26,229
Credit Valuation Adjustment and Qualifying Central Counterparties	7,269	8,168	9,371
Credit risk weighted assets relating to securitisation exposures	1,083	1,171	1,203
Other assets	3,369	3,561	3,844
Total credit risk weighted assets	336,834	341,809	352,033
Market risk weighted assets	5,363	6,323	6,188
Operational risk weighted assets	37,305	38,576	38,661
Interest rate risk in the banking book (IRRBB) risk weighted assets	11,611	10,332	11,700
Total risk weighted assets	391,113	397,040	408,582
Capital ratios (%)⁶			
Level 2 Common Equity Tier 1 capital ratio	10.6%	10.1%	9.6%
Level 2 Tier 1 capital ratio	12.6%	12.1%	11.8%
Level 2 Total capital ratio	14.8%	14.5%	14.3%
Level 1: Extended licensed Common Equity Tier 1 capital ratio	10.5%	10.2%	9.7%
Level 1: Extended licensed entity Tier 1 capital ratio	12.7%	12.3%	12.1%
Level 1: Extended licensed entity Total capital ratio	14.8%	14.8%	14.7%
Other significant Authorised Deposit-taking Institution (ADI) or overseas bank subsidiary:			
ANZ Bank New Zealand Limited – Common Equity Tier 1 capital ratio	10.7%	10.2%	10.0%
ANZ Bank New Zealand Limited - Tier 1 capital ratio	14.1%	13.5%	13.2%
ANZ Bank New Zealand Limited - Total capital ratio	14.4%	13.8%	13.7%

⁵ 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.

⁶ ANZ Bank New Zealand Limited's capital ratios have been calculated in accordance with Reserve Bank of New Zealand prudential standards.

Credit Risk Weighted Assets (CRWA)

Total CRWA decreased \$15.2 billion (4.3%) from \$352.0 billion in September 2016 to \$336.8 billion in September 2017. This was mainly driven by portfolio contraction in our Institutional business and partial sale of the Retail Asia and Wealth business, partially offset by an increase in Australia Residential Mortgages.

Market Risk, Operational Risk and IRRBB RWA

Traded Market Risk RWA decreased \$0.83 billion (13.3%) driven by reduced exposure to stressed market conditions.

IRRBB RWA decreased marginally over the year due to lower repricing and yield curve risk offset by a reduction in embedded market value.

The Operational Risk RWA decreased by \$1.36 billion (3.5%) primarily driven by the scale back of ANZ's operations in certain parts of the business and simplification of portfolios across the Group.

Chapter 6 – 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 from a decrease in credit quality of a counterparty resulting in a loss in value.

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 and local corporates in Asia Pacific) where ANZ applies the Standardised approach to credit risk, under APS 112 Capital Adequacy: Standardised Approach to Credit Risk.

Credit risk management framework and policies

ANZ has a comprehensive framework to manage 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, define and guide the credit process, organisation and staff.

Organisation

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

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

The authority to make credit decisions is delegated by the Board to the CEO who in turn delegates authority to the CRO. The CRO in turn delegates some of 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 judgemental lending is made on a 'dual approval' basis, jointly by the business writer in the business unit and the respective independent credit risk officer. Individuals must be suitably skilled and accredited in order to be granted and retain a credit discretion. Credit discretions are reviewed on an annual basis, and may be varied based on the holder's performance.

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

Portfolio direction and performance

The credit risk management framework contains several 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 collective provision, economic capital, expected loss, regulatory 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.

Reporting – overview and definitions

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

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

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

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

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 and assets brought to ANZ's balance sheet through the enforcement of security.

Restructured Items

A facility in which the original contractual terms have been modified to provide concessions of interest, principal, or other payments due, or for an extension in maturity for a non-commercial period for reasons related to the financial difficulties of the entity.

Collective Provisions

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

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

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

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

Essentially these differences reflect the effects of the credit cycle on credit losses. Point-in-time refers to losses at any given point in the credit cycle, cycle-adjusted refers to adjusting estimates to reflect a full credit cycle and downturn refers to losses at the worst of the cycle and is the most conservative estimate to use. Regardless of the adjustments, the starting point for all estimates is the output of the rating/scoring models and tools to satisfy the in use test⁷.

Individual Provisions

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

Write-offs

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

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 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.

⁷ One of the key criteria for regulatory acceptance of a rating model is that the outputs must be used in a wide range of ongoing management activities, to demonstrate that the model is used in day-to-day management of exposures and not just for regulatory capital calculation.

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 17				
	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
Advanced IRB approach					
Corporate	121,915	230,375	229,522	75	178
Sovereign	7,555	131,473	131,139	-	-
Bank	13,080	44,540	45,128	5	8
Residential Mortgage	96,267	366,669	360,679	42	20
Qualifying Revolving Retail	7,059	22,055	22,164	118	137
Other Retail	31,077	41,951	42,039	245	275
Total Advanced IRB approach	276,953	837,063	830,671	485	618
Specialised Lending	31,845	37,205	37,951	(4)	2
Standardised approach					
Corporate	13,365	14,455	15,661	(1)	80
Residential Mortgage	950	2,448	4,462	2	1
Other Retail	2,000	1,988	2,638	72	90
Total Standardised approach	16,315	18,891	22,761	73	171
Credit Valuation Adjustment and Qualifying Central Counterparties	7,269	9,919	9,838	-	-
Total	332,382	903,078	901,221	554	791

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.

	Mar 17				
	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
Advanced IRB approach					
Corporate	127,544	228,669	228,993	289	314
Sovereign	6,718	130,805	125,869	(1)	4
Bank	14,267	45,715	47,295	3	-
Residential Mortgage	86,218	354,689	351,541	35	22
Qualifying Revolving Retail	7,513	22,273	22,334	104	141
Other Retail	31,004	42,126	42,209	239	270
Total Advanced IRB approach	273,264	824,277	818,241	669	751
Specialised Lending	33,896	38,696	39,577	(3)	4
Standardised approach					
Corporate	16,264	16,866	19,060	35	44
Residential Mortgage	2,354	6,476	6,664	-	1
Other Retail	3,131	3,288	3,284	86	102
Total Standardised approach	21,749	26,630	29,008	121	147
Credit Valuation Adjustment and Qualifying Central Counterparties	8,168	9,756	10,102	-	-
Total	337,077	899,359	896,928	787	902

	Sep 16				
	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
Advanced IRB approach					
Corporate	130,799	229,317	235,169	466	468
Sovereign	6,634	120,933	119,576	2	2
Bank	14,884	48,875	49,001	-	-
Residential Mortgage	84,275	348,394	342,854	33	17
Qualifying Revolving Retail	7,334	22,395	22,406	104	141
Other Retail	31,360	42,291	41,617	251	275
Total Advanced IRB approach	275,286	812,205	810,623	856	903
Specialised Lending	36,100	40,458	39,933	(1)	8
Standardised approach					
Corporate	20,459	21,254	21,875	107	61
Residential Mortgage	2,493	6,851	7,017	2	3
Other Retail	3,277	3,279	3,416	83	91
Total Standardised approach	26,229	31,384	32,308	192	155
Credit Valuation Adjustment and Qualifying Central Counterparties	9,371	10,448	9,071	-	-
Total	346,986	894,495	891,935	1,047	1,066

Table 7(b) part (ii): Exposure at Default by portfolio type⁹

Portfolio Type	Sep 17 \$M	Mar 17 \$M	Sep 16 \$M	Average for half year Sep 17 \$M
Cash	26,123	33,613	27,054	29,868
Contingents liabilities, commitments, and other off-balance sheet exposures	153,775	153,607	154,142	153,691
Derivatives	38,922	40,393	41,641	39,657
Settlement Balances	21,532	18,433	16,662	19,983
Investment Securities	66,802	58,578	58,426	62,690
Net Loans, Advances & Acceptances	568,089	565,027	563,545	566,558
Other assets	2,558	3,411	3,134	2,985
Trading Securities	25,277	26,297	29,891	25,787
Total exposures	903,078	899,359	894,495	901,219

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 17				
Portfolio Type	Australia \$M	New Zealand \$M	Asia Pacific, Europe and Americas \$M	Total \$M
Corporate	126,446	45,605	72,779	244,830
Sovereign	47,632	11,306	72,535	131,473
Bank	19,697	4,620	20,223	44,540
Residential Mortgage	291,868	74,801	2,448	369,117
Qualifying Revolving Retail	22,055	-	-	22,055
Other Retail	30,140	11,811	1,988	43,939
Qualifying Central Counterparties	6,790	1,346	1,783	9,919
Specialised Lending	26,331	10,749	125	37,205
Total exposures	570,959	160,238	171,881	903,078

Mar 17				
Portfolio Type	Australia \$M	New Zealand \$M	Asia Pacific, Europe and Americas \$M	Total \$M
Corporate	122,728	45,911	76,896	245,535
Sovereign	47,939	8,230	74,636	130,805
Bank	20,686	4,430	20,599	45,715
Residential Mortgage	281,972	72,717	6,476	361,165
Qualifying Revolving Retail	22,273	-	-	22,273
Other Retail	30,459	11,687	3,268	45,414
Qualifying Central Counterparties	6,479	1,751	1,526	9,756
Specialised Lending	27,905	10,676	115	38,696
Total exposures	560,441	155,402	183,516	899,359

Sep 16				
Portfolio Type	Australia \$M	New Zealand \$M	Asia Pacific, Europe and Americas \$M	Total \$M
Corporate	122,934	48,553	79,084	250,571
Sovereign	45,457	11,469	64,007	120,933
Bank	23,684	5,562	19,629	48,875
Residential Mortgage	274,291	74,104	6,850	355,245
Qualifying Revolving Retail	22,395	-	-	22,395
Other Retail	30,232	12,083	3,255	45,570
Qualifying Central Counterparties	6,905	1,651	1,892	10,448
Specialised Lending	29,392	10,601	465	40,458
Total exposures	555,290	164,023	175,182	894,495

Table 7(d): Industry distribution of Exposure at Default^{10 11}

Sep 17																
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	41,333	9,746	5,468	9,461	13,109	33,600	3,027	36,912	870	18,919	24,289	13,526	15,177	19,393	244,830	
Sovereign	1,075	-	29	524	1	65,694	61,576	856	-	1,026	16	-	370	306	131,473	
Bank	132	49	34	25	4	44,119	-	65	-	-	39	-	43	30	44,540	
Residential Mortgage	-	-	-	-	-	-	-	-	369,117	-	-	-	-	-	369,117	
Qualifying Revolving	-	-	-	-	-	-	-	-	22,055	-	-	-	-	-	22,055	
Retail	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Other Retail	3,257	2,951	4,135	110	2,376	713	15	1,650	16,511	1,278	1,259	4,288	1,442	3,954	43,939	
Qualifying Central Counterparties	-	-	-	-	-	9,919	-	-	-	-	-	-	-	-	9,919	
Specialised Lending	807	7	181	1,696	232	1	-	1	-	32,824	14	16	708	718	37,205	
Total exposures	46,604	12,753	9,847	11,816	15,722	154,046	64,618	39,484	408,553	54,047	25,617	17,830	17,740	24,401	903,078	
% of Total	5.2%	1.4%	1.1%	1.3%	1.7%	17.1%	7.2%	4.4%	45.1%	6.0%	2.8%	2.0%	2.0%	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.

Mar 17

Portfolio Type	Agriculture, Forestry, Fishing & Mining \$M	Business Services \$M	Construction \$M	Electricity, Gas & Water Supply \$M	Entertainment, Leisure & Tourism \$M	Financial, Investment & Insurance \$M	Government and Official Institutions \$M	Manufacturing \$M	Personal \$M	Property Services \$M	Wholesale Trade \$M	Retail Trade \$M	Transport & Storage \$M	Other \$M	Total \$M
Corporate	43,336	9,300	5,634	9,778	12,937	26,787	2,890	41,265	1,946	18,950	24,415	13,938	15,895	18,464	245,535
Sovereign	1,462	1	32	627	1	74,814	51,855	939	1	413	21	-	405	234	130,805
Bank	176	5	35	62	4	45,331	-	19	-	-	58	10	1	14	45,715
Residential Mortgage	-	-	-	-	-	-	-	-	361,165	-	-	-	-	-	361,165
Qualifying Revolving	-	-	-	-	-	-	-	-	22,273	-	-	-	-	-	22,273
Retail	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Retail	3,363	2,879	4,092	106	2,382	710	15	1,629	18,042	1,311	1,246	4,336	1,455	3,848	45,414
Qualifying Central Counterparties	-	-	-	-	-	9,756	-	-	-	-	-	-	-	-	9,756
Specialised Lending	927	4	36	1,619	278	1	-	1	-	34,267	14	2	879	668	38,696
Total exposures	49,264	12,189	9,829	12,192	15,602	157,399	54,760	43,853	403,427	54,941	25,754	18,286	18,635	23,228	899,359
% of Total	5.5%	1.4%	1.1%	1.4%	1.7%	17.4%	6.1%	4.9%	44.8%	6.1%	2.9%	2.0%	2.1%	2.6%	100.0%

Sep 16

Portfolio Type	Agriculture, Forestry, Fishing & Mining \$M	Business Services \$M	Construction \$M	Electricity, Gas & Water Supply \$M	Entertainment, Leisure & Tourism \$M	Financial, Investment & Insurance \$M	Government and Official Institutions \$M	Manufacturing \$M	Personal \$M	Property Services \$M	Wholesale Trade \$M	Retail Trade \$M	Transport & Storage \$M	Other \$M	Total \$M
Corporate	42,860	9,875	6,161	9,007	12,900	28,248	3,455	41,971	2,124	19,328	25,299	14,292	16,193	18,858	250,571
Sovereign	1,514	-	44	590	9	64,277	52,213	1,177	-	384	27	-	455	243	120,933
Bank	182	10	2	27	8	48,476	-	48	-	-	45	10	2	65	48,875
Residential Mortgage	-	-	-	-	-	-	-	-	355,245	-	-	-	-	-	355,245
Qualifying Revolving	-	-	-	-	-	-	-	-	22,395	-	-	-	-	-	22,395
Retail	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Retail	3,423	2,717	3,953	105	2,301	650	10	1,588	18,437	1,250	1,216	4,288	1,473	4,159	45,570
Qualifying Central Counterparties	-	-	-	-	-	10,448	-	-	-	-	-	-	-	-	10,448
Specialised Lending	1,155	6	170	1,718	423	2	-	5	-	35,137	11	6	1,127	698	40,458
Total exposures	49,134	12,608	10,330	11,447	15,641	152,101	55,678	44,789	398,201	56,099	26,598	18,596	19,250	24,023	894,495
% of Total	5.5%	1.4%	1.2%	1.3%	1.7%	17.0%	6.2%	5.0%	44.5%	6.3%	3.0%	2.1%	2.2%	2.7%	100.0%

Table 7(e): Residual contractual maturity of Exposure at Default¹²

Sep 17					
Portfolio Type	< 12 mths \$M	1 - 5 years \$M	> 5 years \$M	No Maturity Specified \$M	Total \$M
Corporate	109,154	120,769	14,746	161	244,830
Sovereign	66,591	40,319	24,563	-	131,473
Bank	30,068	14,159	313	-	44,540
Residential Mortgage	345	2,533	335,664	30,575	369,117
Qualifying Revolving Retail	-	-	-	22,055	22,055
Other Retail	15,462	8,289	19,758	430	43,939
Qualifying Central Counterparties	3,103	3,771	2,704	341	9,919
Specialised Lending	16,160	19,985	1,010	50	37,205
Total exposures	240,883	209,825	398,758	53,612	903,078
Mar 17					
Portfolio Type	< 12 mths \$M	1 - 5 years \$M	> 5 years \$M	No Maturity Specified \$M	Total \$M
Corporate	101,298	129,007	15,063	167	245,535
Sovereign	70,734	30,109	29,962	-	130,805
Bank	30,075	15,295	345	-	45,715
Residential Mortgage	337	6,355	323,327	31,146	361,165
Qualifying Revolving Retail	-	-	-	22,273	22,273
Other Retail	16,332	8,423	20,055	604	45,414
Qualifying Central Counterparties	3,202	3,654	2,552	348	9,756
Specialised Lending	15,353	22,100	1,192	51	38,696
Total exposures	237,331	214,943	392,496	54,589	899,359
Sep 16					
Portfolio Type	< 12 mths \$M	1 - 5 years \$M	> 5 years \$M	No Maturity Specified \$M	Total \$M
Corporate	100,671	133,592	16,138	170	250,571
Sovereign	57,697	30,659	32,577	-	120,933
Bank	29,864	18,500	511	-	48,875
Residential Mortgage	434	6,603	316,003	32,205	355,245
Qualifying Revolving Retail	-	-	-	22,395	22,395
Other Retail	16,640	8,293	20,000	637	45,570
Qualifying Central Counterparties	4,045	3,375	2,700	328	10,448
Specialised Lending	14,161	24,510	1,732	55	40,458
Total exposures	223,512	225,532	389,661	55,790	894,495

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 loans¹⁵, Provisions and Write-offs by Industry sector

Industry Sector	Sep 17					
	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	-	545	110	203	(14)	62
Business Services	-	109	31	31	(7)	15
Construction	-	225	71	125	48	16
Electricity, gas and water supply	-	2	2	1	1	1
Entertainment Leisure & Tourism	-	144	45	59	16	33
Financial, Investment & Insurance	-	29	30	14	6	10
Government & Official Institutions	-	-	-	-	-	-
Manufacturing	-	219	26	137	36	93
Personal	-	745	2,177	307	369	421
Property Services	-	50	39	28	(14)	14
Retail Trade	-	129	90	62	25	19
Transport & Storage	-	144	25	33	8	10
Wholesale Trade	-	121	28	65	48	55
Other	-	119	82	71	32	42
Total	-	2,581	2,756	1,136	554	791

¹³ Impaired derivatives are net of credit value adjustment (CVA) of \$42 million, being a market value based assessment of the credit risk of the relevant counterparties (March 2017: \$55 million; September 2016: \$63 million).

¹⁴ Impaired loans / facilities include restructured items of \$167 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 2017: \$367 million; September 2016: \$403 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.

Mar 17						
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	-	867	150	265	19	25
Business Services	-	85	31	51	16	17
Construction	-	173	62	96	21	22
Electricity, gas and water supply	-	2	1	2	-	-
Entertainment Leisure & Tourism	-	120	45	58	26	27
Financial, Investment & Insurance	1	40	19	16	7	6
Government & Official Institutions	-	-	-	-	-	4
Manufacturing	5	347	30	201	12	82
Personal	-	839	1,961	276	358	435
Property Services	-	90	57	42	-	10
Retail Trade	1	115	77	59	20	36
Transport & Storage	-	167	24	39	30	12
Wholesale Trade	3	129	20	71	211	209
Other	-	158	92	93	67	17
Total	10	3,132	2,569	1,269	787	902

Sep 16						
Industry Sector	Impaired derivatives \$M	Impaired loans/ facilities \$M	Past due loans ≥90 days \$M	Individual provision balance \$M	Individual provision charge for half year \$M	Write-offs for half year \$M
Agriculture, Forestry, Fishing & Mining	-	1,016	93	283	108	102
Business Services	-	84	30	46	10	35
Construction	-	178	58	95	59	32
Electricity, gas and water supply	-	2	1	1	2	4
Entertainment Leisure & Tourism	-	134	44	59	51	28
Financial, Investment & Insurance	1	33	23	11	(3)	14
Government & Official Institutions	-	-	-	4	2	-
Manufacturing	6	466	36	266	322	251
Personal	-	834	1,989	284	374	422
Property Services	-	120	63	46	13	26
Retail Trade	3	221	68	76	55	38
Transport & Storage	-	88	23	25	14	36
Wholesale Trade	4	115	13	67	18	62
Other	-	72	58	44	22	16
Total	14	3,363	2,499	1,307	1,047	1,066

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

Sep 17						
	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	-	1,193	175	520	75	178
Sovereign	-	-	-	3	-	-
Bank	-	-	10	-	5	8
Residential Mortgage	-	259	2,166	126	42	20
Qualifying Revolving Retail	-	99	-	18	118	137
Other Retail	-	586	325	299	245	275
Total Advanced IRB approach	-	2,137	2,676	966	485	618
Specialised Lending	-	25	21	17	(4)	2
Portfolios subject to Standardised approach						
Corporate	-	273	34	140	(1)	80
Residential Mortgage	-	25	19	10	2	1
Other Retail	-	121	6	3	72	90
Total Standardised approach	-	419	59	153	73	171
Qualifying Central Counterparties	-	-	-	-	-	-
Total	-	2,581	2,756	1,136	554	791
Mar 17						
	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	1,569	207	614	289	314
Sovereign	-	-	-	3	(1)	4
Bank	-	13	11	3	3	-
Residential Mortgage	-	231	1,962	104	35	22
Qualifying Revolving Retail	-	88	-	-	104	141
Other Retail	-	552	291	289	239	270
Total Advanced IRB approach	1	2,453	2,471	1,013	669	751
Specialised Lending	-	39	30	19	(3)	4
Portfolios subject to Standardised approach						
Corporate	9	382	42	222	35	44
Residential Mortgage	-	31	18	9	-	1
Other Retail	-	227	8	6	86	102
Total Standardised approach	9	640	68	237	121	147
Qualifying Central Counterparties	-	-	-	-	-	-
Total	10	3,132	2,569	1,269	787	902

	Sep 16					
	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	1,795	178	653	466	468
Sovereign	-	-	-	6	2	2
Bank	-	-	11	-	-	-
Residential Mortgage	-	220	1,981	94	33	17
Qualifying Revolving Retail	-	89	-	-	104	141
Other Retail	-	515	255	281	251	275
Total Advanced IRB approach	1	2,619	2,425	1,034	856	903
Specialised Lending	-	42	38	23	(1)	8
Portfolios subject to Standardised approach						
Corporate	13	440	18	237	107	61
Residential Mortgage	-	29	11	8	2	3
Other Retail	-	233	7	5	83	91
Total Standardised approach	13	702	36	250	192	155
Qualifying Central Counterparties	-	-	-	-	-	-
Total	14	3,363	2,499	1,307	1,047	1,066

Table 7(g): Impaired assets^{16 17}, Past due loans¹⁸ and Provisions¹⁹ by Geography

Sep 17					
Geographic region	Impaired derivatives \$M	Impaired loans/ facilities \$M	Past due loans ≥ 90 days \$M	Individual provision balance \$M	Collective provision balance \$M
Australia	-	1,723	2,519	791	1,810
New Zealand	-	359	168	141	398
Asia Pacific, Europe and America	-	499	69	204	454
Total	-	2,581	2,756	1,136	2,662

Mar 17					
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	1,705	2,347	777	1,830
New Zealand	1	488	144	158	411
Asia Pacific, Europe and America	8	939	78	334	544
Total	10	3,132	2,569	1,269	2,785

Sep 16					
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	1,804	2,319	757	1,803
New Zealand	3	483	127	147	456
Asia Pacific, Europe and America	10	1,076	53	403	617
Total	14	3,363	2,499	1,307	2,876

¹⁶ Impaired derivatives are net of credit value adjustment (CVA) of \$42 million, being a market value based assessment of the credit risk of the relevant counterparties (March 2017: \$55 million; September 2016: \$63 million).

¹⁷ Impaired loans / facilities include restructured items of \$167 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 2017: \$367 million; September 2016: \$403 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

	Half year Sep 17 \$M	Half year Mar 17 \$M	Half year Sep 16 \$M
Collective Provision			
Balance at start of period	2,785	2,876	2,862
Charge to income statement	(75)	(67)	(9)
Adjustments for exchange rate fluctuations	(9)	(24)	28
Esanda Dealer Finance divestment	-	-	(5)
Asia Retail and Wealth divestment	(39)	-	-
Total Collective Provision	2,662	2,785	2,876
Individual Provision			
Balance at start of period	1,269	1,307	1,238
New and increased provisions	948	1,121	1,308
Write-backs	(280)	(221)	(151)
Adjustment for exchange rate fluctuations	(2)	(12)	17
Discount unwind	(8)	(24)	(39)
Bad debts written off	(791)	(902)	(1,066)
Total Individual Provision	1,136	1,269	1,307
Total Provisions for Credit Impairment	3,798	4,054	4,183

Table 7(j): Specific Provision Balance and General Reserve for Credit Losses²⁰

	Sep 17		
	Specific Provision Balance \$M	General Reserve for Credit Losses \$M	Total \$M
Collective Provision	352	2,310	2,662
Individual Provision	1,136	-	1,136
Total Provision for Credit Impairment	1,488	2,310	3,798
	Mar 17		
	Specific Provision Balance \$M	General Reserve for Credit Losses \$M	Total \$M
Collective Provision	350	2,435	2,785
Individual Provision	1,269	-	1,269
Total Provision for Credit Impairment	1,619	2,435	4,054
	Sep 16		
	Specific Provision Balance \$M	General Reserve for Credit Losses \$M	Total \$M
Collective Provision	350	2,526	2,876
Individual Provision	1,307	-	1,307
Total Provision for Credit Impairment	1,657	2,526	4,183

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 bucket²¹

Risk weight	Sep 17 \$M	Mar 17 \$M	Sep 16 \$M
Standardised approach exposures			
0%	-	-	-
20%	308	219	459
35%	2,030	6,061	6,417
50%	2,336	1,927	2,067
75%	5	6	4
100%	14,000	18,118	21,834
150%	215	300	680
>150%	4	4	-
Capital deductions	-	-	-
Total	18,898	26,635	31,461
Other Asset exposures			
0%	-	-	-
20%	947	954	1,202
35%	-	-	-
50%	-	-	-
75%	-	-	-
100%	3,179	3,370	3,604
150%	-	-	-
>150%	-	-	-
Capital deductions	-	-	-
Total	4,126	4,324	4,806
Specialised Lending exposures			
0%	120	122	182
70%	13,935	13,211	13,052
90%	19,659	21,383	22,193
115%	3,207	3,367	4,139
250%	284	613	892
Total	37,205	38,696	40,458

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 Asia Pacific) where currently available data does not enable development of advanced internal models for PD, LGD and EAD estimates. Under the Standardised approach, exposures are mapped to several regulatory risk weights, mainly based on the type of counterparty and its external rating. 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.

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.

- LGD is an estimate of the potential economic loss on a credit exposure, incurred as a consequence of obligor default and expressed as a percentage of the facility's EAD. When measuring economic loss, all relevant factors are taken into account, including material effects of the timing of cash flows and material direct and indirect costs associated with collecting on the exposure, including realisation of collateral.

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

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

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

ANZ's corporate PD master scale is 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.
- Collective provision measurement.
- Management of deteriorating customers (where certain CCR/SI combinations trigger increasing scrutiny).
- Pricing decisions.

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

Controls surrounding the ratings system

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

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

Within ANZ's wholesale businesses, Group Credit Assurance provides 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 economic capital ensures that the rating system receives robust input from the business units, not just the specialist modelling teams.

Rating process by asset class

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

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

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

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

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

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

IRB Asset Class	Borrower type	Rating Approach
Corporate	Corporations, partnerships or proprietorships that do not fit into any other asset class	Mainly statistical models Some use of expert models and policy processes
Sovereign	Central governments Central banks Certain multilateral development banks 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

For the Retail Basel asset class (Residential Mortgages, Qualifying Revolving Retail and Other Retail Exposures) the large number of relatively homogenous exposures enable the development of statistically robust application scoring models for use at origination and behavioural scoring for ongoing management. As noted above, the scores are calibrated to PD, and used to allocate exposures to homogenous pools, along with LGD and EAD.

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 17							Total \$M
	AAA < A+ \$M	A+ < BBB \$M	BBB < BB+ \$M	BB+ < B+ \$M	B+ < CCC \$M	CCC \$M	Default \$M	
Exposure at Default								
Corporate	20,273	59,504	72,916	59,268	14,525	1,856	2,033	230,375
Sovereign	107,161	18,177	2,138	1,403	2,573	21	-	131,473
Bank	16,773	23,248	3,055	1,371	80	2	11	44,540
Total	144,207	100,929	78,109	62,042	17,178	1,879	2,044	406,388
% of Total	35.5%	24.8%	19.2%	15.3%	4.2%	0.5%	0.5%	100.0%
Undrawn commitments (included in above)								
Corporate	6,621	23,372	22,802	10,088	1,448	144	52	64,527
Sovereign	553	85	6	56	-	-	-	700
Bank	15	144	23	-	1	-	-	183
Total	7,189	23,601	22,831	10,144	1,449	144	52	65,410
Average Exposure at Default								
Corporate	8.590	8.114	1.578	0.649	0.126	0.185	0.660	0.836
Sovereign	143.456	757.354	37.513	8.451	29.924	3.468	-	121.062
Bank	15.416	5.846	6.990	9.523	1.102	0.073	5.195	7.747
Exposure-weighted average Loss Given Default (%)								
Corporate	55.8%	56.6%	45.7%	39.1%	34.2%	38.0%	46.5%	46.9%
Sovereign	5.6%	12.2%	38.9%	50.1%	50.8%	56.3%	-	8.4%
Bank	63.2%	63.1%	68.8%	68.8%	73.1%	69.5%	29.6%	63.7%
Exposure-weighted average risk weight (%)								
Corporate	18.1%	32.7%	50.9%	67.5%	85.7%	181.4%	118.1%	51.4%
Sovereign	1.2%	3.2%	43.3%	107.3%	124.5%	301.2%	-	5.8%
Bank	20.1%	26.1%	64.8%	109.3%	190.4%	390.2%	136.2%	29.4%

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.

	Mar 17							
	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	16,574	58,711	74,890	58,623	15,219	1,990	2,662	228,669
Sovereign	109,437	16,053	1,930	1,592	1,780	12	1	130,805
Bank	18,017	22,119	3,667	1,850	39	4	19	45,715
Total	144,028	96,883	80,487	62,065	17,038	2,006	2,682	405,189
% of Total	35.5%	23.9%	19.9%	15.3%	4.2%	0.5%	0.7%	100.0%
Undrawn commitments (included in above)								
Corporate	5,505	25,581	21,893	11,167	1,587	179	70	65,982
Sovereign	485	420	8	27	-	-	-	940
Bank	88	113	159	1	1	-	-	362
Total	6,078	26,114	22,060	11,195	1,588	179	70	67,284
Average Exposure at Default								
Corporate	4.853	3.494	1.446	0.598	0.175	0.264	0.853	0.854
Sovereign	143.242	573.322	31.643	7.369	49.434	6.101	0.204	117.525
Bank	14.402	2.753	5.943	6.468	0.472	0.169	2.356	4.437
Exposure-weighted average Loss Given Default (%)								
Corporate	55.6%	57.2%	46.7%	39.9%	34.7%	40.9%	40.2%	47.4%
Sovereign	5.7%	10.8%	40.4%	54.7%	47.3%	57.0%	71.0%	8.0%
Bank	63.4%	63.3%	66.0%	67.6%	69.5%	73.1%	34.0%	63.7%
Exposure-weighted average risk weight (%)								
Corporate	19.1%	34.3%	52.7%	70.1%	86.6%	200.2%	142.2%	55.8%
Sovereign	1.2%	3.0%	44.7%	119.4%	118.1%	356.2%	-	5.1%
Bank	20.7%	26.4%	68.5%	111.0%	203.3%	387.1%	146.5%	31.2%

	Sep 16							
	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	17,682	55,341	76,479	59,068	15,883	2,409	2,455	229,317
Sovereign	101,889	13,715	2,054	1,885	1,376	14	-	120,933
Bank	20,835	22,617	3,543	1,806	49	25	-	48,875
Total	140,406	91,673	82,076	62,759	17,308	2,448	2,455	399,125
% of Total	35.2%	23.0%	20.6%	15.7%	4.3%	0.6%	0.6%	100.0%
Undrawn commitments (included in above)								
Corporate	5,665	23,176	23,150	10,299	1,569	208	50	64,117
Sovereign	963	364	12	80	43	-	-	1,462
Bank	15	47	40	8	1	-	-	111
Total	6,643	23,587	23,202	10,387	1,613	208	50	65,690
Average Exposure at Default								
Corporate	6.131	3.423	1.441	0.610	0.182	0.352	0.758	0.862
Sovereign	139.767	489.832	38.030	11.633	28.073	1.804	-	117.837
Bank	21.726	4.858	7.158	11.078	0.595	0.878	-	7.657
Exposure-weighted average Loss Given Default (%)								
Corporate	55.0%	56.9%	47.9%	39.8%	35.2%	45.2%	40.7%	47.6%
Sovereign	6.1%	10.4%	39.6%	55.0%	48.2%	58.3%	-	8.3%
Bank	63.5%	61.8%	62.6%	67.5%	70.3%	52.3%	-	62.8%
Exposure-weighted average risk weight (%)								
Corporate	19.3%	35.6%	55.2%	70.6%	89.2%	212.6%	141.8%	56.6%
Sovereign	1.4%	2.9%	42.3%	122.0%	122.5%	323.9%	-	5.4%
Bank	21.3%	26.4%	64.6%	111.6%	187.5%	290.4%	-	30.5%

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

	Sep 17						Default \$M	Total \$M
	0.00% <0.11%	0.11% <0.30%	0.30% <0.51%	0.51% <3.49%	3.49% <10.09%	10.09% <100.0%		
	\$M	\$M	\$M	\$M	\$M	\$M		
Exposure at Default								
Residential Mortgage	68,361	96,848	59,982	126,225	8,394	4,381	2,478	366,669
Qualifying Revolving Retail	-	11,785	2,833	4,825	1,723	724	165	22,055
Other Retail	1,066	5,443	2,339	23,182	6,773	2,155	993	41,951
Total	69,427	114,076	65,154	154,232	16,890	7,260	3,636	430,675
% of Total	16.1%	26.5%	15.1%	35.9%	3.9%	1.7%	0.8%	100.0%
Undrawn commitments (included in above)								
Residential Mortgage	15,073	7,153	2,655	9,102	37	23	1	34,044
Qualifying Revolving Retail	-	9,239	2,097	2,194	671	82	36	14,319
Other Retail	814	3,466	1,543	3,134	566	86	6	9,615
Total	15,887	19,858	6,295	14,430	1,274	191	43	57,978
Average Exposure at Default								
Residential Mortgage	0.243	0.227	0.245	0.242	0.319	0.315	0.268	0.241
Qualifying Revolving Retail	-	0.011	0.009	0.010	0.009	0.008	0.009	0.010
Other Retail	0.008	0.015	0.011	0.025	0.011	0.010	0.026	0.017
Exposure-weighted average Loss Given Default (%)								
Residential Mortgage	19.8%	18.6%	19.2%	20.9%	20.4%	20.0%	20.1%	19.8%
Qualifying Revolving Retail	-	73.2%	73.2%	73.2%	73.2%	73.2%	73.2%	73.2%
Other Retail	57.2%	54.7%	74.4%	45.2%	64.0%	58.1%	50.1%	52.2%
Exposure-weighted average risk weight (%)								
Residential Mortgage	5.9%	11.8%	19.5%	40.2%	94.5%	128.3%	195.5%	26.3%
Qualifying Revolving Retail	-	5.2%	14.5%	39.8%	116.1%	210.4%	355.4%	32.0%
Other Retail	31.3%	36.8%	55.9%	59.5%	111.9%	175.4%	239.5%	74.1%

	Mar 17							Default \$M	Total \$M
	0.00% <0.11%	0.11% <0.30%	0.30% <0.51%	0.51% <3.49%	3.49% <10.09%	10.09% <100.0%			
	\$M	\$M	\$M	\$M	\$M	\$M			
Exposure at Default									
Residential Mortgage	70,265	157,673	36,265	71,041	10,805	6,388	2,252	354,689	
Qualifying Revolving Retail	11,810	-	2,666	4,753	2,008	861	175	22,273	
Other Retail	1,188	5,507	2,345	23,099	6,854	2,212	921	42,126	
Total	83,263	163,180	41,276	98,893	19,667	9,461	3,348	419,088	
% of Total	19.9%	38.9%	9.8%	23.6%	4.7%	2.3%	0.8%	100.0%	
Undrawn commitments (included in above)									
Residential Mortgage	6,940	17,932	1,035	7,097	193	186	1	33,384	
Qualifying Revolving Retail	9,195	-	1,965	2,193	794	100	34	14,281	
Other Retail	636	2,225	1,335	2,999	538	79	6	7,818	
Total	16,771	20,157	4,335	12,289	1,525	365	41	55,483	
Average Exposure at Default									
Residential Mortgage	0.246	0.226	0.217	0.251	0.279	0.282	0.247	0.236	
Qualifying Revolving Retail	0.011	-	0.009	0.010	0.009	0.008	0.009	0.010	
Other Retail	0.006	0.012	0.010	0.025	0.010	0.010	0.023	0.016	
Exposure-weighted average Loss Given Default (%)									
Residential Mortgage	19.8%	19.2%	19.0%	21.8%	20.3%	20.0%	20.1%	19.9%	
Qualifying Revolving Retail	73.2%	-	73.2%	73.2%	73.2%	73.2%	73.2%	73.2%	
Other Retail	57.7%	53.6%	74.2%	45.4%	63.7%	59.4%	50.9%	52.3%	
Exposure-weighted average risk weight (%)									
Residential Mortgage	9.6%	11.7%	19.6%	39.0%	111.7%	147.4%	223.1%	24.3%	
Qualifying Revolving Retail	5.0%	-	13.9%	39.0%	113.1%	207.7%	368.2%	33.7%	
Other Retail	29.9%	36.4%	55.9%	59.5%	110.6%	177.5%	226.8%	73.6%	
Sep 16									
	0.00% <0.11%	0.11% <0.30%	0.30% <0.51%	0.51% <3.49%	3.49% <10.09%	10.09% <100.0%	Default \$M	Total \$M	
	\$M	\$M	\$M	\$M	\$M	\$M			
Exposure at Default									
Residential Mortgage	71,052	153,769	31,086	74,795	9,619	5,816	2,257	348,394	
Qualifying Revolving Retail	-	11,715	2,805	5,149	1,755	799	172	22,395	
Other Retail	1,173	5,438	2,299	23,243	7,089	2,197	852	42,291	
Total	72,225	170,922	36,190	103,187	18,463	8,812	3,281	413,080	
% of Total	17.5%	41.4%	8.8%	25.0%	4.5%	2.1%	0.8%	100.0%	
Undrawn commitments (included in above)									
Residential Mortgage	6,744	17,844	1,023	7,549	159	179	-	33,498	
Qualifying Revolving Retail	-	9,144	2,069	2,418	605	93	31	14,360	
Other Retail	626	2,201	1,306	3,106	561	85	6	7,891	
Total	7,370	29,189	4,398	13,073	1,325	357	37	55,749	
Average Exposure at Default									
Residential Mortgage	0.242	0.224	0.209	0.253	0.270	0.278	0.249	0.234	
Qualifying Revolving Retail	-	0.011	0.009	0.010	0.009	0.008	0.009	0.010	
Other Retail	0.006	0.012	0.010	0.025	0.011	0.011	0.020	0.016	
Exposure-weighted average Loss Given Default (%)									
Residential Mortgage	19.8%	19.2%	18.8%	21.9%	20.4%	20.0%	20.3%	19.9%	
Qualifying Revolving Retail	-	73.2%	73.2%	73.2%	73.2%	73.2%	73.2%	73.2%	
Other Retail	59.1%	54.4%	74.2%	46.7%	64.1%	60.0%	53.1%	53.1%	
Exposure-weighted average risk weight (%)									
Residential Mortgage	9.8%	11.9%	18.2%	38.5%	112.9%	148.0%	223.8%	24.2%	
Qualifying Revolving Retail	-	5.2%	14.3%	39.8%	112.6%	209.5%	366.6%	32.8%	
Other Retail	31.5%	37.3%	55.3%	60.0%	111.1%	178.5%	228.6%	74.2%	

Table 9(e): Actual Losses by portfolio type

Basel Asset Class	Half year Sep 17	
	Individual provision charge \$M	Write-offs \$M
Corporate	75	178
Sovereign	-	-
Bank	5	8
Residential Mortgage	42	20
Qualifying Revolving Retail	118	137
Other Retail	245	275
Total Advanced IRB	485	618
Specialised Lending	(4)	2
Standardised approach	73	171
Total	554	791

Basel Asset Class	Half year Mar 17	
	Individual provision charge \$M	Write-offs \$M
Corporate	289	314
Sovereign	(1)	4
Bank	3	-
Residential Mortgage	35	22
Qualifying Revolving Retail	104	141
Other Retail	239	270
Total Advanced IRB	669	751
Specialised Lending	(3)	4
Standardised approach	121	147
Total	787	902

Basel Asset Class	Half year Sep 16	
	Individual provision charge \$M	Write-offs \$M
Corporate	466	468
Sovereign	2	2
Bank	-	-
Residential Mortgage	33	17
Qualifying Revolving Retail	104	141
Other Retail	251	275
Total Advanced IRB	856	903
Specialised Lending	(1)	8
Standardised approach	192	155
Total	1,047	1,066

Factors impacting the loss experience

The individual credit impairment charge decreased \$233 million over the half driven primarily by AIRB Corporate asset class due to lower new individual provisions and higher writeback and recoveries.

Write-offs decreased \$111 million over the half driven by AIRB Corporate asset class reflecting the decrease in the number of large single names exposures being written-off.

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

Portfolio Type	Average Estimated PD %	Average Actual PD %	Sep 17	Average Estimated LGD %	Average Actual LGD %
			Average estimated to actual EAD ratio		
Corporate	1.64	1.15	1.13	41.21	32.10
Sovereign	0.39	nil	n/a	n/a	n/a
Bank	0.67	0.11	0.82	46.00	58.30
Specialised Lending	n/a	1.78	1.09	n/a	23.90
Residential Mortgage ²⁹	0.70	0.77	1.01	20.8	2.5
Qualifying Revolving Retail	2.54	1.91	1.05	73.2	72.6
Other Retail	3.89	3.58	1.05	51.6	41.8

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.

The estimated PD is based on the average of the internally estimated long-run PD's for obligors that are not in default at the beginning of each financial year over the period of observation being 2009 to 2017. The actual PD is based on the number of defaulted obligors up to August 2017 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 8 years of observation being 2009 to August 2017. 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 2015. 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 2015. Defaults occurring after September 2015 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.

For retail portfolios, the estimated and actual LGDs are based on accounts that defaulted in 2011 to 2015 financial years. For the retail portfolios, defaults with non-finalised workout have been excluded from the analysis.

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

²⁹ A revised capital model was introduced in June 2017, which will impact Average Estimated PD rates for the Australian Residential Mortgages portfolio. The current Average Estimated PD rate is based on the previous capital models, with the impacts of the revised model to gradually roll through in future periods.

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.³⁰ 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.
- Guarantees and pledges.

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.

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, the information is used to recalculate the SI (or to reassess the adequacy of the provision, in the case of an impaired asset), thereby ensuring that the exposure has an updated LGD attached to it for risk quantification purposes.

Guarantee support

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

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

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

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.

³⁰ 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.

A CDS entails the payment by one party in exchange for credit default protection payment if a credit default event on a reference asset occurs. Standard, legally enforceable documentation applies. For regulatory capital purposes, ANZ only recognises protection using credit derivatives where they meet several policy and regulatory requirements around the strength of the protection offered such as being irrevocable.

A CDS may only be transacted with banks and non-bank financial institutions that have been credit assessed and approved by a designated specialist credit officer. All parties must meet minimum credit standards and be allocated a related credit limit. In the event that the creditworthiness of a credit protection provider falls below the minimum required to provide effective protection, the protection is no longer recognised as an effective risk mitigant for regulatory purposes.

The use of netting

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

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

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

Transaction structuring to mitigate credit risk

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

Concentrations of credit risk mitigation

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

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

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

Sep 17				
	Exposure at Default \$M	Eligible Financial Collateral \$M	Other Eligible Collateral \$M	% Coverage
Standardised approach				
Corporate	14,455	5,023	2,499	52.0%
Residential Mortgage	2,448	-	-	0.0%
Other Retail	1,988	131	-	6.6%
Total	18,891	5,154	2,499	40.5%
Mar 17				
	Exposure at Default \$M	Eligible Financial Collateral \$M	Other Eligible Collateral \$M	% Coverage
Standardised approach				
Corporate	16,866	4,403	2,787	42.6%
Residential Mortgage	6,476	1	-	0.0%
Other Retail	3,288	95	-	2.9%
Total	26,630	4,499	2,787	27.4%
Sep 16				
	Exposure at Default \$M	Eligible Financial Collateral \$M	Other Eligible Collateral \$M	% Coverage
Standardised approach				
Corporate	21,254	4,382	2,544	32.6%
Residential Mortgage	6,851	1	-	0.0%
Other Retail	3,279	63	-	1.9%
Total	31,384	4,446	2,544	22.3%

³¹ Eligible Collateral could include cash collateral (cash, certificates deposits and bank bills issued by the lending ADI), gold bullion and highly rated debt securities.

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

	Sep 17			
	Exposure at Default \$M	Exposures covered by Guarantees \$M	Exposures covered by Credit Derivatives \$M	% Coverage
Advanced IRB				
Corporate (incl. Specialised Lending)	267,580	6,824	887	2.9%
Sovereign	131,473	4,479	-	3.4%
Bank	44,540	15	-	0.0%
Residential Mortgage	366,669	-	-	0.0%
Qualifying Revolving Retail	22,055	-	-	0.0%
Other Retail	41,951	-	-	0.0%
Total	874,268	11,318	887	1.4%
Standardised approach				
Corporate	14,455	168	-	1.2%
Residential Mortgage	2,448	-	-	0.0%
Other Retail	1,988	-	-	0.0%
Total	18,891	168	-	0.9%
Qualifying Central Counterparties	9,919	-	-	0.0%

	Mar 17			
	Exposure at Default \$M	Exposures covered by Guarantees \$M	Exposures covered by Credit Derivatives \$M	% Coverage
Advanced IRB				
Corporate (incl. Specialised Lending)	267,365	5,313	828	2.3%
Sovereign	130,805	4,286	-	3.3%
Bank	45,715	11	-	0.0%
Residential Mortgage	354,689	-	-	0.0%
Qualifying Revolving Retail	22,273	-	-	0.0%
Other Retail	42,126	-	-	0.0%
Total	862,973	9,610	828	1.2%
Standardised approach				
Corporate	16,866	245	-	1.5%
Residential Mortgage	6,476	-	-	0.0%
Other Retail	3,288	-	-	0.0%
Total	26,630	245	-	0.9%
Qualifying Central Counterparties	9,756	-	-	0.0%

	Sep 16			
	Exposure at Default \$M	Exposures covered by Guarantees \$M	Exposures covered by Credit Derivatives \$M	% Coverage
Advanced IRB				
Corporate (incl. Specialised Lending)	269,775	4,974	589	2.1%
Sovereign	120,933	4,579	-	3.8%
Bank	48,875	10	-	0.0%
Residential Mortgage	348,394	-	-	0.0%
Qualifying Revolving Retail	22,395	-	-	0.0%
Other Retail	42,291	-	-	0.0%
Total	852,663	9,563	589	1.2%
Standardised approach				
Corporate	21,254	349	26	1.8%
Residential Mortgage	6,851	-	-	0.0%
Other Retail	3,279	-	-	0.0%
Total	31,384	349	26	1.2%
Qualifying Central Counterparties	10,448	-	-	0.0%

Table 11 General disclosures for derivatives and counterparty credit risk

Definition of Counterparty Credit Risk

Counterparty credit risk in derivative transactions arises from the risk of counterparty default before settlement date of 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.

PFE and PCRE models are also used by credit officers to establish credit limits on an uncommitted and unadvised basis, to ensure the potential volatility of the transaction value is recognised. Counterparty credit risk exposure is calculated six times per 24 hour day. Excesses above approved limits are reported daily to account controllers and Credit Officers for action.

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 to hold additional risk based capital to cover the risk of mark to market losses associated with deterioration in counterparty credit worthiness when entering into derivatives transactions. The effect is that banks are required to increase the amount of capital provisioned for deterioration in the counterparty credit worthiness when entering into a derivatives trade.

Wrong way risk

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

Counterparty credit risk mitigation and credit enhancements

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

- A bilateral netting master agreement (e.g. an International Swaps and Derivatives Association – (ISDA) allowing close-out netting of exposures in a portfolio with offsetting contracts, with a single net payment with the same legal counterparty.
- Use of collateral agreements in some transactions based on standard market documentation (i.e. ISDA master agreement with credit support annex) that governs the amount of collateral required to be posted or received by ANZ throughout the life of the contract. Some agreements are linked to external credit ratings which means in the event of a party's (ANZ or a counterparty) external rating being downgraded, it would likely be required to lodge collateral. The operation of collateral agreements falls under policy which establishes the control framework to ensure a robust and globally consistent approach to the management of collateralised exposures.
- Use of right to break clauses in master agreement or in trade confirmation to reduce term of long dated derivative trades.
- Independent limit setting, credit exposure control, monitoring and reporting of excesses against approved credit limits.
- Additional termination triggers (close out of exposure) such as credit rating downgrade clauses and change in ownership clauses included in documentation.
- Linking covenants and events of default in existing loan facility agreement to master agreement.
- Use of credit derivatives to hedge counterparty credit risk exposure.
- Settlement through Continuous Linked Settlement (CLS) to eliminate settlement risk for foreign exchange transactions with CLS members.
- Clearing certain derivative transactions through central counterparties (CCPs).
- Exchange of variation and initial margin for derivative transactions not cleared through CCP's mandated by regulators subject to certain criteria.

In the event of a downgrading of ANZ's rating by one notch from AA- to A+, as at 30 September 2017, ANZ would not be required to lodge additional collateral with its counterparties.

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

Net derivative credit exposure	Sep 17 \$M	Mar 17 \$M	Sep 16 \$M
Gross positive fair value of contracts	62,518	63,882	87,496
Netting benefits	(49,227)	(50,335)	(71,394)
Netted current credit exposure	13,291	13,547	16,102
Collateral held	(5,093)	(3,861)	(5,259)
Net derivatives credit exposure	8,198	9,686	10,843

Counterparty credit risk exposure – by portfolio type

Portfolio Type	Sep 17 \$M	Mar 17 \$M	Sep 16 \$M
Corporate	13,573	14,671	15,214
Sovereign	1,359	1,801	1,801
Bank	13,569	13,540	13,537
Qualifying Central Counterparties	9,916	9,756	10,120
Specialised Lending	505	625	969
Total exposures	38,922	40,393	41,641

Notional Value of Credit Derivative Hedges

Product Type	Sep 17 \$M	Mar 17 \$M	Sep 16 \$M
Credit Default Swaps	731	729	737
Interest Rate Swaps	-	-	-
Currency Swaps	-	-	-
Other	-	-	-
Total exposures	731	729	737

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

	Sep 17		
	Protection Bought \$M	Protection Sold \$M	Total \$M
Credit derivative products used for own credit portfolio			
Credit default swaps	6,138	5,672	11,810
Total notional value	6,138	5,672	11,810
Credit derivative products used for intermediation			
Credit default swaps	731	731	1,462
Total return swaps	-	-	-
Total notional value	731	731	1,462
Total credit derivative notional value	6,869	6,403	13,272
	Mar 17		
	Protection Bought \$M	Protection Sold \$M	Total \$M
Credit derivative products used for own credit portfolio			
Credit default swaps	7,764	7,384	15,148
Total notional value	7,764	7,384	15,148
Credit derivative products used for intermediation			
Credit default swaps	729	729	1,458
Total return swaps	-	-	-
Total notional value	729	729	1,458
Total credit derivative notional value	8,493	8,113	16,606
	Sep 16		
	Protection Bought \$M	Protection Sold \$M	Total \$M
Credit derivative products used for own credit portfolio			
Credit default swaps	8,397	7,796	16,193
Total notional value	8,397	7,796	16,193
Credit derivative products used for intermediation			
Credit default swaps	737	737	1,474
Total return swaps	-	-	-
Total notional value	737	737	1,474
Total credit derivative notional value	9,134	8,533	17,667

Chapter 7 – Securitisation

Table 12 Securitisation disclosures

Definition of securitisation and resecuritisation

A securitisation is a financial structure where the cash flow from a pool of assets is used to service obligations to at least two different tranches or classes of creditors, 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.³²

A resecuritisation exposure is a securitisation exposure in which the risk associated with an underlying pool of exposures is tranching and at least one of the underlying exposures is a securitisation exposure.

Securitisations may be categorised as:

- Traditional securitisations, where legal ownership of the underlying asset pool is transferred to investors, with principal and interest paid from realisation of or regular cash flows from the assets. The Special Purpose Vehicle (SPV) assets are insulated from bankruptcy of the seller or servicer.
- Synthetic securitisations, where credit risk is transferred to a third party but legal ownership of the underlying assets remain with the originator e.g. by using credit derivatives or guarantees.
- Covered bond transactions, whereby bonds issued by ANZ are secured by assets held in a special purpose vehicle, are not securitisation exposures.

Securitisation Activities

ANZ's key securitisation activities are:

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

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 of securitisation activities

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

³² APRA's definition of securitisation includes certain cases where only one tranche or class of creditors is serviced by the cash flow from the pool of assets.

Risk Management

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

- Appropriate risk management systems to identify, measure, monitor and manage the risks arising from its involvement in securitisation exposures;
- Impact of ANZ's involvement in securitisation exposures on its risk profile; and
- How ANZ ensures that it does not provide any implicit support to its securitisation exposures.

Funding for 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 Risk and business approval. 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, the relevant business area manages these exposures until the securitisation exposures are repaid in full or traded.

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 due diligence is completed with input from the Risk function and includes analysing the 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, including the risk grade.

Risk reporting of securitisation exposures

In addition to the formal credit review process for ANZ's securitisation exposures, the type and frequency of internal reporting to the appropriate Risk and management functions is as follows:

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

The use and treatment of Credit Risk Mitigation (CRM) techniques with respect to securitisation exposures is assessed on a case-by-case basis in a manner consistent with the bank-wide CRM methodology³³.

Regulatory capital approaches

For securitisation exposures held in ANZ's banking book³⁴, ANZ applies an IRB approach (as outlined in APS 120: Securitisation) to determine the regulatory capital charge.

Chapter 8 outlines regulatory capital treatment for securitisation exposures held in ANZ's trading book. The operational requirements for the recognition of external credit assessments outlined in Attachment B to APS120 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.

In accordance with APS 120: Securitisation, ANZ has a hierarchy of approaches available to quantify the credit risk of banking book securitisation exposures. The most common approaches used are the Ratings Based Approach (specifically utilising the external ratings of External Credit Assessment Institutions (ECAIs)) and the Internal Assessment Approach (IAA). Other approaches that may be used are Supervisory Formula Approach (SFA) and Eligible Facility Approach.

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

IAA is applied to securitisation exposures that are not externally rated where the underlying assets are residential mortgages, equipment finance, auto loans or trade receivables. When utilising the IAA, ANZ uses a rating agency-type methodology which specifies certain stress factors, takes into account historical performance of assets and other (asset-specific) considerations such as underwriting standards.

IAA methodology is applied and maintained in accordance with APRA's requirements and it forms part of ANZ's overall securitisation risk-grading framework. In addition to adopting IAA for regulatory and economic capital requirements, IAA may be used for internal management purposes.

From 1 January 2018, there will be a change to the applicable rating approaches as a result of APRA's revised APS 120: Securitisation, scheduled to come into effect on this date.

Accounting policies

The principal accounting policies governing ANZ's securitisation activities are outlined in ANZ's 2017 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 in each relevant note. ANZ applies these group accounting policies to its securitisation activities, as appropriate and these policies have not changed since the prior year. Note 26 – Structured Entities and Note 27 – Transfers of Financial Assets also provides details about the nature of ANZ's securitisation activities and certain accounting policies and key judgements and estimates as they specifically apply to these activities.

Financial instruments held or issued by structured entities are recognised and valued using the principles of AASB 139 Financial Instruments: Recognition and Measurement. For synthetic securitisations, any transferred credit exposure is recognised through the fair value measurement of the segregated embedded or stand-alone credit derivative established within the structure.

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 2017 Annual Report.

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

	Sep 17		
Traditional securitisations			
Underlying asset	ANZ Originated \$M	ANZ Self Securitised \$M	ANZ Sponsored \$M
Residential mortgage	1,528	71,011	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
Commercial loans	-	-	-
Other	-	-	-
Total	1,528	71,011	-
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	1,528	71,011	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
Commercial loans	-	-	-
Other	-	-	-
Total	1,528	71,011	-

Mar 17			
Traditional securitisations			
Underlying asset	ANZ Originated \$M	ANZ Self Securitised \$M	ANZ Sponsored \$M
Residential mortgage	1,750	81,224	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
Commercial loans	-	-	-
Other	-	-	-
Total	1,750	81,224	-
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	1,750	81,224	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
Commercial loans	-	-	-
Other	-	-	-
Total	1,750	81,224	-
Sep 16			
Traditional securitisations			
Underlying asset	ANZ Originated \$M	ANZ Self Securitised \$M	ANZ Sponsored \$M
Residential mortgage	-	80,478	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
Commercial loans	-	-	-
Other	-	-	-
Total	-	80,478	-
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	-	80,478	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
Commercial loans	-	-	-
Other	-	-	-
Total	-	80,478	-

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

Underlying asset	Sep 17				Losses recognised for the six month ended \$M
	ANZ Originated \$M	ANZ Self Securitised \$M	Impaired \$M	Past due \$M	
Residential mortgage	1,528	71,011	-	67	-
Credit cards and other personal loans	-	-	-	-	-
Auto and equipment finance	-	-	-	-	-
Commercial loans	-	-	-	-	-
Other	-	-	-	-	-
Total	1,528	71,011	-	67	-

Underlying asset	Mar 17				Losses recognised for the six month ended \$M
	ANZ Originated \$M	ANZ Self Securitised \$M	Impaired \$M	Past due \$M	
Residential mortgage	1,750	81,224	-	57	-
Credit cards and other personal loans	-	-	-	-	-
Auto and equipment finance	-	-	-	-	-
Commercial loans	-	-	-	-	-
Other	-	-	-	-	-
Total	1,750	81,224	-	57	-

Underlying asset	Sep 16				Losses recognised for the six month ended \$M
	ANZ Originated \$M	ANZ Self Securitised \$M	Impaired \$M	Past due \$M	
Residential mortgage	-	80,478	-	44	-
Credit cards and other personal loans	-	-	-	-	-
Auto and equipment finance	-	-	-	-	-
Commercial loans	-	-	-	-	-
Other	-	-	-	-	-
Total	-	80,478	-	44	-

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 facility³⁵

	Sep 17 Original value securitised			Recognised gain or loss on sale \$M
	ANZ Originated \$M	ANZ Self Securitised \$M	ANZ Sponsored \$M	
Securitisation activity by underlying asset type				
Residential mortgage	(222)	(10,213)	-	-
Credit cards and other personal loans	-	-	-	-
Auto and equipment finance	-	-	-	-
Commercial loans	-	-	-	-
Other	-	-	-	-
Total	(222)	(10,213)	-	-
				Notional amount \$M
Securitisation activity by facility provided				
Liquidity facilities				-
Funding facilities				815
Underwriting facilities				-
Lending facilities				-
Credit enhancements				-
Holdings of securities (excluding trading book)				(635)
Other				4
Total				184
	Mar 17 Original value securitised			Recognised gain or loss on sale \$M
	ANZ Originated \$M	ANZ Self Securitised \$M	ANZ Sponsored \$M	
Securitisation activity by underlying asset type				
Residential mortgage	1,750	746	-	-
Credit cards and other personal loans	-	-	-	-
Auto and equipment finance	-	-	-	-
Commercial loans	-	-	-	-
Other	-	-	-	-
Total	1,750	746	-	-
				Notional amount \$M
Securitisation activity by facility provided				
Liquidity facilities				18
Funding facilities				220
Underwriting facilities				-
Lending facilities				-
Credit enhancements				-
Holdings of securities (excluding trading book)				(772)
Other				80
Total				(454)

³⁵ Activity represents net movement in outstandings.

Securitisation activity by underlying asset type	Sep 16 Original value securitised			Recognised gain or loss on sale \$M
	ANZ Originated \$M	ANZ Self Securitised \$M	ANZ Sponsored \$M	
Residential mortgage	-	672	-	-
Credit cards and other personal loans	-	-	-	-
Auto and equipment finance	-	-	-	-
Commercial loans	-	-	-	-
Other	-	-	-	-
Total	-	672	-	-
Securitisation activity by facility provided				Notional amount \$M
Liquidity facilities				-
Funding facilities				317
Underwriting facilities				-
Lending facilities				-
Credit enhancements				-
Holdings of securities (excluding trading book)				(934)
Other				11
Total				(606)

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

Securitisation exposure type - On balance sheet	Sep 17 \$M	Mar 17 \$M	Sep 16 \$M
Liquidity facilities	21	23	5
Funding facilities	7,004	7,023	6,791
Underwriting facilities	-	-	-
Lending facilities	-	-	-
Credit enhancements	-	-	-
Holdings of securities (excluding trading book)	2,569	3,204	3,975
Protection provided	-	-	-
Other	151	182	152
Total	9,745	10,432	10,923

Securitisation exposure type - Off balance sheet	Sep 17 \$M	Mar 17 \$M	Sep 16 \$M
Liquidity facilities	51	57	61
Funding facilities	-	-	-
Underwriting facilities	-	-	-
Lending facilities	-	-	-
Credit enhancements	-	-	-
Holdings of securities (excluding trading book)	-	-	-
Protection provided	-	-	-
Other	-	-	-
Total	51	57	61

Total Securitisation exposure type	Sep 17 \$M	Mar-17 \$M	Sep 16 \$M
Liquidity facilities	72	80	66
Funding facilities	7,004	7,023	6,791
Underwriting facilities	-	-	-
Lending facilities	-	-	-
Credit enhancements	-	-	-
Holdings of securities (excluding trading book)	2,569	3,204	3,975
Protection provided	-	-	-
Other	151	182	152
Total	9,796	10,489	10,984

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

Securitisation risk weights	Sep 17		Mar 17		Sep 16	
	Regulatory credit exposure \$M	Risk weighted assets \$M	Regulatory credit exposure \$M	Risk weighted assets \$M	Regulatory credit exposure \$M	Risk weighted assets \$M
≤ 25%	9,709	1,012	10,395	1,093	10,873	1,113
>25 ≤ 35%	-	-	-	-	-	-
>35 ≤ 50%	-	-	-	-	-	-
>50 ≤ 75%	36	20	37	21	50	29
>75 ≤ 100%	51	51	57	57	61	61
>100 ≤ 650%	-	-	-	-	-	-
1250% (Deduction)	-	-	-	-	-	-
Total	9,796	1,083	10,489	1,171	10,984	1,203

Resecuritisation risk weights	Sep 17		Mar 17		Sep 16	
	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	-	-	-	-	-	-

Total Securitisation risk weights	Sep 17		Mar 17		Sep 16	
	Regulatory credit exposure \$M	Risk weighted assets \$M	Regulatory credit exposure \$M	Risk weighted assets \$M	Regulatory credit exposure \$M	Risk weighted assets \$M
≤ 25%	9,709	1,012	10,395	1,093	10,873	1,113
>25 ≤ 35%	-	-	-	-	-	-
>35 ≤ 50%	-	-	-	-	-	-
>50 ≤ 75%	36	20	37	21	50	29
>75 ≤ 100%	51	51	57	57	61	61
>100 ≤ 650%	-	-	-	-	-	-
1250% (Deduction)	-	-	-	-	-	-
Total	9,796	1,083	10,489	1,171	10,984	1,203

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

Securitisation exposure type - On balance sheet	Sep 17 \$M	Mar 17 \$M	Sep 16 \$M
Liquidity facilities	-	-	-
Funding facilities	-	-	-
Underwriting facilities	-	-	-
Lending facilities	-	-	-
Credit enhancements	-	-	-
Holdings of securities	23	8	19
Protection provided	-	-	-
Other	-	-	-
Total	23	8	19

Securitisation exposure type - Off balance sheet	Sep 17 \$M	Mar 17 \$M	Sep 16 \$M
Liquidity facilities	-	-	-
Funding facilities	-	-	-
Underwriting facilities	-	-	-
Lending facilities	-	-	-
Credit enhancements	-	-	-
Holdings of securities	-	-	-
Protection provided	-	-	-
Other	-	-	-
Total	-	-	-

Total Securitisation exposure type	Sep 17 \$M	Mar 17 \$M	Sep 16 \$M
Liquidity facilities	-	-	-
Funding facilities	-	-	-
Underwriting facilities	-	-	-
Lending facilities	-	-	-
Credit enhancements	-	-	-
Holdings of securities	23	8	19
Protection provided	-	-	-
Other	-	-	-
Total	23	8	19

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 8 – Market risk

Table 13 Market risk – Standard approach

ANZ uses the standard model approach to measure market risk capital for specific risk³⁶ (APRA does not currently permit Australian banks to use an internal model approach for this).

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

	Sep 17 \$M	Mar 17 \$M	Sep 16 \$M
Interest rate risk	90	75	79
Equity position risk	-	-	1
Foreign exchange risk	-	-	-
Commodity risk	-	-	1
Total	90	75	81
Risk Weighted Assets equivalent	1,125	938	1,013

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 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 11 and is excluded from this Chapter.

Regulatory approval to use the Internal Models Approach

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

Governance of market risk

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

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

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

Traded Market Risk

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

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

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

Non-Traded Market Risk

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

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

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

ANZ has a detailed market risk management and control framework, to support its trading and 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.

Measurement of Traded Market Risk

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

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

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 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(e): Value at Risk (VaR) and stressed VaR over the reporting period³⁸

	Six months ended 30 Sep 17			
	Mean \$M	Maximum \$M	Minimum \$M	Period end \$M
99% 1 Day Value at Risk (VaR)				
Foreign Exchange	5.3	10.5	2.5	4.2
Interest Rate	11.7	17.0	8.4	12.8
Credit	3.8	5.4	2.6	4.4
Commodity	1.9	3.0	1.4	2.2
Equity	0.1	0.2	-	-

	Six months ended 31 Mar 17			
	Mean \$M	Maximum \$M	Minimum \$M	Period end \$M
99% 1 Day Value at Risk (VaR)				
Foreign Exchange	4.8	9.2	2.6	7.9
Interest Rate	13.0	19.7	5.3	8.6
Credit	3.1	4.2	2.0	3.9
Commodity	2.2	3.9	1.5	3.1
Equity	0.3	0.5	0.2	0.2

	Six months ended 30 Sep 16			
	Mean \$M	Maximum \$M	Minimum \$M	Period end \$M
99% 1 Day Value at Risk (VaR)				
Foreign Exchange	4.8	8.6	2.2	4.0
Interest Rate	7.0	15.2	4.1	4.7
Credit	3.4	4.4	2.2	3.3
Commodity	1.8	2.8	1.4	2.5
Equity	0.1	0.6	0.1	0.5

	Six months ended 30 Sep 17			
	Mean \$M	Maximum \$M	Minimum \$M	Period end \$M
99% 10 Day Stressed VaR				
Foreign Exchange	40.9	81.1	18.4	37.2
Interest Rate	82.1	184.0	41.2	63.1
Credit	31.8	38.0	26.2	34.8
Commodity	7.0	14.9	4.2	8.5
Equity	1.8	2.1	-	0.3

	Six months ended 31 Mar 17			
	Mean \$M	Maximum \$M	Minimum \$M	Period end \$M
99% 10 Day Stressed VaR				
Foreign Exchange	27.8	71.2	7.8	53.8
Interest Rate	87.6	121.7	36.6	112.5
Credit	26.1	35.7	16.5	32.8
Commodity	8.2	13.1	3.8	7.7
Equity	2.5	3.5	1.9	2.0

	Six months ended 30 Sep 16			
	Mean \$M	Maximum \$M	Minimum \$M	Period end \$M
99% 10 Day Stressed VaR				
Foreign Exchange	31.7	53.0	13.0	27.1
Interest Rate	42.8	95.2	17.7	39.4
Credit	19.6	30.2	12.5	16.7
Commodity	8.4	16.4	5.5	8.6
Equity	1.8	3.9	0.9	3.5

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

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 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 2017, ANZ's investment in ANZ Bank New Zealand Limited is the main source of the structural foreign exchange exposure.

Chapter 9 – Operational risk

Table 15 Operational risk

Definition of operational risk

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

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.

Operational risk governance and structure

The ANZ Board has delegated its powers to the Risk Committee to approve the ANZ Operational Risk Measurement and Management Framework which is in accordance with APS 115.

The Operational Risk Executive Committee (OREC) is the primary senior executive management forum responsible for oversight of ANZ's Risk Profile. 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 ANZBGL and its controlled entities.

OREC's role is to monitor the state of operational risk measurement and management and compliance management on an enterprise basis and instigate any necessary corrective actions.

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

Three lines of Defence

ANZ operates a 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 Operational Risk Measurement and Management Framework (ORMMF) and Compliance Framework continue to meet organisational needs and regulatory requirements.

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

- take primary accountability for the identification, measurement and management of key risks and the related control environment;
- undertake day-to-day management of risks;
- promote a strong risk culture; manage risk exposure and make sustainable business decisions;
- ensure operational risk information is up to date and reflective of the bank's true operational risk position.

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;
- undertaking independent oversight of the application of the ORMMF;
- coordinating, overseeing and reporting on material operational risks and change initiatives;
- contributing to the identification of systemic issues and risk collation across the Division.

Group Operational Risk is accountable for:

- developing and maintaining relevant policies and procedures to ensure continuing appropriateness of the Operational Risk Measurement and Management Framework (ORMMF) and to support its consistent execution;
- setting and monitoring compliance with the Group Operational Risk, Risk Appetite Statements (RAS);
- undertaking independent review and challenge of business activities and ensuring that the strategy is maintained across the enterprise;
- leading the scenario analysis and operational risk capital calculation process;
- being a central point of contact for regulators in regards to operational risk;
- ensuring a strong risk management culture across the enterprise.

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;
- undertaking independent review of the adequacy of the ORMMF.

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 Principles

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

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

ANZ's operational risk framework is delivered through:

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

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

Operational risk management

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

Risk and controls are managed as part of business as usual right across the organisation. Risk management, supported by a strong Risk Culture, ensures all staff are thinking about and managing risk on a daily basis – “Risk is Everyone’s Responsibility”. However, Senior Management needs visibility of 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.

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

- primary accountability for the understanding of key risks and the related control environment;
- analysis of identified risks, including assessment of inherent and residual risks. This requires analysis of the potential consequences of failing to deal with the risks, the likelihood of the risks being realised and the effectiveness of the key controls in place to prevent or mitigate the risk;
- evaluation of the risk to determine whether it is within Board approved risk appetite tolerances;
- identification and implementation of risk treatment options to improve the environment of key risks that are outside appetite;
- ensuring operational risk information is up to date and reflective of the true operational risk position;
- monitoring and reviewing of treatment plans, operational risks and controls, including testing of key controls and reporting on the current operational risk profile;
- promoting a strong risk culture of managing risk exposure and making sustainable risk decisions.

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 operational risk management framework includes Compliance and Operational Risk (COR) platform, a global, web-based Risk, Compliance and IT Governance tool that provides ANZ an enterprise solution for operational risk management. It is the source of truth and provides greater transparency and integrity of Risk, Controls, Obligations and Events information across ANZ.

ANZ’s advanced measurement approach

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

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 60 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.

Operational risk modelling is performed by a specialist central function. The data inputs are combined using loss distribution approach and calculated using Monte Carlo simulations.

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. Economic Capital is based on 99.97% confidence interval.

Compliance

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

Definition of compliance

Compliance Risk is defined as the probability and impact of an event that results in a failure to act in accordance with laws, regulations, industry standards and codes, internal policies and procedures and principles of good governance as applicable to ANZ's businesses.

Compliance Governance and structure

Board Risk Committee and OREC.

ANZ's Compliance Function is accountable for designing a program that enables ANZ to meet its regulatory obligations and satisfy itself that appropriate standards of good governance are met. It has also been tasked to provide assurance to the Board that material compliance risks are identified, assessed and appropriately managed by the business.

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 be able to identify their Regulatory Obligations and their impacted business activities, and maintain and monitor key controls. The Compliance Framework requires ANZ across the three lines of defence to maintain appropriate governance and oversight of compliance controls and maintain a robust compliance culture.

Group Compliance is accountable for designing a compliance program that allows ANZ to meet its regulatory obligations. It also provides assurance to the Board that material risks are identified, assessed and managed by the business.

Divisional Compliance is accountable for:

- Providing advice and assisting the Business in developing compliance-related controls;
- Developing, delivering, and overseeing training on compliance;
- Identifying and analysing regulatory change and assisting the Business to respond effectively;

- Surveillance and monitoring of conduct;
- Establishing and implementing the strategy for engagement of our key regulators; and
- Advising on compliance incidents and assisting in their remediation;
- Developing, delivering, and overseeing the testing of key compliance controls;
- Assisting Country Management in complying with local compliance requirements.

ANZ's Compliance Framework is aligned to key industry and global standards and benchmarks. It utilises the concept of a 'risk-based' approach to manage compliance. This allows the Compliance function to support divisions and businesses by taking a standardised approach to compliance management tasks. This enables ANZ to be consistent in proactively identifying, assessing, managing, reporting and escalating compliance-related risk exposures, while respecting the specific obligations of each jurisdiction in which we operate.

Key features of ANZ's Compliance Framework

- 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.
- A requirement that businesses develop risk-based plans, integrating obligation, risk assessment, incident management and control assessment data.
- A requirement that businesses regularly consider options and strategies to monitor and provide compliance assurance by focusing on key controls. This means that controls managing key risks are subject to more stringent monitoring and testing.
- 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.
- Robust reporting and certification processes, facilitating the provision of insightful reporting on the "health" of compliance.
- Collaboration with Internal Audit to reinforce prime accountabilities and assess operational effectiveness of the Compliance Framework.

ANZ's compliance principles

The following Principles, approved by ANZ's Board set out ANZ's commitment to compliance:

- Doing the right thing the right way - ANZ will operate to high ethical standards by promoting a culture where our people understand the importance of doing the right thing the right way and will reinforce this through its values, Code of Conduct and training programs.
- Group-wide approach for compliance - ANZ will adopt an enterprise-wide approach for managing compliance and ensure consistent standards are embedded in how we do business, how we conduct ourselves and the design and operation of our processes, systems and products.
- Clearly defined authority and accountability - ANZ will clearly define authority and accountability for compliance management and associated decision-making across its business operations and will commit adequate resources to enable its businesses to operate in a compliant manner.
- Independent compliance function - ANZ will have an independent compliance function responsible for governance, management, oversight and reporting of compliance with ANZ's key compliance obligations.
- No tolerance for deliberate non-compliance - Managing ANZ's business to our global compliance standards and the laws of the countries in which we operate is non-negotiable. ANZ will not tolerate deliberate or negligent non-compliance. Consequences could result in severe disciplinary action such as dismissal.
- Adequate risk and control environment and prompt response to deficiencies - ANZ will ensure implementation of a generally acceptable risk and control environment for managing compliance which is within our risk appetite settings. When compliance incidents are identified, ANZ will act promptly to implement meaningful corrective action.

ANZ's Compliance Framework is aligned to key industry and global standards and benchmarks. It utilises the concept of a 'risk-based' approach to manage compliance.

- Allows the Compliance Function to support divisions and businesses by taking a simple and standardised approach to compliance management tasks.
- Enables ANZ to be consistent in proactively identifying, assessing, managing, reporting and escalating compliance related risk exposures.

Chapter 10 – Equities

Table 16 Equities – Disclosures for banking book positions

Definition and categorisation of equity investments held in the banking book

Equity risk is the 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 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 and the values of the investments are tested at least six monthly for impairment.
- 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 results of associates is included in the consolidated income statement. The associate investments are recognised at cost plus ANZ's share of post-acquisition net assets. Interests in associates are reviewed bi-annually for impairment, using either market value, or a discounted cash flow methodology to assess value in-use. As at 30 September 2017 the carrying value of these investments were supported by value in use calculations.

Available-for-Sale Investments

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

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

Equity investments	Sep 17	
	Balance sheet value	Fair value
Value of listed (publicly traded) equities	2,900	2,633
Value of unlisted (privately held) equities	1,953	1,953
Total	4,853	4,586

Equity investments	Mar 17	
	Balance sheet value	Fair value
Value of listed (publicly traded) equities	2,839	2,500
Value of unlisted (privately held) equities	1,918	1,918
Total	4,757	4,418

Equity investments	Sep 16	
	Balance sheet value	Fair value
Value of listed (publicly traded) equities	2,990	2,503
Value of unlisted (privately held) equities	2,131	2,131
Total	5,121	4,634

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

	Half Year Sep 17	Half Year Mar 17	Half Year Sep 16
Realised gains (losses) on equity investments	\$M	\$M	\$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	-	(1)	-
Total	(2)	(1)	-

	Half Year Sep 17	Half Year Mar 17	Half Year Sep 16
Unrealised gains (losses) on equity investments	\$M	\$M	\$M
Total unrealised gains (losses)	21	(145)	(84)
Total unrealised gains (losses) included in Common Equity Tier 1, Tier 1 and/or Tier 2 capital	21	(145)	(84)

Table 16(f): Equities Risk Weighted Assets

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

Chapter 11 – Interest Rate Risk in the Banking Book

Table 17 Interest Rate Risk in the Banking Book

Definition of Interest Rate Risk in the Banking Book (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 net interest income. The risk generally arises from:

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

Regulatory capital approach

ANZ has received approval from APRA to use the IMA for the calculation of regulatory capital for IRRBB, under APS 117 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 fair 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% or 99% level of statistical confidence.

- Value at risk (VaR) - this is an estimate of the impact of interest rate changes on the banking book's market value, expressed to a 99% level of statistical confidence for a given holding period.
- Market Value loss limits - this mitigates the potential for embedded losses within the banking book.
- Stress testing - standard and extraordinary tests are used to highlight potential risk which may not be captured by VaR, and how the portfolio might behave under extraordinary circumstances.

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

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

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

IRRBB regulatory capital is calculated monthly.

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

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

Embedded losses also contribute to make up the capital requirement and are calculated as the difference between the book value of banking book items and the current economic value.

Results of standard shock scenario

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

Table 17(b) that follows shows the results of this test by currency of the exposures outside the trading book.

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

Standard Shock Scenario Stress Testing: Interest rate shock applied	Change in Economic Value		
	Sep 17 \$M	Mar 17 \$M	Sep 16 \$M
AUD			
200 basis point parallel increase	(427)	(19)	(85)
200 basis point parallel decrease	415	(3)	84
NZD			
200 basis point parallel increase	(82)	(58)	(58)
200 basis point parallel decrease	75	53	51
USD			
200 basis point parallel increase	(32)	(27)	31
200 basis point parallel decrease	34	30	(29)
GBP			
200 basis point parallel increase	9	11	18
200 basis point parallel decrease	(9)	(11)	(18)
Other			
200 basis point parallel increase	(98)	(68)	(53)
200 basis point parallel decrease	103	74	59
IRRBB regulatory capital	929	827	936
IRRBB regulatory RWA	11,611	10,332	11,700

IRRBB stress testing methodology

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

Chapter 12 – 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. APRA has not finalised a minimum Leverage Ratio requirement for Australian ADIs, although the current BCBS proposal is for a minimum of 3%. Currently the Leverage Ratio is only a disclosure requirement, with implementation as a Pillar 1 requirement expected by January 2018.

At 30 September 2017, the Group's Leverage Ratio of 5.4% was above the 3% minimum currently proposed by the BCBS. Table 18 below shows the Group's Leverage Ratio calculation as at 30 September 2017 and Table 19 summarises the reconciliation of accounting assets and leverage ratio exposure measure at 30 September 2017.

Table 18 Leverage Ratio

	Sep 17 \$M	Mar 17 \$M	Sep 16 \$M
On-balance sheet exposures			
1 On-balance sheet items (excluding derivatives and SFTs, but including collateral)	768,930	764,169	762,007
2 (Asset amounts deducted in determining Basel III Tier 1 capital)	(16,583)	(16,461)	(17,648)
3 Total on-balance sheet exposures (excluding derivatives and SFTs)	752,347	747,708	744,359
Derivative exposures			
4 Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	8,354	9,685	11,295
5 Add-on amounts for PFE associated with all derivatives transactions	28,193	28,199	27,304
6 Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	-	-	-
7 (Deductions of receivables assets for cash variation margin provided in derivatives transactions)	(6,102)	(7,924)	(9,151)
8 (Exempted CCP leg of client-cleared trade exposures)	-	-	-
9 Adjusted effective notional amount of written credit derivatives	6,429	8,115	8,535
10 (Adjusted effective notional offsets and add-on deductions for written credit derivatives)	(5,405)	(7,107)	(7,383)
11 Total derivative exposures	31,469	30,968	30,600
Securities financing transaction exposures			
12 Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	28,034	29,680	29,937
13 (Netted amounts of cash payables and cash receivables of gross SFT assets)	(490)	(1,261)	(391)
14 CCR exposure for SFT assets	1,054	1,867	1,871
15 Agent transaction exposures	-	-	-
16 Total securities financing transaction exposures	28,598	30,286	31,417
Other off-balance sheet exposures			
17 Off-balance sheet exposure at gross notional amount	232,162	236,054	245,189
18 (Adjustments for conversion to credit equivalent amounts)	(135,397)	(138,562)	(146,729)
19 Off-balance sheet items	96,765	97,492	98,460
Capital and Total Exposures			
20 Tier 1 capital	49,324	48,091	48,285
21 Total exposures	909,179	906,454	904,836
Leverage ratio			
22 Basel III leverage ratio	5.4%	5.3%	5.3%

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

	Sep 17 \$M	Mar 17 \$M	Sep 16 \$M
1 Total consolidated assets as per published financial statements	897,326	896,511	914,869
2 Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation.	(37,846)	(38,781)	(35,432)
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.	(31,047)	(32,913)	(56,893)
5 Adjustment for SFTs (i.e. repos and similar secured lending)	564	606	1,480
6 Adjustment for off-balance sheet exposures (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	96,765	97,492	98,460
7 Other adjustments	(16,583)	(16,461)	(17,648)
8 Leverage ratio exposure	909,179	906,454	904,836

Table 20 Liquidity Coverage Ratio disclosure template

	Sep 17		Jun 17		Mar 17	
	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	-	128,333	-	138,331	-	134,040
2	-	37,797	-	37,797	-	38,125
3	-	8,329	-	8,877	-	8,249
Cash outflows						
4	203,322	21,941	209,027	22,374	210,397	22,093
5	77,762	3,888	77,258	3,863	79,887	3,994
6	125,560	18,053	131,769	18,511	130,510	18,099
7	183,549	103,476	192,499	112,275	194,592	113,154
8	57,996	13,892	57,469	13,778	55,476	13,274
9	112,066	76,097	121,579	85,046	125,497	86,261
10	13,487	13,487	13,451	13,451	13,619	13,619
11		423		60		109
12	138,071	39,151	136,845	34,662	134,942	35,254
13	27,226	27,226	22,519	22,519	23,401	23,401
14	-	-	-	-	-	-
15	110,845	11,925	114,326	12,143	111,541	11,853
16	9,227	-	10,033	-	10,772	-
17	103,590	8,482	99,388	6,091	101,739	4,692
18		173,473		175,462		175,302
Cash inflows						
19	21,148	1,479	20,786	1,449	17,389	1,280
20	31,593	22,366	34,460	24,427	34,181	23,409
21	19,350	19,350	13,428	13,428	14,266	14,266
22	72,091	43,195	68,674	39,304	65,836	38,955
23		174,459		185,005		180,414
24		130,278		136,158		136,347
25		133.9%		135.9%		132.3%
	Number of data points used (simple average)	65		65		64

Liquidity Coverage Ratio (LCR)

ANZ's average LCR for the 6 months to 30 September 2017 was 135% with total liquid assets exceeding net outflows by an average of \$46.5b.

The main contributors to net 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 half, with HQLA securities and cash making up on average 74% of total liquid assets.

Through the period the Liquidity Coverage Ratio has remained within a range of 129% to 144%. 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.

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.
Collective provision (CP)	Collective provision is the provision for credit losses that are inherent in the portfolio but not able to be individually identified. A collective provision may only be recognised when a loss event has already occurred. Losses expected as a result of future events, no matter how likely, are not recognised.
Credit 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.
Individual provisions (IP)	Individual provisions are assessed on a case-by-case basis for all individually managed impaired assets taking into consideration factors such as the realisable value of security (or other credit mitigants), the likely return available upon liquidation or bankruptcy, legal uncertainties, estimated costs involved in recovery, the market price of the exposure in secondary markets and the amount and timing of expected receipts and recoveries.
Internationally Comparable Basel III Capital	The Internationally Comparable Basel 3 CET1 ratio incorporates differences between APRA and both the Basel Committee Basel III framework (including differences identified in the March 2014 Basel Committee Regulatory Consistency Assessment Programme (RCAP) on Basel III implementation in Australia) and its application in major offshore jurisdictions.

Market risk	<p>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:</p> <p>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.</p> <p>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.</p>
Operational risk	<p>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.</p>
Past due facilities	<p>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.</p>
Qualifying Central Counterparties (QCCP)	<p>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.</p>
Recoveries	<p>Payments received and taken to profit for the current period for the amounts written off in prior financial periods.</p>
Restructured items	<p>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.</p>
Risk Weighted Assets (RWA)	<p>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.</p>
Securitisation risk	<p>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.</p>
Write-Offs	<p>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.</p>

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