2015 | BASEL III PILLAR 3 DISCLOSURE

AS AT 30 SEPTEMBER 2015

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.

This disclosure was prepared as at 30 September 2015. ANZ has a continuous disclosure policy, under which ANZ will immediately notify the market of any material price sensitive information concerning the Group, in accordance with legislative and regulatory disclosure requirements.

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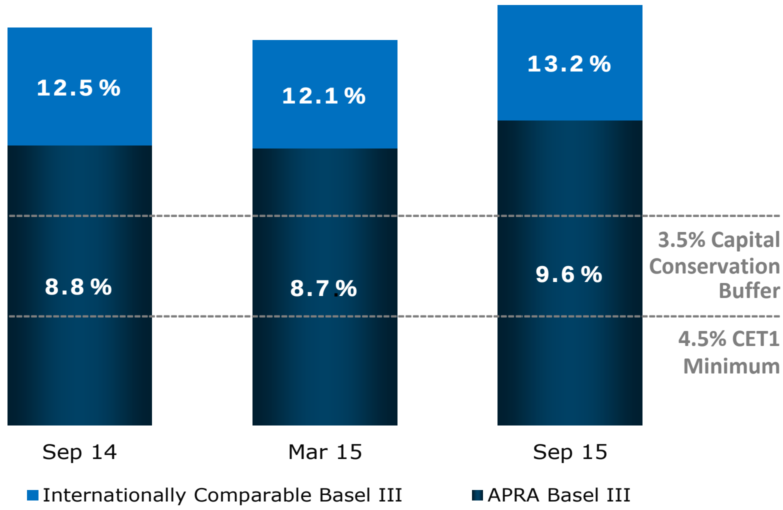
[1] Each table reference adopted in this document aligns to those required by APS 330 to be disclosed at year end.

Chapter 1 – Highlights

Capital Ratios*

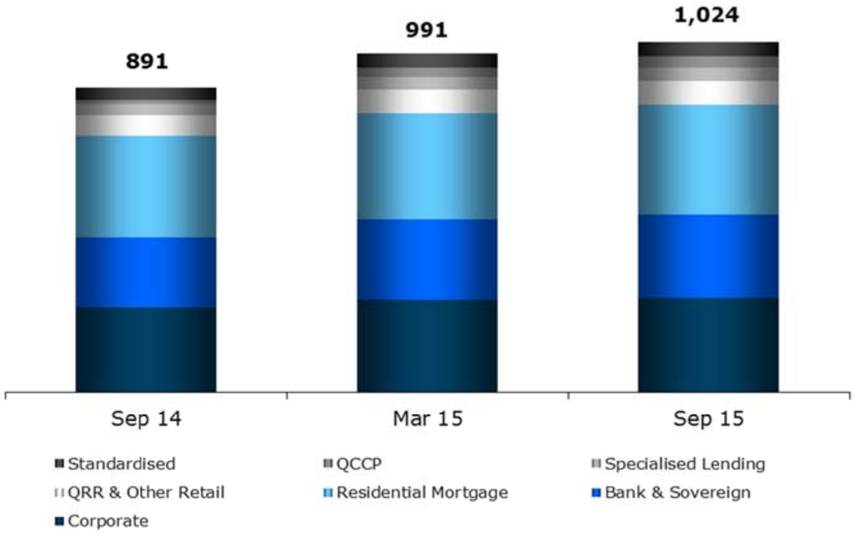


* Internationally Comparable methodology aligns with APRA's Information Paper entitled *International Capital Comparison Study* (July 2015). The March 2015 and September 2014 comparatives have been restated to align with this methodology.

Higher CET1 ratio at September 2015

- Capital ratios have increased in the half to September 2015 mainly due to the impact of $3.2bn in additional capital raised during 2H15, in response to higher RWA requirements for Australian residential mortgage exposure from 1 July 2016.
- ANZ's capital ratios are in excess of APRA's Capital Conservation Buffer (CCB) requirements that will come into effect on January 2016. The CCB incorporates an additional 1% Domestically Systemic Important Bank (D-SIB) CET1 requirement.

Exposure at Default* ($bn)

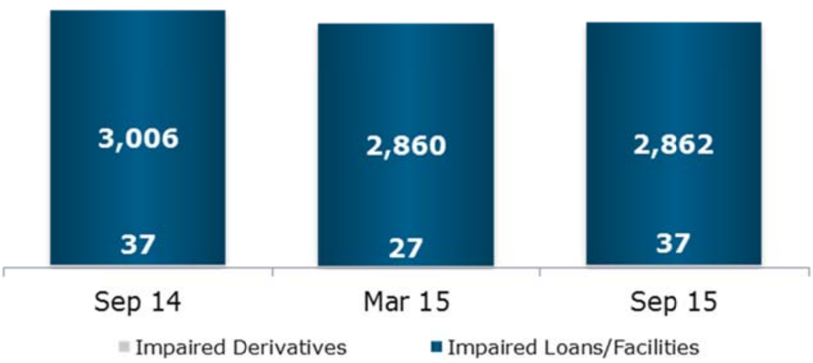


* Exposure at Default does not include Securitisation, Equities or Other Assets. It represents gross credit exposure without offsets for credit risk mitigation such as guarantees, credit derivatives, netting and financial collateral.

Growth in EAD of 3% HoH to $1,024bn in 2H15

- Growth driven predominately by increases in the Residential Mortgage +$13bn and Bank & Sovereign +$8bn asset classes.

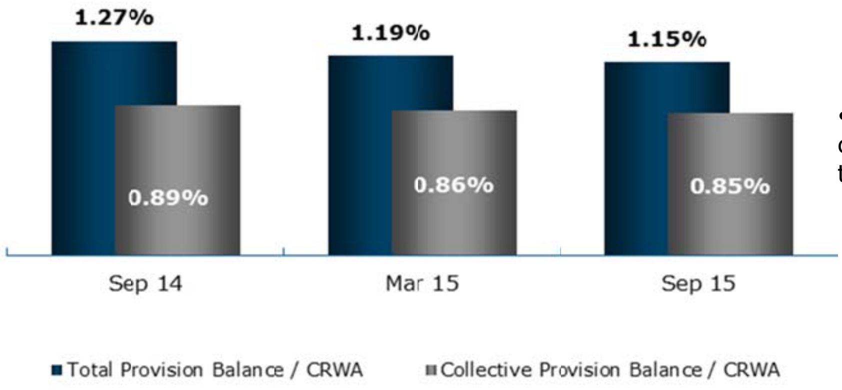
Impaired Assets ($m)*



Impaired Assets remained stable HoH.

- Impaired assets steady HoH and decreased by 5% YoY.

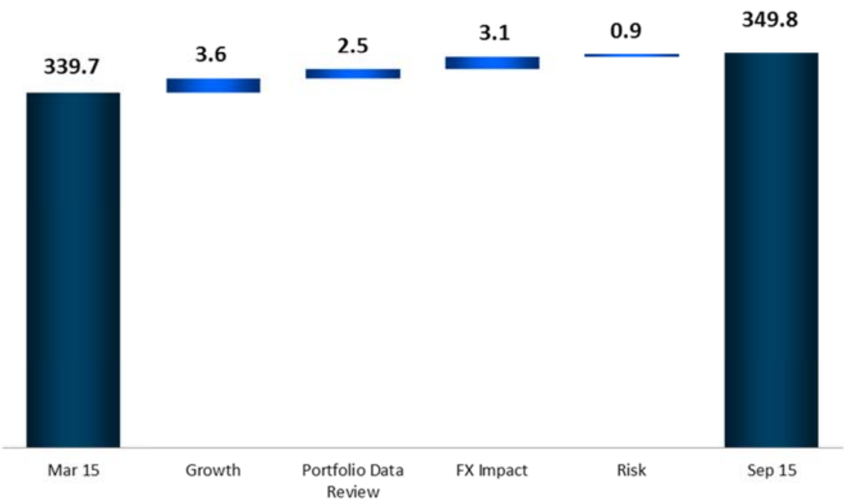
Provision Ratios (Provision / Credit RWA)



Provision coverage remains appropriate

- The total provision ratio at 1.15% and collective provision ratio at 0.85% continues to provide adequate coverage.

Movement in Credit Risk Weighted Assets ($bn)

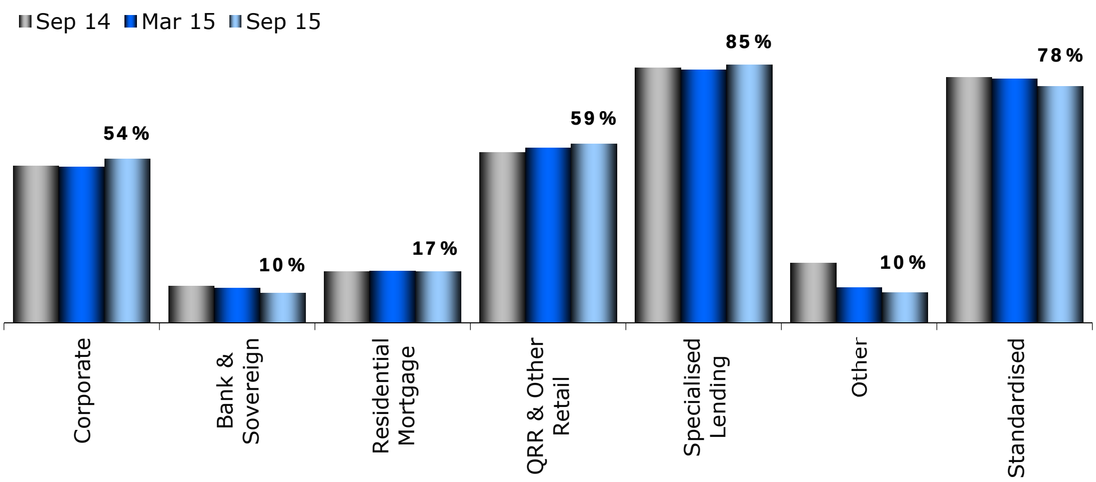


Credit Risk Weighted Assets (CRWA) up by $10.1bn HoH

- Growth in CRWA has been driven by increases in the Corporate, Residential Mortgage and QRR & Other Retail Basel Asset Classes.

- FX impact driven by the depreciation of the AUD against the USD offset by appreciation of the AUD against the NZD.

Risk Weights (Credit RWA / EAD*)



* Exposure at Default represents gross credit exposure without offsets for credit risk mitigation such as guarantees, credit derivatives, netting and financial collateral.

Chapter 2 – Introduction

Purpose of this document

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

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

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

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

Basel in ANZ

In December 2007, ANZ received accreditation for the most advanced approaches permitted under Basel for credit risk and operational risk, complementing its accreditation for market risk. Effective January 2013, ANZ adopted APRA requirements for Basel III with respect to the measurement and monitoring of regulatory capital.

Verification of disclosures

These Pillar 3 disclosures have been verified in accordance with Board approved policy, including ensuring consistency with information contained in ANZ's Annual Report and in Pillar 1 returns provided to APRA. This Pillar 3 disclosure is not audited by ANZ's external auditor.

Comparison to ANZ's Annual Report

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

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

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

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

Chapter 3 – Risk appetite and governance

Risk types

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

- **Credit risk** is the risk of financial loss resulting from a counterparty falling to fulfill 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. The definition includes legal risk, and the risk of reputation loss, or damage arising from inadequate or failed internal processes, people and systems, but excludes strategic risk.
- **Equity risk** is the risk of financial loss arising from the unexpected reduction in value of equity investments not held in the trading book including those of the Group's joint ventures and 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 include those arising from diminished reputation, a reduction in investor/counter-party confidence, regulatory non-compliance (e.g. fines and banking licence restrictions) and an inability for ANZ to continue to do business
- **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. Reputation Risk arises as a result of poor control processes over client on-boarding or new product development or strategies or a result of unexpected risks crystallising (e.g. credit, market or operational risk).
- **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 a 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 Super Regional 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 three key committees focused on risks that impact regulatory capital.

Risk Committee	The Board is principally responsible for approving the Group's risk appetite, risk tolerance and related strategies and policies. This responsibility also extends to the oversight of policy compliance and the effectiveness of ANZ's risk and compliance management framework. The Risk Committee assists the Board in relation to the oversight and review of the Group's risk management principles and policies, strategies, appetite, processes and controls. These include credit, market, liquidity, balance sheet, operational, compliance and reputation risk frameworks. The Committee meets at least four times annually.
Audit Committee	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 work of Global Internal Audit; 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.
Governance Committee	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 Committee and Non-Executive Directors. It also approves corporate sustainability objectives and reviews their progress in achieving them. The Committee meets at least twice annually.

The above committees are exclusively comprised of non-executive directors. Members, including the chairperson are appointed by the Board and serve at the discretion of the Board and for such term or terms as the Board determines. Global Internal Audit provides independent and objective assurance around ANZ's risk management and control effectiveness, and its primary reporting line is to the Audit Committee.

Executive management committees are responsible for co-ordination of risk matters for each of the areas of risk management. The executive committees most relevant to the risks described above and overall capital management at ANZ are as follows:

Group Asset and Liability Committee (GALCO)
GALCO is responsible for the oversight and strategic management of the ANZ's balance sheet, liquidity and funding positions and capital management activities. The committee meets at least four times annually.
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, with additional meetings as required.
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 six times per year or on an as required basis.
Operational Risk Executive Committee (OREC)
OREC is responsible for oversight of the Operational Risk and Compliance expected and unexpected risk profile and the related control environment. The committee meets at least four times annually.
Reputation Risk Committee (RRC)
RRC is responsible for assisting ANZ businesses, Risk, Corporate Affairs, and Legal in partnership to effectively manage reputation risk in relation to environmental, social, business, and regulatory issues across ANZ. The committee meets at least four times annually.
Stress Testing Oversight Committee (STOC)
STOC is responsible for the oversight and control of the Group's stress testing framework, modeling and processes. The Committee meets four times per year, with additional meetings at the discretion of the Chair. STOC is a sub-committee of CMPC.

Processes and procedures relating to the operation of each of the 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 excluded under APS 001: Definitions that undertake the following business activities:
  - Insurance businesses (including friendly societies and health funds).
  - Acting as manager, responsible entity, approved trustee, trustee or similar role in relation to funds management.
  - Non-financial (commercial) operations.
  - Securitisation special purpose vehicles to which assets have been transferred in accordance with APRA's requirements as set out in APS 120: Securitisation.

In May 2014 APRA provided further clarification to the definition of the Level 2 Authorised Deposit-Taking Institution (ADI) group, whereby subsidiary intermediate holding companies are now considered part of the Level 2 Group. The above clarification results in the phasing out, over time, of capital benefits arising from the debt issued by ANZ Wealth Australia Limited (ANZWA). As at 30 September 2015, ANZWA had $400m of debt outstanding which is equivalent to approximately 10bps of Common Equity Tier 1 capital. APRA has approved transitional arrangements, in line with existing residual maturity profile of the debt in March 2016. The Group is well placed to manage this through organic capital generation.

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

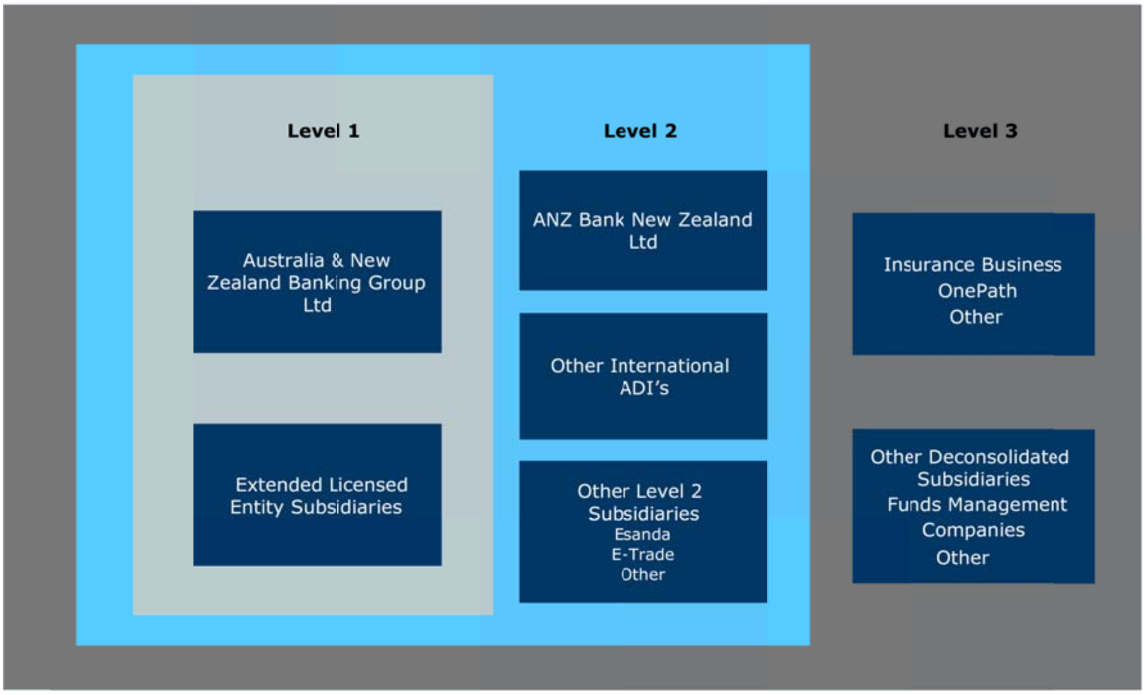
ANZ measures capital adequacy monthly and reports for prudential purposes on a Level 1 and Level 2 basis.

In August 2014, APRA announced its planned framework for the supervision of Conglomerates Group (Level 3) which includes updated Level 3 capital adequacy standards. These standards will regulate a bancassurance group such as ANZ as a single economic entity with minimum capital requirements and additional monitoring on risk exposure levels.

APRA has deferred a decision on the full implementation date as well as the final form of the Level 3 framework until the Australian Government's response to the FSI recommendations have been announced and considered by APRA. APRA has committed to a minimum transition period of 12 months for the affected institutions to comply with the new requirements once an implementation date is established.

Based upon the current versions of the Level 3 standards covering capital adequacy and risk exposures, 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 34 of ANZ's 2015 Annual Report for a list of all material subsidiaries and a brief description of their key activities.

Chapter 5 – Capital and Capital Adequacy

Table 1 Common Disclosure template

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

Table 1 of this chapter consists of a Common Disclosure template that assists users in understanding the differences between the application of the Basel III reforms in Australia and those rules as detailed in the document Basel III: A global regulatory framework for more resilient banks and banking systems, issued by the Bank for International Settlements. The common disclosure template in this chapter is the post January 2018 version as ANZ is fully applying the Basel III regulatory adjustments, as implemented by APRA. Note that the capital conservation and countercyclical buffers referred to in rows 64 to 67 do not apply until 1 January 2016 and the phase out period for capital instruments began on 1 January 2013.

The information in the lines of the template 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 Common disclosure template

		Sep 15 $M	Reconciliation Table Reference
Common Equity Tier 1 Capital: instruments and reserves			
1	Directly issued qualifying ordinary shares (and equivalent for mutually-owned entities) capital	28,420	Table A
2	Retained earnings	26,519	Table B
3	Accumulated other comprehensive income (and other reserves)	1,583	Table C
4	Directly issued capital subject to phase out from CET1 (only applicable to mutually-owned companies)	n/a	
5	Ordinary share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	64	Table D
6	**Common Equity Tier 1 capital before regulatory adjustments**	**56,586**	
Common Equity Tier 1 capital: regulatory adjustments			
7	Prudential valuation adjustments	-	
8	Goodwill (net of related tax liability)	4,098	Table E
9	Other intangibles other than mortgage servicing rights (net of related tax liability)	4,936	Table F
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	9	Table J
11	Cash-flow hedge reserve	269	
12	Shortfall of provisions to expected losses	479	Table G
13	Securitisation gain on sale (as set out in paragraph 562 of Basel II framework)	-	
14	Gains and losses due to changes in own credit risk on fair valued liabilities	11	
15	Defined benefit superannuation fund net assets	116	Table H
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	-	
17	Reciprocal cross-holdings in common equity	-	
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the ADI does not own more than 10% of the issued share capital (amount above 10% threshold)	-	
19	Significant investments in the ordinary shares of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	1,730	Table I
20	Mortgage service rights (amount above 10% threshold)	n/a	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	
22	Amount exceeding the 15% threshold	-	
23	of which: significant investments in the ordinary shares of financial entities	-	
24	of which: mortgage servicing rights	n/a	
25	of which: deferred tax assets arising from temporary differences	-	
26	National specific regulatory adjustments (sum of rows 26a - 26j)	6,412	
26a	of which: treasury shares	-	
26b	of which: offset to dividends declared under a dividend reinvestment plan (DRP), to the extent to that the dividends are used to purchase new ordinary shares issued by the ADI	-	
26c	of which: deferred fee income	(380)	
26d	of which: equity investment in financial institutions not reported in rows 18, 19 and 23	4,709	Table I
26e	of which: deferred tax assets not reported in rows 10, 21 and 25	685	Table J
26f	of which: capitalised expenses	1,320	Table K
26g	of which: investments in commercial (non-financial) entities that are deducted under APRA rules	33	Table L
26h	of which: covered bonds in excess of asset cover in pools	-	
26i	of which: undercapitalisation of a non-consolidated subsidiary	-	
26j	of which: other national specific regulatory adjustments not reported in rows 26a to 26i	45	
27	Regulatory adjustments applied to CET1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-	
28	**Total regulatory adjustments to CET1**	**18,060**	
29	**Common Equity Tier 1 capital (CET1)**	**38,526**	

		Sep 15 $M	Reconciliation Table Reference
Additional Tier 1 capital: instruments			
30	Directly issued qualifying Additional Tier 1 instruments	3,699	Table M
31	of which: classified as equity under applicable accounting standards	-	
32	of which: classified as liabilities under applicable accounting standards	3,699	Table M
33	Directly issued capital instruments subject to phase out from Additional Tier 1	3,309	Table M
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	356	Table M
35	of which: instruments issued by subsidiaries subject to phase out	n/a	
36	**Additional Tier 1 capital before regulatory adjustments**	**7,364**	
Additional Tier 1 capital: regulatory adjustments			
37	Investments in own Additional Tier 1 instruments	-	
38	Reciprocal cross-holdings in Additional Tier 1 instruments	-	
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the ADI does not own more than 10% of the issued share capital (amount above 10% threshold)	-	
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, (net of eligible short positions)	405	Table M
41	National specific regulatory adjustments (sum of rows 41a - 41c)	1	
41a	of which: holdings of capital instruments in group members by other group members on behalf of third parties	-	
41b	of which: investments in the capital of financial institutions that are outside the scope of regulatory consolidations not reported in rows 39 and 40	-	
41c	of which: other national specific regulatory adjustments not reported in rows 41a and 41b	1	Table M
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 cover deductions	-	
43	**Total regulatory adjustments to Additional Tier 1 capital**	**406**	
44	**Additional Tier 1 capital (AT1)**	**6,958**	
45	**Tier 1 Capital (T1=CET1+AT1)**	**45,484**	
Tier 2 capital: instruments and provisions			
46	Directly issued qualifying Tier 2 instruments	3,152	
47	Directly issued capital instruments subject to phase out from Tier 2	4,049	Table N
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group T2)	668	
49	of which: instruments issued by subsidiaries subject to phase out	668	Table N
50	Provisions	252	Table G
51	**Tier 2 capital before regulatory adjustments**	**8,121**	
Tier 2 capital: regulatory adjustments			
52	Investments in own Tier 2 instruments	10	Table N
53	Reciprocal cross-holdings in Tier 2 instruments	-	
54	Investments in the Tier 2 capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the ADI does not own more than 10% of the issued share capital (amount above 10%)	-	
55	Significant investments in the Tier 2 capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions	85	Table N
56	National specific regulatory adjustments (sums of rows 56a - 56c)	75	
56a	of which: holdings of capital instruments in group members by other group members on behalf of third parties	-	
56b	of which: investments in the capital of financial institutions that are outside the scope of regulatory consolidation not reported in rows 54 and 55	75	Table N
56c	of which: other national specific regulatory adjustments not reported in rows 56a and 56b	-	
57	**Total regulatory adjustment to Tier 2 capital**	**170**	
58	**Tier 2 capital (T2)**	**7,951**	
59	**Total capital (TC=T1+T2)**	**53,435**	
60	**Total risk-weighted assets based on APRA standards**	**401,937**	

		Sep 15 $M	Reconciliation Table Reference
Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of risk-weighted assets)	9.6%	
62	Tier 1 (as a percentage of risk-weighted assets)	11.3%	
63	Total capital (as a percentage of risk-weighted assets)	13.3%	
64	Institution specific buffer requirement (minimum CET1 requirement of 4.5% plus capital conservation buffer of 2.5% plus countercyclical buffer requirements plus G-SIBs buffer requirement, expressed as a percentage of risk-weighted assets)	7.0%	
65	of which: capital conservation buffer requirement	2.5%	
66	of which: ADI-specific countercyclical buffer requirements	-	
67	of which: G-SIB buffer requirement (not applicable)	n/a	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk-weighted assets)	5.1%	
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	117	
73	Significant investments in the ordinary shares of financial entities	4,667	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)	685	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)	252	
77	Cap on inclusion of provisions in Tier 2 under standardised approach	536	
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	1,841	
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 - 1 Jan 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	4,187	
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	4,809	
85	Amount excluded from T2 due to cap (excess over cap after redemption and maturities)	(1,170)	

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	53,903	(91)	53,812	
Settlement Balances owed to ANZ	18,596	-	18,596	
Collateral Paid	9,967	-	9,967	
Trading securities	49,000	-	49,000	
of which: Financial Institutions capital instruments			10	Table N
of which: Financial Institutions equity investments			-	
of which: Investments in the capital of financial institutions			75	Table N
Derivative financial instruments	85,625	-	85,625	
Available-for-sale assets	43,667	(1,236)	42,431	
of which: Financial institutions equity instruments			26	Table I
of which: Other entities equity investments			22	Table L
Net loans and advances	562,173	(95)	562,078	
of which: deferred fee income			(380)	Row 26c
of which: collective provision			(2,956)	Table G
of which: individual provisions			(1,061)	Table G
of which: capitilised brokerage			1,252	Table K
of which: Financial Institutions equity exposures			1	Table I
of which: Other equity exposures			4	Table L
of which: CET1 margin lending adjustment			45	Row 26j
of which: AT1 margin lending adjustment			1	Table M
Regulatory deposits	1,773	-	1,773	
Due from controlled entities	-	116	116	
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	-	4,362	4,362	
of which: Investment in deconsolidated financial subsidiaries			3,957	Table I
of which: AT1 significant investment in banking, financial and insurance entities that are outside the scope of regulatory consolidation			405	Table M
Shares in associates	5,440	(3)	5,437	
of which: Financial Institutions			5,430	Table I
of which: Other Entities			7	Table L
Current tax assets	90	-	90	
Deferred tax assets	402	124	526	Table J
of which: Deferred tax assets that rely on future profitability			9	Table J
Goodwill and other intangible assets	8,312	(1,992)	6,320	
of which: Goodwill			3,419	Table E
of which: Software			2,888	Table F
of which: other intangible assets			13	Table F
Investments backing policy liabilities	34,820	(34,820)	-	
Premises and equipment	2,221	(2)	2,219	
Other assets	5,846	(1,476)	4,370	
of which: Defined benefit superannuation fund net assets			143	Table H
Esanda dealer finance assets held for sale[4]	8,065	-	8,065	
Total Assets	**889,900**	**(35,113)**	**854,787**	

[4] On 4 May 2015, the Group announced its intention to sell the Esanda Dealer Finance business within the Australia Division. The assets classified as held for sale includes lending assets comprising retail point-of-sale finance and wholesale bailment facilities and other Esanda branded finance offered to motor vehicle dealers along with associated provisions and deferred acquisition costs. No impairment losses were recognised on reclassification as held for sale.

On 8th October the Group entered into an agreement to sell the Esanda Dealer Finance business to Macquarie Group Limited. The sale is expected to complete during the first half of 2016. The estimated sale price is $8.2 billion.

Liabilities	Balance Sheet as in published financial statements ($m)	Adjustments ($m)	Balance sheet under scope of regulatory consolidation ($m)	Template and Reconciliation Table Reference
Settlement Balances owed by ANZ	11,250	(1)	11,249	
Collateral Received	7,829	-	7,829	
Deposits and other borrowings	570,794	5,481	576,275	
Derivative financial instruments	81,270	(1)	81,269	
Due to controlled entities	-	714	714	
Current tax liabilities	267	(118)	149	
Deferred tax liabilities	249	(294)	(45)	Table J
of which: related to intangible assets			58	Table F
of which: related to capitalised expenses			5	Table K
of which: related to defined benefit super assets			27	Table H
Policy liabilities	35,401	(35,401)	-	
External unit holder liabilities	3,291	(3,291)	-	
Payables and other liabilities	10,366	(1,366)	9,000	
Provisions	1,074	(37)	1,037	
Debt Issuances	93,747	(365)	93,382	
Subordinated Debt	17,009	14	17,023	
of which: Directly issued qualifying Additional Tier 1 instruments			3,669	Table M
of which: Directly issued capital instruments subject to phase out from Additional Tier 1			3,305	Table M
of which: Additional Tier 1 Instruments			449	Table M
of which: Directly issued capital instruments subject to phase out from Tier 2			5,689	Table N
of which: Directly issued qualifying Tier 2 instruments			3,152	Table N
of which: instruments issued by subsidiaries subject to phase out			759	Table N
Total Liabilities	**832,547**	**(34,665)**	**797,882**	
Net Assets	**57,353**	**(448)**	**56,905**	

Shareholders' equity	Balance Sheet as in published financial statements ($m)	Adjustments ($m)	Balance sheet under scope of regulatory consolidation ($m)	Template and Reconciliation Table Reference
Ordinary Share Capital	28,367	242	28,609	Table A
of which: Share reserve			189	Tables A & C
Reserves	1,571	(113)	1,458	Table C
of which: Cash flow hedging reserves			269	Row 11
Retained earnings	27,309	(572)	26,737	Table B
Share capital and reserves attributable to shareholders of the company	**57,247**	**(443)**	**56,804**	
Non-controlling interests	106	(5)	101	Table D
Total Shareholders' Equity	**57,353**	**(448)**	**56,905**	

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

Table A		Sep 15 $M	Table 1 Reference
	Issued capital	28,609	
Less	Reclassification to Reserves	(189)	Table C
	Regulatory Directly Issued qualifying ordinary shares	**28,420**	Row 1

Table B		Sep 15 $M	Table 1 Reference
	Retained earnings	26,737	
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	**26,519**	Row 2

Table C		Sep 15 $M	Table 1 Reference
	Reserves	1,458	
Add	Reclassification from Issued Capital	189	Table A
Less	Non qualifying reserves	(64)	
	Reserves for Regulatory capital purposes (amount allowed in group CET1)	**1,583**	Row 3

Table D		Sep 15 $M	Table 1 Reference
	Non-controlling interests	101	
Less	Surplus capital attributable to minority shareholders	(37)	
	Ordinary share capital issued by subsidiaries and held by third parties	**64**	Row 5

Table E		Sep 15 $M	Table 1 Reference
	Goodwill	3,419	
Add	Goodwill component of investments in financial associates	679	Table I
	Goodwill (net of related tax liability)	**4,098**	Row 8

Table F		Sep 15 $M	Table 1 Reference
	Software	2,888	
	Other intangible assets	13	
Less	Associated deferred tax liabilities	(58)	
Add	Regulatory reclassification from significant investments in the ordinary shares of banking, financial and insurance entities outside the scope of regulatory consolidation	2,093	Table I
	Other intangibles other than mortgage servicing rights (net of related tax liability)	**4,936**	Row 9

Table G		Sep 15 $M	Table 1 Reference
	Qualifying collective provision		
	Collective provision	(2,956)	
Less	Non-qualifying collective provision	333	
Less	Standardised collective provision	252	Row 50
Less	Non-defaulted expected loss	2,850	
	Non-Defaulted: Expected Loss - Eligible Provision Shortfall	479	
	Qualifying individual provision		
	Individual provision	(1,061)	
Add	Additional individual provisions for partial write offs	(633)	
Less	Standardised individual provision	107	
Add	Collective provision on advanced defaulted	(287)	
Less	Defaulted expected loss	1,815	
	Defaulted: Expected Loss - Eligible Provision Shortfall	**-**	
	Gross deduction	**479**	Row 12

Table H		Sep 15 $M	Table 1 Reference
	Defined benefit superannuation fund net assets	143	
	Associated deferred tax liabilities	(27)	
	Defined benefit superannuation fund net assets	**116**	**Row 15**

Table I		Sep 15 $M	Table 1 Reference
	Investment in deconsolidated financial subsidiaries	3,957	
Less	Regulatory reclassification to Retained Earnings and Other Intangible Assets	(2,311)	Tables B & F
Add	Investment in financial associates	5,430	
Less	Goodwill component of investments in financial associates	(679)	Table E
Less	Amount below 10% threshold of CET1	(4,667)	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)	1,730	Row 19
Add	Amount below the 10% threshold of CET 1	4,667	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 securities	-	
	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	26	
	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	1	
	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	15	
	Equity investment in financial institutions not reported in rows 18, 19 and 23	4,709	Row 26d
	Deduction for equity holdings in financial institutions - APRA regulations	**6,439**	

Table J		Sep 15 $M	Table 1 Reference
	Deferred tax assets	526	
Add	Deferred tax liabilities	45	
	Deferred tax asset less deferred tax liabilities	571	
Less	Deferred tax assets that rely on future profitability	(9)	Row 10
Add	Deferred tax liabilities on intangible assets, capitalised expenses and defined benefit super assets	91	
Add	Impact of calculating the deduction on a jurisdictional basis	32	
	Deferred tax assets not reported in rows 10, 21 and 25 of the Common Disclosure Template	685	Row 26e

Table K		Sep 15 $M	Table 1 Reference
	Capitalised brokerage costs	1,252	
	Capitalised debt and capital issuance expenses	73	
Less	Associated deferred tax liabilities	(5)	
	Capitalised expenses	**1,320**	Row 26f

Table L		Sep 15 $M	Table 1 Reference
	Investments in non financial Available-for-Sale equities	22	
	Investments in non financial associates	7	
	Non financial equity exposures (loans)	4	
	Equity exposures to non financial entities	**33**	Row 26g

Table M		Sep 15 $M	Table 1 Reference
	Directly issued qualifying Additional Tier 1 Capital Instruments classified as liabilities	3,669	
Add	Issues costs	30	
	Directly issued qualifying Additional Tier 1 Capital Instruments classified as liabilities	3,699	Row 30
	Directly issued capital instruments subject to phase out from Additional Tier 1 - loan capital	3,305	
Add	Issue costs	4	
Less	Transitional adjustment	-	
	Directly issued capital instruments subject to phase out from Additional Tier 1	3,309	Row 33
	Additional Tier 1 instruments issued by subsidiaries held by third parties	449	
Add	Issues costs	5	
	Surplus capital attributable to third party holders	(98)	
	AT1 Instruments issued by subsidiaries and held by third parties (amounts allowed in Group AT1)	356	Row 34
	Additional Tier 1 capital before regulatory adjustments	7,364	
Less	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation	(405)	Row 40
	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, eligible short positions	(1)	
	Additional Tier 1 capital	**6,958**	Row 44

Table N		Sep 15 $M	Table 1 Reference
	Directly issued capital instruments subject to phase out from Tier 2	5,689	
Add	Issue costs	8	
Add	Amortisation of Tier 2 Capital Instruments subject to Phase out	(241)	
Less	Fair value adjustment	(237)	
Less	Transition adjustment	(1,170)	
	Directly issued capital instruments subject to phase out from Tier 2	4,049	Row 47
	Instruments issued by subsidiaries subject to phase out from Tier 2	759	
Less	Surplus capital attributable to third party holders	(91)	
	Instruments issued by subsidiaries subject to phase out from Tier 2	668	Row 49
Add	Directly issued qualifying Tier 2 instruments	3,152	Row 46
	Provisions	252	Table G
	Tier 2 capital before regulatory adjustments	8,121	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	(75)	Row 56b
	Tier 2 capital	**7,951**	Row 58

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

Entity	Activity	Total Assets ($M)	Total Liabilities ($M)
ACN 008 647 185 Pty Ltd	Corporate	0	0
Advice for Life Pty Ltd	Advice	0	1
ANZ Insurance Broker Co Ltd	Insurance Broker	21	2
ANZ Investment Services (New Zealand) Limited	Funds Manager	45	23
ANZ Lenders Mortgage Insurance Pty Limited	Mortgage insurance	1,130	696
ANZ Life Assurance Company Pty Ltd	Insurance	3	0
ANZ New Zealand Investments Limited	Funds Manager	95	22
ANZ New Zealand Investments Nominees Limited	Trustee/Nominee	0	0
ANZ Private Equity Management Limited	Investment	0	1
ANZ Self Managed Super Ltd	Investment	0	0
ANZ Specialist Asset Management Limited	Trustee/Nominee	13	7
ANZ ILP Pty Ltd	Incorporated Legal Practice	2	0
ANZ Wealth Alternative Investments Management Pty Ltd	Investment	2,412	2,408
ANZ Wealth Australia Limited	Holding Company	2,731	383
ANZ Wealth New Zealand Limited	Holding Company	467	0
ANZcover Insurance Private Ltd	Captive-Insurance	71	17
AUT Administration Pty Ltd	Corporate	1	0
AUT Investments Limited	Investment	5	0
Capricorn Financial Advisers Pty Ltd	Advice	0	2
Elders Financial Planning Pty Ltd	Advice	13	3
Financial Investment Network Group Pty Ltd	Advice	68	1
Financial Lifestyle Solutions Pty Limited	Advice	4	5
Financial Planning Hotline Pty Ltd	Advice	0	0
Financial Services Partners Holdings Pty Limited	Holding Company	2	0
Financial Services Partners Incentive Co Pty Limited	Advice	0	0
Financial Services Partners Management Pty Limited	Advice	0	0
Financial Services Partners Pty Ltd	Advice	4	3
FSP Funds Management Limited	Advice	1	0
FSP Group Pty Limited	Holding Company	16	1
FSP Portfolio Administration Limited	Advice	1	0
FSP Super Pty Limited	Advice	6	0
Integrated Networks Pty Limited	Holding Company	44	0
Mercantile Mutual Financial Services Pty Ltd	Investment	1	0
Millennium 3 Financial Services Group Pty Ltd	Advice	57	16
Millennium 3 Professional Services Pty Ltd	Advice	1	0
Millennium 3 Financial Services Pty Ltd	Advice	20	12
Millennium 3 Mortgage Platform Services Pty Limited	Advice	0	0
OASIS Asset Management Limited	Investment	9	4
OASIS Fund Management Limited	Superannuation	6	4
OneAnswer Nominees Limited	Trustee/Nominee	0	0
OnePath Administration Pty Ltd	Corporate	90	31
OnePath Custodians Pty Ltd	Superannuation	42	3
OnePath Financial Planning Pty Ltd	Advice	1	0
OnePath Funds Management Ltd	Investment	102	33
OnePath General Insurance Pty Ltd	Insurance	347	248
OnePath Investment Holdings Pty Ltd	Investment	7	0
OnePath Life (NZ) Limited	Insurance	803	264
OnePath Life Australia Holdings Pty Ltd	Corporate	2,529	0
OnePath Life Limited	Holding Company	39,037	36,563

Entity	Activity	Total Assets ($M)	Total Liabilities ($M)
Polaris Financial Solutions Pty Limited	Advice	1	1
RI Advice Group Pty Ltd	Advice	11	5
RI Central Coast Pty Ltd	Advice	1	0
RI Gold Coast Pty Ltd	Advice	1	0
RI Maroochydore Pty Ltd	Advice	0	0
RI Newcastle Pty Ltd	Advice	2	0
RI Parramatta Pty Ltd	Advice	1	0
RI Rockhampton & Gladstone Pty Ltd	Advice	2	0
RI Townsville Pty Ltd	Advice	0	0
Rieas Pty Ltd	Advice	0	0
Shout for Good Pty Ltd	Corporate	0	0

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;
- Capital levels are commensurate with ANZ maintaining its preferred 'AA' credit rating category for senior long-term unsecured debt given its risk appetite outlined in its strategic plan; and
- An appropriate balance between maximising shareholder returns and prudent capital management principles.

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

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

- Review capital ratios, targets, and levels of different classes of capital against ANZ's risk profile and risk appetite outlined in the Strategic Plan. ANZ's capital targets reflect the key policy objectives above, and the desire to ensure that under specific stressed economic scenarios that capital levels have sufficient capital to remain above both Economic Capital and PCR requirements;
- Stress tests are performed under different economic conditions to ensure a comprehensive review of ANZ's capital position both before and after mitigating actions. The stress tests determine the level of additional capital (i.e. the 'stress capital buffer') needed to absorb losses that may be experienced during an economic downturn; and
- Stress testing is integral to strengthening the predictive approach to risk management and is a key component in managing risks, asset writing strategies and business strategies. It creates greater understanding of the impacts on financial performance through modeling relationships and sensitivities between geographic, industry and Divisional exposures under a range of macro-economic scenarios. ANZ has a dedicated stress testing team within Risk Management that models and reports to management and the Board's Risk Committee on a range of scenarios and stress tests.

Results are subsequently used to:

- recalibrate ANZ's management targets for minimum and operating ranges for its respective classes of capital such that ANZ will have sufficient capital to remain above both Economic Capital and regulatory requirements; and
- identify the level of organic capital generation and hence determine current and future capital issuance requirements for Level 1 and Level 2.

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

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

Regulatory environment

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

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

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

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

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

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

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

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

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

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

Regulatory 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 2015 Full Year Results Announcement Group Results section, page 43, available on ANZ's website: shareholder.anz.com/pages/results-announcement-archive.

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

Table 6 Capital adequacy - Capital Ratio and Risk Weighted Assets

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

Risk weighted assets (RWA)	Sep 15 $M	Mar 15 $M	Sep 14 $M
Subject to Advanced Internal Rating Based (IRB) approach			
Corporate	150,165	140,451	129,087
Sovereign	6,664	5,385	4,923
Bank	17,445	22,078	20,329
Residential Mortgage	54,996	53,501	50,068
Qualifying Revolving Retail	7,546	7,775	7,546
Other Retail	32,990	31,664	26,858
Credit risk weighted assets subject to Advanced IRB approach	**269,806**	**260,854**	**238,811**
Credit risk Specialised Lending exposures subject to slotting approach[5]	**32,240**	**31,442**	**29,505**
Subject to Standardised approach			
Corporate	26,217	27,033	23,121
Residential Mortgage	2,882	2,603	2,344
Other Retail	3,625	3,271	2,989
Credit risk weighted assets subject to Standardised approach	**32,724**	**32,907**	**28,454**
Credit Valuation Adjustment and Qualifying Central Counterparties	**10,170**	**9,630**	**7,394**
Credit risk weighted assets relating to securitisation exposures	1,156	1,067	1,030
Other assets	3,655	3,797	3,691
Total credit risk weighted assets	**349,751**	**339,697**	**308,885**
Market risk weighted assets	6,868	6,042	7,048
Operational risk weighted assets	37,885	33,434	31,969
Interest rate risk in the banking book (IRRBB) risk weighted assets	7,433	7,690	13,627
Total risk weighted assets	**401,937**	**386,863**	**361,529**
Capital ratios (%)[6]			
Level 2 Common Equity Tier 1 capital ratio	**9.6%**	**8.7%**	**8.8%**
Level 2 Tier 1 capital ratio	**11.3%**	**10.6%**	**10.7%**
Level 2 Total capital ratio	**13.3%**	**12.6%**	**12.7%**
Level 1: Extended licensed Common Equity Tier 1 capital ratio	**9.6%**	**8.8%**	**9.1%**
Level 1: Extended licensed entity Tier 1 capital ratio	**11.6%**	**10.9%**	**11.3%**
Level 1: Extended licensed entity Total capital ratio	**13.7%**	**13.1%**	**13.4%**
Other significant Authorised Deposit-taking Institution (ADI) or overseas bank subsidiary:			
ANZ Bank New Zealand Limited - Common Equity Tier 1 capital ratio	**10.5%**	**10.1%**	**10.7%**
ANZ Bank New Zealand Limited - Tier 1 capital ratio	**12.7%**	**12.4%**	**11.1%**
ANZ Bank New Zealand Limited - Total capital ratio	**13.6%**	**13.3%**	**12.3%**

[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 increased $40.9 billion (13.2%) from September 2014 to $349.8 billion at September 2015, including an $18.5 billion increase due to foreign currency movements. Portfolio growth contributed a further $14 billion, with growth in Australia and New Zealand business contributing to the increase in AIRB Corporate and IRB Residential Mortgage asset classes. The increase in the IRB Other Retail Asset Class includes a reclassification of exposures from IRB Residential Mortgage Asset Class.

Market Risk, Operational Risk and IRRBB RWA

Traded Market Risk RWA decreased $0.2 billion (3%). Throughout the year, a decrease in Standard Model RWA was offset by an increase to the Internal Model RWA.

IRRBB RWA decreased by $6.2 billion (45.5%) to $7.4 billion over the year, which was due to a reduction in repricing and yield curve risk combined with an improvement in embedded gains.

A new operational risk measurement system (ORMS) has been developed by ANZ. The new ORMS was formally accredited by APRA on 30 September 2015 for the purpose of calculating operational risk capital under APS 115. The change in methodology is the predominant driver of the increase in RWA between September 2014 and September 2015. The increased RWA is reflective of our business growth and recognises global and local industry trends toward more conservative operational risk capital holdings.

International capital ratio comparisons

International comparable details

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

The following table details the material differences between APRA's Basel III prudential requirements and those of the Basel Committee on Banking Supervision (BCBS) as at 20 September 2015 on an Internationally Comparable basis. The Internationally Comparable capital ratios methodology is aligned with APRA's information paper entitled *International Capital Comparison Study* (13 July 2015). The Basel III Internationally Comparable ratios do not include an estimate of the Basel I capital floor.

ANZ's CET1, Tier 1 and Total Capital ratios as at 30 September 2015 on an Internationally Comparable basis were 13.2%, 15.3% and 17.8% respectively.

	CET1	Tier 1 Capital	Total Capital
Regulatory Capital Frameworks Comparison			
Basel III - APRA	**9.6%**	**11.3%**	**13.3%**
Differences relating to capital			
Significant Investments in FI's and deconsolidated entities	0.9%	0.9%	0.8%
Deferred Tax Assets	0.1%	0.1%	0.1%
Differences related to risk weighted assets			
Residential mortgages – 20% LGD floor	0.4%	0.4%	0.5%
IRRBB RWA (APRA Pillar 1 approach)	0.2%	0.2%	0.3%
Specialised Lending (Advanced treatment)	0.4%	0.5%	0.6%
Unsecured Corporate Lending LGD	1.2%	1.5%	1.6%
Undrawn Corporate EAD	0.4%	0.4%	0.5%
Other RWA items	0.0%	0.0%	0.1%
Total Adjustments	**3.6%**	**4.0%**	**4.5%**
Basel III - Internationally Comparable	**13.2%**	**15.3%**	**17.8%**

The table below provides an explanation of the material differences between APRA's Basel III capital rules and the International Comparable basis with the impact of converting APRA Basel III capital ratios to Internationally Comparable Basel III capital ratios.

Item	Description	Movement in ratios, APRA to Internationally Harmonised
Significant investments in Financial Institutions (FI's) and other deconsolidated subsidiaries	APRA requires full deduction against CET1 for investment in insurance and banking associates. On an Internationally Comparable basis, these investments are subject to concessional threshold before a deduction is required.	Increase ratio
Deferred Tax Assets	APRA requires all deferred tax assets, including those relating to temporary differences, to be deducted 100% from CET1. On an Internationally Comparable basis, deferred tax assets relating to temporary differences is first subject to concessional threshold before any deduction is required.	Increase ratio
Interest rate risk in the banking book (IRRBB)	APRA requires the inclusion of IRRBB within RWA. This is not required under the Basel III framework.	Increase ratio
Residential mortgages – 20% Loss Given Default (LGD) floor	APRA imposes a floor of 20% on the downturn Loss Given Default (LGD) used in advanced credit models for determining credit RWA's for residential mortgages. The Basel III framework imposes a downturn LGD floor of 10% for these exposures.	Increase ratio
Specialised Lending	APRA requires the supervisory slotting approach be used in determining credit RWA for specialised lending exposures. The Internationally Comparable basis allows for the advanced internal ratings based approach to be used instead when calculating RWA for these exposures.	Increase ratio
Unsecured Corporate Lending LGD	Adjustment to align ANZ's unsecured corporate lending LGD to 45% to be consistent with banks in other jurisdictions. The 45% LGD rate is also used in the Foundation Internal Ratings-based approach (FIRB).	Increase ratio
Undrawn Corporate Lending Exposure at Default (EAD)	To adjust ANZ's credit conversion factors (CCF) for undrawn corporate loan commitments to 75% (also used in FIRB approach) to align with banks in other jurisdictions.	Increase ratio

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 falling 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-based approach to credit risk, under APS 113. There are however several small portfolios (mainly retail and local corporates in Asia Pacific) where ANZ applies the Standardised approach to credit risk, under APS 112 Capital Adequacy: Standardised Approach to Credit Risk.

Credit risk management framework and policies

ANZ has a comprehensive framework to manage credit risk and support sound growth for appropriate returns. The framework is top down, being defined by credit principles and policies. Credit policies, requirements and procedures cover all aspects of the credit life cycle such as transaction structuring, risk grading, initial approval, ongoing management and problem debt management, as well as specialist policy topics. The effectiveness of the credit risk management framework is assessed through various compliance and monitoring processes. These, together with portfolio selection, define and guide the credit process, organisation and staff.

Organisation

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

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

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

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

Portfolio direction and performance

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

- Group and divisional level risk appetite strategies, business writing strategies & 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.
- 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.
- Ongoing review and refinement of ANZ's credit risk measurement and policy framework.

Reporting – overview and definitions

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

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

Examples of reports include EAD, portfolio mix, risk grade profiles and migrations, RWAs, large exposure reporting, credit watch and control lists, impaired assets and provisions. Within the retail segments, monthly reporting packs are prepared that focus on such aspects as scoring and delinquency/slippage monitoring.

Exposure at default

Exposure at Default is defined as the expected facility exposure at the date of default. Unless otherwise stated, throughout this disclosure EAD represents gross credit exposure without 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

Facilities are classified as impaired when there is doubt as to whether the contractual amounts due, including interest and other payments, will be met in a timely manner. Impaired assets include impaired facilities, and impaired derivatives. Impaired derivatives have a credit value adjustment (CVA), which is a market assessment of the credit risk of the relevant counterparties.

Restructured items

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

Collective provisions

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

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

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

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

Essentially these differences reflect the effects of the credit cycle on credit losses. Point-in-time refers to losses at any given point in the credit cycle, cycle-adjusted refers to adjusting estimates to reflect a full credit cycle and downturn refers to losses at the worst of the cycle and is the most conservative estimate to use. Regardless of the adjustments, the starting point for all estimates is the output of the rating/scoring models and tools to satisfy the in use test[7].

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.

Table 7(b) part (i): Period end and average Exposure at Default [8] [9]

	Sep 15				
Advanced IRB approach	Risk Weighted Assets $M	Exposure at Default $M	Average Exposure at Default for half year $M	Individual provision charge for half year $M	Write-offs for half year $M
Corporate	150,165	276,516	274,042	204	197
Sovereign	6,664	127,349	120,166	(2)	-
Bank	17,445	115,898	119,246	-	-
Residential Mortgage	54,996	323,174	316,986	9	17
Qualifying Revolving Retail	7,546	22,088	22,011	102	145
Other Retail	32,990	46,351	46,236	279	272
Total Advanced IRB approach	**269,806**	**911,376**	**898,687**	**592**	**631**
Specialised Lending	**32,240**	**37,754**	**37,639**	**(15)**	**61**
Standardised approach					
Corporate	26,217	30,365	30,283	10	34
Residential Mortgage	2,882	7,829	7,559	-	4
Other Retail	3,625	3,636	3,460	68	85
Total Standardised approach	**32,724**	**41,830**	**41,302**	**78**	**123**
Credit Valuation Adjustment and Qualifying Central Counterparties	**10,170**	**33,255**	**29,771**	**-**	**-**
Total	**344,940**	**1,024,215**	**1,007,399**	**655**	**815**

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

[9] 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 15				
Advanced IRB approach	Risk Weighted Assets $M	Exposure at Default $M	Average Exposure at Default for half year $M	Individual provision charge for half year $M	Write-offs for half year $M
Corporate	140,451	271,567	260,156	144	142
Sovereign	5,385	112,983	100,165	1	-
Bank	22,078	122,594	120,741	-	-
Residential Mortgage	53,501	310,799	302,602	4	21
Qualifying Revolving Retail	7,775	21,934	21,703	89	129
Other Retail	31,664	46,120	42,783	190	206
Total Advanced IRB approach	**260,854**	**885,997**	**848,150**	**428**	**498**
Specialised Lending	**31,442**	**37,525**	**36,237**	**16**	**21**
Standardised approach					
Corporate	27,033	30,201	27,838	4	16
Residential Mortgage	2,603	7,289	6,924	-	4
Other Retail	3,271	3,283	3,148	7	70
Total Standardised approach	**32,907**	**40,773**	**37,910**	**11**	**90**
Credit Valuation Adjustment and Qualifying Central Counterparties	**9,630**	**26,287**	**18,366**	**-**	**-**
Total	**334,833**	**990,582**	**940,663**	**455**	**609**

	Sep 14				
Advanced IRB approach	Risk Weighted Assets $M	Exposure at Default $M	Average Exposure at Default for half year $M	Individual provision charge for half year $M	Write-offs for half year $M
Corporate	129,087	248,746	239,591	156	376
Sovereign	4,923	87,346	80,994	-	-
Bank	20,329	118,889	112,581	-	-
Residential Mortgage	50,068	294,407	290,910	24	27
Qualifying Revolving Retail	7,546	21,471	21,298	100	139
Other Retail	26,858	39,445	38,993	211	211
Total Advanced IRB approach	**238,811**	**810,304**	**784,367**	**491**	**753**
Specialised Lending	**29,505**	**34,949**	**34,459**	**(6)**	**33**
Standardised approach					
Corporate	23,121	25,477	27,302	8	61
Residential Mortgage	2,344	6,559	6,005	6	2
Other Retail	2,989	3,012	2,934	43	62
Total Standardised approach	**28,454**	**35,048**	**36,241**	**57**	**125**
Credit Valuation Adjustment and Qualifying Central Counterparties	**7,394**	**10,444**	**10,369**	**-**	**-**
Total	**304,164**	**890,745**	**865,436**	**542**	**911**

Table 7(b) part(ii): Exposure at Default by portfolio type[10]

Portfolio Type	Sep 15 $M	Mar 15 $M	Sep 14 $M	Average for half year Sep 15 $M
Cash	29,176	33,045	20,866	31,111
Contingents liabilities, commitments, and other off-balance sheet exposures	162,535	158,355	147,702	160,445
Derivative financial instruments	141,641	133,552	109,101	137,596
Settlement balances owed to ANZ	39,216	35,358	25,348	37,287
Available for sale assets	37,811	32,411	25,671	35,111
Net Loans, Advances & Acceptances[11]	565,448	551,854	519,327	558,651
Other assets	12,114	9,717	6,321	10,916
Trading Securities	36,274	36,290	36,409	36,282
Total exposures	**1,024,215**	**990,582**	**890,745**	**1,007,399**

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

[11] Includes loans reclassified as held for sale for accounting purposes.

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

	Sep 15			
Portfolio Type	Australia $M	New Zealand $M	Asia Pacific, Europe and Americas $M	Total $M
Corporate	148,299	47,904	110,678	**306,881**
Sovereign	40,524	11,265	75,560	**127,349**
Bank	74,759	6,699	34,440	**115,898**
Residential Mortgage	257,901	65,273	7,829	**331,003**
Qualifying Revolving Retail	22,088	-	-	**22,088**
Other Retail	34,561	11,822	3,604	**49,987**
Qualifying Central Counterparties	20,559	9,425	3,271	**33,255**
Specialised Lending	28,075	9,242	437	**37,754**
Total exposures	**626,766**	**161,630**	**235,819**	**1,024,215**

	Mar 15			
Portfolio Type	Australia $M	New Zealand $M	Asia Pacific, Europe and Americas $M	Total $M
Corporate	148,289	49,766	103,713	**301,768**
Sovereign	36,638	11,413	64,932	**112,983**
Bank	78,955	7,326	36,313	**122,594**
Residential Mortgage	244,269	66,530	7,289	**318,088**
Qualifying Revolving Retail	21,934	-	-	**21,934**
Other Retail	33,500	12,649	3,254	**49,403**
Qualifying Central Counterparties	17,043	5,803	3,441	**26,287**
Specialised Lending	27,661	9,325	539	**37,525**
Total exposures	**608,289**	**162,812**	**219,481**	**990,582**

	Sep 14			
Portfolio Type	Australia $M	New Zealand $M	Asia Pacific, Europe and Americas $M	Total $M
Corporate	139,011	44,312	90,900	**274,223**
Sovereign	31,295	9,567	46,484	**87,346**
Bank	77,217	9,389	32,283	**118,889**
Residential Mortgage	234,879	59,528	6,559	**300,966**
Qualifying Revolving Retail	21,471	-	-	**21,471**
Other Retail	30,163	9,320	2,974	**42,457**
Qualifying Central Counterparties	8,132	1,567	745	**10,444**
Specialised Lending	26,562	7,865	522	**34,949**
Total exposures	**568,730**	**141,548**	**180,467**	**890,745**

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

Portfolio Type	Agriculture, Forestry, Fishing & Mining $M	Business Services $M	Construction $M	Electricity, Gas & Water Supply $M	Entertainment, Leisure & Tourism $M	Financial, Investment & Insurance $M	Government and Official Institutions $M	Manufacturing $M	Personal $M	Property Services $M	Wholesale Trade $M	Retail Trade $M	Transport & Storage $M	Other $M	Total $M
	Sep 15														
Corporate	46,379	11,396	7,481	11,135	12,583	51,661	3,389	54,556	2,088	20,874	32,840	16,348	17,113	19,038	**306,881**
Sovereign	1,268	9	59	677	4	85,203	37,810	1,443	-	260	44	-	249	323	**127,349**
Bank	1	-	-	-	-	115,761	-	111	-	2	-	-	23	-	**115,898**
Residential Mortgage	-	-	-	-	-	-	-	-	331,003	-	-	-	-	-	**331,003**
Qualifying Revolving Retail	-	-	-	-	-	-	-	-	22,088	-	-	-	-	-	**22,088**
Other Retail	3,506	2,831	4,040	117	2,156	658	11	1,537	23,096	1,172	1,169	4,221	1,468	4,005	**49,987**
Qualifying Central Counterparties	-	-	-	-	-	33,255	-	-	-	-	-	-	-	-	**33,255**
Specialised Lending	1,040	8	166	1,497	239	3	39	6	-	32,470	9	7	1,260	1,010	**37,754**
Total exposures	**52,194**	**14,244**	**11,746**	**13,426**	**14,982**	**286,541**	**41,249**	**57,653**	**378,275**	**54,778**	**34,062**	**20,576**	**20,113**	**24,376**	**1,024,215**
% of Total	*5.1%*	*1.4%*	*1.1%*	*1.3%*	*1.5%*	*28.0%*	*4.0%*	*5.6%*	*36.9%*	*5.3%*	*3.3%*	*2.0%*	*2.0%*	*2.4%*	*100.0%*

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

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

	Mar 15														
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	46,292	10,802	7,954	11,623	11,913	49,995	3,242	53,783	1,872	21,446	33,534	16,347	16,201	16,764	**301,768**
Sovereign	1,485	-	54	776	5	73,872	35,228	969	1	255	46	-	195	97	**112,983**
Bank	-	-	-	-	-	122,475	-	98	-	-	-	-	21	-	**122,594**
Residential Mortgage	-	-	-	-	-	-	-	-	318,088	-	-	-	-	-	**318,088**
Qualifying Revolving Retail	-	-	-	-	-	-	-	-	21,934	-	-	-	-	-	**21,934**
Other Retail	3,546	2,751	3,910	113	2,006	645	13	1,530	23,001	1,138	1,133	4,096	1,447	4,074	**49,403**
Qualifying Central Counterparties	-	-	-	-	-	26,287	-	-	-	-	-	-	-	-	**26,287**
Specialised Lending	1,017	8	268	1,513	74	3	35	5	-	32,538	23	5	1,266	770	**37,525**
Total exposures	**52,340**	**13,561**	**12,186**	**14,025**	**13,998**	**273,277**	**38,518**	**56,385**	**364,896**	**55,377**	**34,736**	**20,448**	**19,130**	**21,705**	**990,582**
% of Total	*5.3%*	*1.4%*	*1.2%*	*1.4%*	*1.4%*	*27.6%*	*3.9%*	*5.7%*	*36.8%*	*5.6%*	*3.5%*	*2.1%*	*1.9%*	*2.2%*	*100.0%*

	Sep 14														
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	42,022	9,980	7,226	10,887	11,171	43,673	2,714	47,925	1,902	20,377	30,138	15,043	14,688	16,477	**274,223**
Sovereign	1,264	2	53	657	6	54,761	29,158	919	1	68	45	-	361	51	**87,346**
Bank	-	-	-	-	-	118,786	-	86	-	-	-	-	17	-	**118,889**
Residential Mortgage	-	-	-	-	-	-	-	-	300,966	-	-	-	-	-	**300,966**
Qualifying Revolving Retail	-	-	-	-	-	-	-	-	21,471	-	-	-	-	-	**21,471**
Other Retail	3,086	2,246	3,186	93	1,399	440	10	1,180	21,550	943	871	2,958	1,218	3,277	**42,457**
Qualifying Central Counterparties	-	-	-	-	-	10,444	-	-	-	-	-	-	-	-	**10,444**
Specialised Lending	1,150	21	427	1,769	76	3	35	7	-	29,651	8	4	1,105	693	**34,949**
Total exposures	**47,522**	**12,249**	**10,892**	**13,406**	**12,652**	**228,107**	**31,917**	**50,117**	**345,890**	**51,039**	**31,062**	**18,005**	**17,389**	**20,498**	**890,745**
% of Total	*5.3%*	*1.4%*	*1.2%*	*1.5%*	*1.4%*	*25.6%*	*3.6%*	*5.6%*	*38.9%*	*5.7%*	*3.5%*	*2.0%*	*2.0%*	*2.3%*	*100.0%*

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

	Sep 15				
Portfolio Type	< 12 mths $M	1 - 5 years $M	> 5 years $M	No Maturity Specified $M	Total $M
Corporate	133,312	153,214	20,185	170	**306,881**
Sovereign	78,706	25,943	22,700	-	**127,349**
Bank	69,327	44,765	1,806	-	**115,898**
Residential Mortgage	412	7,751	291,437	31,403	**331,003**
Qualifying Revolving Retail	-	-	-	22,088	**22,088**
Other Retail	17,326	13,829	18,797	35	**49,987**
Qualifying Central Counterparties	4,448	16,509	12,298	-	**33,255**
Specialised Lending	11,597	24,043	2,065	49	**37,754**
Total exposures	**315,128**	**286,054**	**369,288**	**53,745**	**1,024,215**

	Mar 15				
Portfolio Type	< 12 mths $M	1 - 5 years $M	> 5 years $M	No Maturity Specified $M	Total $M
Corporate	135,762	144,147	21,681	178	**301,768**
Sovereign	70,592	22,753	19,638	-	**112,983**
Bank	66,298	54,385	1,911	-	**122,594**
Residential Mortgage	272	7,165	279,051	31,600	**318,088**
Qualifying Revolving Retail	-	-	-	21,934	**21,934**
Other Retail	17,546	13,726	18,131	-	**49,403**
Qualifying Central Counterparties	3,132	11,611	11,544	-	**26,287**
Specialised Lending	11,181	24,020	2,256	68	**37,525**
Total exposures	**304,783**	**277,807**	**354,212**	**53,780**	**990,582**

	Sep 14				
Portfolio Type	< 12 mths $M	1 - 5 years $M	> 5 years $M	No Maturity Specified $M	Total $M
Corporate	123,118	131,390	19,548	167	**274,223**
Sovereign	53,981	19,715	13,650	-	**87,346**
Bank	61,810	55,135	1,944	-	**118,889**
Residential Mortgage	912	6,133	263,657	30,264	**300,966**
Qualifying Revolving Retail	-	-	-	21,471	**21,471**
Other Retail	15,405	13,902	13,150	-	**42,457**
Qualifying Central Counterparties	265	5,319	4,860	-	**10,444**
Specialised Lending	10,544	22,490	1,871	44	**34,949**
Total exposures	**266,035**	**254,084**	**318,680**	**51,946**	**890,745**

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

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

	Sep 15					
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	5	799	136	221	112	76
Business Services	-	88	31	55	12	17
Construction	-	95	183	42	20	31
Electricity, gas and water supply	-	3	-	3	(1)	1
Entertainment Leisure & Tourism	-	131	38	43	33	18
Financial, Investment & Insurance	-	52	20	26	19	14
Government & Official Institutions	-	-	-	-	-	-
Manufacturing	4	258	42	145	33	50
Personal	-	869	1,434	290	337	441
Property Services	-	110	100	50	(3)	53
Retail Trade	-	139	88	60	42	28
Transport & Storage	28	164	26	29	(13)	35
Wholesale Trade	-	126	27	76	39	24
Other	-	28	74	21	25	27
Total	**37**	**2,862**	**2,199**	**1,061**	**655**	**815**

[15] Impaired derivatives are net of credit value adjustment (CVA) of $69 million, being a market value based assessment of the credit risk of the relevant counterparties (March 2015: $64 million; September 2014: $46 million).

[16] Impaired loans / facilities include restructured items of $184 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 2015: $146 million; September 2014: $67 million).

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

Industry Sector	Mar 15 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	-	606	221	184	41	50
Business Services	-	86	50	60	(12)	22
Construction	-	107	70	54	23	16
Electricity, gas and water supply	-	3	5	4	2	-
Entertainment Leisure & Tourism	-	103	45	26	6	9
Financial, Investment & Insurance	-	42	26	17	6	3
Government & Official Institutions	-	-	-	-	-	-
Manufacturing	-	221	52	153	63	19
Personal	-	914	1,216	316	251	402
Property Services	3	379	171	89	15	13
Retail Trade	-	67	74	41	13	12
Transport & Storage	24	186	38	79	9	17
Wholesale Trade	-	109	30	60	27	21
Other	-	37	71	31	11	25
Total	**27**	**2,860**	**2,069**	**1,114**	**455**	**609**

Industry Sector	Sep 14 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	2	747	207	219	53	111
Business Services	-	120	36	92	32	106
Construction	-	96	72	42	35	16
Electricity, gas and water supply	-	2	1	2	2	2
Entertainment Leisure & Tourism	-	62	35	25	18	8
Financial, Investment & Insurance	-	33	27	15	5	5
Government & Official Institutions	-	-	5	-	-	-
Manufacturing	-	215	43	107	7	38
Personal	-	905	1,072	380	322	397
Property Services	6	418	137	86	(16)	52
Retail Trade	-	71	70	41	30	52
Transport & Storage	29	179	42	81	25	16
Wholesale Trade	-	100	18	48	(1)	79
Other	-	58	63	38	30	29
Total	**37**	**3,006**	**1,828**	**1,176**	**542**	**911**

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

	Sep 15					
	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	9	1,487	202	575	204	197
Sovereign	-	2	-	4	(2)	-
Bank	-	-	-	-	-	-
Residential Mortgage	-	240	1,570	86	9	17
Qualifying Revolving Retail	-	88	-	-	102	145
Other Retail	-	599	306	317	279	272
Total Advanced IRB approach	**9**	**2,416**	**2,078**	**982**	**592**	**631**
Specialised Lending	**28**	**159**	**62**	**40**	**(15)**	**61**
Portfolios subject to Standardised approach						
Corporate	-	73	40	23	10	34
Residential Mortgage	-	37	12	14	-	4
Other Retail	-	177	7	2	68	85
Total Standardised approach	**-**	**287**	**59**	**39**	**78**	**123**
Qualifying Central Counterparties	**-**	**-**	**-**	**-**	**-**	**-**
Total	**37**	**2,862**	**2,199**	**1,061**	**655**	**815**

	Mar 15					
	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	-	1,265	288	570	144	142
Sovereign	-	1	1	4	1	-
Bank	-	-	-	-	-	-
Residential Mortgage	-	284	1,376	99	4	21
Qualifying Revolving Retail	-	88	-	-	89	129
Other Retail	-	494	314	285	190	206
Total Advanced IRB approach	**-**	**2,132**	**1,979**	**958**	**428**	**498**
Specialised Lending	**27**	**436**	**42**	**96**	**16**	**21**
Portfolios subject to Standardised approach						
Corporate	-	96	33	45	4	16
Residential Mortgage	-	42	10	14	-	4
Other Retail	-	154	5	1	7	70
Total Standardised approach	**-**	**292**	**48**	**60**	**11**	**90**
Qualifying Central Counterparties	**-**	**-**	**-**	**-**	**-**	**-**
Total	**27**	**2,860**	**2,069**	**1,114**	**455**	**609**

	Sep 14					
	Impaired derivatives $M	Impaired loans/ facilities $M	Past due loans ≥90 days $M	Individual provision balance $M	Individual provision charge for half year $M	Write-offs for half year $M
Portfolios subject to Advanced IRB approach						
Corporate	2	1,398	312	574	156	376
Sovereign	-	2	13	2	-	-
Bank	-	-	-	-	-	-
Residential Mortgage	-	356	1,127	116	24	27
Qualifying Revolving Retail	-	77	-	-	100	139
Other Retail	-	437	245	265	211	211
Total Advanced IRB approach	**2**	**2,270**	**1,697**	**957**	**491**	**753**
Specialised Lending	**35**	**457**	**88**	**96**	**(6)**	**33**
Portfolios subject to Standardised approach						
Corporate	-	97	31	56	8	61
Residential Mortgage	-	43	9	16	6	2
Other Retail	-	139	3	51	43	62
Total Standardised approach	**-**	**279**	**43**	**123**	**57**	**125**
Qualifying Central Counterparties	**-**	**-**	**-**	**-**	**-**	**-**
Total	**37**	**3,006**	**1,828**	**1,176**	**542**	**911**

Table 7(g): Impaired assets[18] [19], Past due loans[20] and Provisions[21] by Geography

	Sep 15				
Geographic region	Impaired derivatives $M	Impaired loans/ facilities $M	Past due loans ≥90 days $M	Individual provision balance $M	Collective provision balance $M
Australia	33	1,621	1,949	698	1,895
New Zealand	-	400	182	147	425
Asia Pacific, Europe and America	4	841	68	216	636
Total	**37**	**2,862**	**2,199**	**1,061**	**2,956**

	Mar 15				
Geographic region	Impaired derivatives $M	Impaired loans/ facilities $M	Past due loans ≥90 days $M	Individual provision balance $M	Collective provision balance $M
Australia	27	1,684	1,798	698	1,882
New Zealand	-	537	204	197	450
Asia Pacific, Europe and America	-	639	67	219	582
Total	**27**	**2,860**	**2,069**	**1,114**	**2,914**

	Sep 14				
Geographic region	Impaired derivatives $M	Impaired loans/ facilities $M	Past due loans ≥90 days $M	Individual provision balance $M	Collective provision balance $M
Australia	29	1,811	1,621	740	1,829
New Zealand	2	647	137	200	413
Asia Pacific, Europe and America	6	548	70	236	515
Total	**37**	**3,006**	**1,828**	**1,176**	**2,757**

[18] Impaired derivatives are net of credit value adjustment (CVA) of $69 million, being a market value based assessment of the credit risk of the relevant counterparties (March 2015: $64 million; September 2014: $46 million)

[19] Impaired loans / facilities include restructured items of $184 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 2015: $146 million; September 2014: $67 million).

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

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

Table 7(h): Provision for Credit Impairment

Collective Provision	Half year Sep 15 $M	Half year Mar 15 $M	Half year Sep 14 $M
Balance at start of period	2,914	2,757	2,843
Charge to income statement	40	55	(81)
Adjustments for exchange rate fluctuations	2	102	(5)
Total Collective Provision	**2,956**	**2,914**	**2,757**
Individual Provision			
Balance at start of period	1,114	1,176	1,470
New and increased provisions	951	806	846
Write-backs	(174)	(260)	(190)
Adjustment for exchange rate fluctuations	7	33	(4)
Discount unwind	(22)	(32)	(35)
Bad debts written off	(815)	(609)	(911)
Total Individual Provision	**1,061**	**1,114**	**1,176**
Total Provisions for Credit Impairment	**4,017**	**4,028**	**3,933**

Table 7(J): Specific Provision Balance and General Reserve for Credit Losses[22]

	Sep 15		
	Specific Provision Balance $M	General Reserve for Credit Losses $M	Total $M
Collective Provision	334	2,622	2,956
Individual Provision	1,061	-	1,061
Total Provision for Credit Impairment	**1,395**	**2,622**	**4,017**

	Mar 15		
	Specific Provision Balance $M	General Reserve for Credit Losses $M	Total $M
Collective Provision	304	2,610	2,914
Individual Provision	1,114	-	1,114
Total Provision for Credit Impairment	**1,418**	**2,610**	**4,028**

	Sep 14		
	Specific Provision Balance $M	General Reserve for Credit Losses $M	Total $M
Collective Provision	283	2,474	2,757
Individual Provision	1,176	-	1,176
Total Provision for Credit Impairment	**1,459**	**2,474**	**3,933**

[22] 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(a): Use of external rating agencies (External Credit Assessment Institutions)

ANZ portfolios under the Standardised approach are mainly Retail portfolios and hence are not rated by external rating agencies. However, there are a small number of local corporate counterparties that are externally rated. For these counterparties, external ratings by Standard & Poor's and Moody's Investors Service are used as inputs into the RWA calculation. As described in the section on the ANZ rating system, ANZ has mapped its master scale to the grading of these two External Credit Assessment Institutions (ECAIs).

Table 8(b): Exposure at Default by risk bucket[23]

Risk weight

Standardised approach exposures	Sep 15 $M	Mar 15 $M	Sep 14 $M
0%	-	-	-
20%	855	710	449
35%	7,386	7,145	6,417
50%	1,406	237	145
75%	4	3	3
100%	27,098	28,384	25,131
150%	852	755	335
>150%	1	29	1
Capital deductions	-	-	-
Total	**37,602**	**37,263**	**32,481**

Other Asset exposures			
0%	-	-	-
20%	1,191	1,030	1,100
35%	-	-	-
50%	-	-	-
75%	-	-	-
100%	3,417	3,591	3,471
150%	-	-	-
>150%	-	-	-
Capital deductions	-	-	-
Total	**4,608**	**4,621**	**4,571**

Specialised Lending exposures			
0%	473	933	993
70%	14,005	13,525	12,412
90%	19,539	19,350	17,761
115%	3,245	3,413	3,606
250%	448	254	274
Total	**37,710**	**37,475**	**35,046**

[23] 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[24] In Australia only, other authorised deposit taking institutions (ADI) incorporated in Australia	AIRB
Residential mortgages	Exposures secured by residential property	AIRB
Qualifying revolving retail	Consumer credit cards <$100,000 limit	AIRB
Other retail	Small business lending Other lending to consumers	AIRB
Specialised Lending	Income Producing Real Estate[25] Project finance Object finance	AIRB – Supervisory Slotting[26]
Other assets	All other assets not falling into the above classes e.g. margin lending, fixed assets	AIRB – fixed risk weights

In addition, ANZ has applied the Standardised approach to some portfolio segments (mainly retail and local corporates in Asia Pacific) where currently available data does not enable development of advanced internal models for PD, LGD and EAD estimates. Under the Standardised approach, exposures are mapped to several regulatory risk weights, mainly based on the type of counterparty and its external rating.

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

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

The ANZ rating system

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

- PD is an estimate of the level of the risk of borrower default. Borrower ratings are derived by way of rating models used both at loan origination and for ongoing monitoring.
- EAD is defined as the expected facility exposure at the date of default.

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

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

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

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

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

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

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

ANZ's corporate PD master scale is 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 gradings of external rating agencies, using the PD as a common element after ensuring that default definitions and other key attributes are aligned. The following table demonstrates this alignment (for one year PDs):

ANZ CCR	Moody's	Standard & Poor's	PD Range
0+ to 1-	Aaa to 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 > Ba1	BBB to > BB+	0.1637 - 0.5108%
4- to 6-	Ba1 to B1	BB+ to B+	0.5109 - 3.4872%
7+ to 8+	B2 to B3	B to B-	3.4873 - 17.8799%
8=	Caa	CCC	17.8800 - 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.
ANZ also uses specialised PD master scale/mappings for the sovereign asset class, based predominantly on the corporate master scale.

Use of internal estimates other than for regulatory capital purposes

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

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

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

Controls surrounding the ratings system

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

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

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

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

Rating process by asset class

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

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

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

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

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

IRB Asset Class	Borrower type	Rating Approach
Corporate	Corporations, partnerships or proprietorships that do not fit into any other asset class	Mainly statistical models Some use of expert models and policy processes
Sovereign	Central governments Central banks Certain multilateral development banks 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[27]

For the Retail Basel asset class (Residential Mortgages, Qualifying Revolving Retail and Other Retail Exposures) the large number of relatively homogenous exposures enable the development of statistically robust application scoring models for use at origination and behavioural scoring for ongoing management. 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.

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

Table 9(d): Non Retail Exposure at Default subject to Internal Ratings Based (IRB) approach[28 29 30]

	Sep 15							
	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	23,432	79,305	91,943	74,780	2,824	2,222	2,010	**276,516**
Sovereign	107,082	14,666	2,448	3,047	85	21	-	**127,349**
Bank	33,750	73,101	6,314	2,723	-	10	-	**115,898**
Total	**164,264**	**167,072**	**100,705**	**80,550**	**2,909**	**2,253**	**2,010**	**519,763**
% of Total	31.6%	32.1%	19.4%	15.5%	0.6%	0.4%	0.4%	100.0%
Undrawn commitments (included in above)								
Corporate	6,237	25,820	26,483	11,705	301	223	80	**70,849**
Sovereign	566	497	5	66	-	-	-	**1,134**
Bank	-	-	139	11	-	-	-	**150**
Total	**6,803**	**26,317**	**26,627**	**11,782**	**301**	**223**	**80**	**72,133**
Average Exposure at Default								
Corporate	7.658	4.136	1.540	0.406	0.535	0.270	0.846	**0.935**
Sovereign	160.363	94.588	38.692	23.238	14.210	1.949	-	**121.510**
Bank	18.615	4.396	4.107	4.760	0.026	0.282	-	**5.815**
Exposure-weighted average Loss Given Default (%)								
Corporate	57.0%	58.7%	51.0%	40.8%	44.7%	46.0%	38.8%	**50.3%**
Sovereign	5.8%	16.3%	43.3%	51.5%	54.2%	59.2%	-	**9.0%**
Bank	62.3%	62.9%	63.9%	68.8%	74.5%	74.4%	-	**63.1%**
Exposure-weighted average risk weight (%)								
Corporate	19.4%	36.7%	59.1%	78.3%	148.3%	228.7%	141.3%	**58.8%**
Sovereign	1.1%	5.1%	47.8%	115.1%	172.1%	316.7%	-	**5.6%**
Bank	21.3%	24.9%	67.8%	123.0%	276.0%	358.6%	-	**32.1%**

[28] In accordance with APS 330, EAD in Table 9(d) includes Advanced IRB exposures; however does not include Specialised Lending, Standardised, Securitisation, Equities or Other Assets exposures. Specialised Lending is excluded from Table 9(d) as it follows the Supervisory Slotting treatment, and a breakdown of risk weightings is provided in Table 8(b).

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

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

	Mar 15							
	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	22,237	73,537	93,376	76,150	2,410	1,680	2,177	**271,567**
Sovereign	91,926	16,104	1,508	3,254	158	33	-	**112,983**
Bank	37,605	74,157	6,883	3,914	30	5	-	**122,594**
Total	**151,768**	**163,798**	**101,767**	**83,318**	**2,598**	**1,718**	**2,177**	**507,144**
% of Total	29.9%	32.3%	20.1%	16.4%	0.5%	0.3%	0.4%	100.0%
Undrawn commitments (included in above)								
Corporate	5,879	22,127	25,879	12,448	295	168	52	**66,848**
Sovereign	267	339	10	7	-	-	-	**623**
Bank	124	155	178	10	-	-	-	**467**
Total	**6,270**	**22,621**	**26,067**	**12,465**	**295**	**168**	**52**	**67,938**
Average Exposure at Default								
Corporate	7.043	3.996	1.554	0.415	0.541	0.231	0.695	**0.924**
Sovereign	122.513	236.323	25.649	20.334	6.859	2.570	-	**104.356**
Bank	24.864	5.514	5.293	5.303	7.403	0.268	-	**7.252**
Exposure-weighted average Loss Given Default (%)								
Corporate	56.9%	58.9%	50.0%	41.2%	38.2%	44.1%	39.8%	**49.8%**
Sovereign	2.4%	2.6%	46.0%	49.9%	75.9%	25.7%	-	**4.6%**
Bank	63.0%	63.3%	69.4%	69.9%	75.0%	71.3%	-	**64.2%**
Exposure-weighted average risk weight (%)								
Corporate	19.0%	35.4%	56.7%	73.8%	127.9%	207.0%	138.7%	**56.3%**
Sovereign	0.4%	0.9%	52.8%	112.5%	249.3%	136.8%	-	**5.1%**
Bank	21.7%	25.6%	77.1%	127.0%	226.0%	328.2%	-	**35.6%**

	Sep 14							
	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	17,251	64,350	88,791	71,990	3,160	960	2,244	**248,746**
Sovereign	80,823	2,037	1,446	2,808	200	32	-	**87,346**
Bank	40,382	69,377	6,064	3,028	31	7	-	**118,889**
Total	**138,456**	**135,764**	**96,301**	**77,826**	**3,391**	**999**	**2,244**	**454,981**
% of Total	30.4%	29.9%	21.2%	17.1%	0.7%	0.2%	0.5%	100.0%
Undrawn commitments (included in above)								
Corporate	5,598	20,323	23,885	12,125	389	77	72	**62,469**
Sovereign	516	229	13	46	-	-	-	**804**
Bank	136	185	342	17	-	-	-	**680**
Total	**6,250**	**20,737**	**24,240**	**12,188**	**389**	**77**	**72**	**63,953**
Average Exposure at Default								
Corporate	6.031	3.058	1.442	0.397	0.577	0.159	0.654	**0.847**
Sovereign	106.126	39.492	24.863	17.440	9.548	2.276	-	**80.964**
Bank	23.195	3.489	4.338	3.966	0.996	0.315	-	**5.216**
Exposure-weighted average Loss Given Default (%)								
Corporate	57.8%	58.7%	50.0%	40.5%	39.0%	41.0%	40.0%	**49.3%**
Sovereign	2.4%	7.2%	45.3%	51.2%	74.5%	26.1%	-	**5.1%**
Bank	62.8%	63.2%	69.2%	69.1%	74.0%	64.8%	-	**63.9%**
Exposure-weighted average risk weight (%)								
Corporate	18.9%	34.8%	56.4%	72.8%	116.1%	178.2%	138.2%	**56.1%**
Sovereign	0.5%	3.7%	49.7%	116.2%	221.1%	125.3%	-	**5.9%**
Bank	21.4%	25.3%	76.7%	123.2%	244.0%	273.9%	-	**33.6%**

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

	Sep 15							
	0.00% <0.11% $M	0.11% <0.30% $M	0.30% <0.51% $M	0.51% <3.49% $M	3.49% <10.09% $M	10.09% <100.0% $M	Default $M	Total $M
Exposure at Default								
Residential Mortgage	69,637	139,008	27,253	70,065	10,126	5,085	2,000	**323,174**
Qualifying Revolving Retail	11,409	435	2,007	5,110	2,103	863	161	**22,088**
Other Retail	1,393	5,433	2,157	25,773	8,843	1,809	943	**46,351**
Total	**82,439**	**144,876**	**31,417**	**100,948**	**21,072**	**7,757**	**3,104**	**391,613**
% of Total	21.1%	37.0%	8.0%	25.8%	5.4%	2.0%	0.8%	100.0%
Undrawn commitments (included in above)								
Residential Mortgage	6,249	16,935	968	7,577	182	176	2	**32,089**
Qualifying Revolving Retail	8,915	434	1,328	2,305	781	113	28	**13,904**
Other Retail	681	2,014	1,252	3,340	464	68	6	**7,825**
Total	**15,845**	**19,383**	**3,548**	**13,222**	**1,427**	**357**	**36**	**53,818**
Average Exposure at Default								
Residential Mortgage	0.234	0.210	0.192	0.237	0.276	0.268	0.218	**0.221**
Qualifying Revolving Retail	0.011	0.006	0.010	0.009	0.009	0.008	0.009	**0.010**
Other Retail	0.010	0.017	0.011	0.022	0.011	0.010	0.019	**0.016**
Exposure-weighted average Loss Given Default (%)								
Residential Mortgage	19.8%	19.2%	19.1%	22.3%	20.5%	20.0%	20.8%	**20.1%**
Qualifying Revolving Retail	73.2%	73.2%	73.2%	73.2%	73.2%	73.2%	73.2%	**73.2%**
Other Retail	44.9%	44.3%	73.1%	45.5%	59.3%	60.1%	49.9%	**50.0%**
Exposure-weighted average risk weight (%)								
Residential Mortgage	5.3%	6.7%	13.7%	29.5%	75.1%	108.4%	224.7%	**17.0%**
Qualifying Revolving Retail	4.9%	11.6%	13.8%	39.2%	110.5%	207.5%	327.8%	**34.4%**
Other Retail	26.4%	34.8%	54.2%	60.0%	100.8%	182.2%	201.2%	**71.2%**

	Mar 15							
	0.00% <0.11% $M	0.11% <0.30% $M	0.30% <0.51% $M	0.51% <3.49% $M	3.49% <10.09% $M	10.09% <100.0% $M	Default $M	Total $M
Exposure at Default								
Residential Mortgage	70,542	130,842	26,118	67,347	9,142	4,927	1,881	**310,799**
Qualifying Revolving Retail	11,255	377	1,944	4,910	2,317	968	163	**21,934**
Other Retail	1,346	5,726	4,126	24,632	7,709	1,751	830	**46,120**
Total	**83,143**	**136,945**	**32,188**	**96,889**	**19,168**	**7,646**	**2,874**	**378,853**
% of Total	21.9%	36.1%	8.5%	25.6%	5.1%	2.0%	0.8%	100.0%
Undrawn commitments (included in above)								
Residential Mortgage	8,584	16,724	962	4,958	158	172	2	**31,560**
Qualifying Revolving Retail	8,781	376	1,267	2,212	756	121	26	**13,539**
Other Retail	616	2,161	1,757	3,155	274	58	10	**8,031**
Total	**17,981**	**19,261**	**3,986**	**10,325**	**1,188**	**351**	**38**	**53,130**
Average Exposure at Default								
Residential Mortgage	0.235	0.205	0.189	0.227	0.258	0.264	0.210	**0.216**
Qualifying Revolving Retail	0.011	0.006	0.010	0.009	0.009	0.008	0.009	**0.010**
Other Retail	0.018	0.017	0.017	0.019	0.010	0.010	0.015	**0.016**
Exposure-weighted average Loss Given Default (%)								
Residential Mortgage	19.8%	19.2%	18.9%	22.6%	20.7%	20.0%	21.3%	**20.1%**
Qualifying Revolving Retail	73.2%	73.2%	73.2%	73.2%	73.2%	73.2%	73.2%	**73.2%**
Other Retail	41.5%	44.8%	55.7%	47.4%	57.0%	60.6%	50.9%	**50.0%**
Exposure-weighted average risk weight (%)								
Residential Mortgage	5.8%	6.7%	13.5%	30.5%	76.6%	108.4%	225.8%	**17.2%**
Qualifying Revolving Retail	4.8%	11.2%	13.9%	38.4%	107.7%	206.0%	338.2%	**35.7%**
Other Retail	27.4%	34.6%	42.4%	62.8%	93.9%	175.9%	212.3%	**68.7%**

	Sep 14							
	0.00% <0.11% $M	0.11% <0.30% $M	0.30% <0.51% $M	0.51% <3.49% $M	3.49% <10.09% $M	10.09% <100.0% $M	Default $M	Total $M
Exposure at Default								
Residential Mortgage	2,612	191,293	22,625	62,459	8,463	5,224	1,731	**294,407**
Qualifying Revolving Retail	11,239	291	1,861	4,726	2,395	804	155	**21,471**
Other Retail	999	4,218	3,441	21,223	7,395	1,445	724	**39,445**
Total	**14,850**	**195,802**	**27,927**	**88,408**	**18,253**	**7,473**	**2,610**	**355,323**
% of Total	4.2%	55.1%	7.9%	24.9%	5.1%	2.1%	0.7%	100.0%
Undrawn commitments (included in above)								
Residential Mortgage	1,023	21,103	873	4,017	162	150	4	**27,332**
Qualifying Revolving Retail	8,781	290	1,204	2,053	942	97	25	**13,392**
Other Retail	460	1,709	1,686	2,623	317	50	8	**6,853**
Total	**10,264**	**23,102**	**3,763**	**8,693**	**1,421**	**297**	**37**	**47,577**
Average Exposure at Default								
Residential Mortgage	0.048	0.216	0.165	0.206	0.248	0.261	0.194	**0.204**
Qualifying Revolving Retail	0.011	0.006	0.010	0.009	0.009	0.008	0.009	**0.010**
Other Retail	0.014	0.014	0.013	0.017	0.010	0.009	0.015	**0.014**
Exposure-weighted average Loss Given Default (%)								
Residential Mortgage	15.4%	19.5%	18.8%	22.6%	20.7%	20.0%	21.8%	**20.1%**
Qualifying Revolving Retail	73.2%	73.2%	73.2%	73.2%	73.2%	73.2%	73.2%	**73.2%**
Other Retail	49.7%	50.4%	66.6%	48.1%	56.3%	63.6%	52.4%	**52.2%**
Exposure-weighted average risk weight (%)								
Residential Mortgage	3.8%	6.4%	13.4%	30.3%	74.1%	107.7%	224.0%	**17.0%**
Qualifying Revolving Retail	4.9%	11.4%	14.1%	38.8%	112.8%	206.3%	330.6%	**35.4%**
Other Retail	33.4%	39.5%	50.6%	61.7%	87.7%	145.3%	196.5%	**68.1%**

Table 9(e): Actual Losses by portfolio type

	Half year Sep 15	
Basel Asset Class	Individual provision charge $M	Write-offs $M
Corporate	204	197
Sovereign	(2)	-
Bank	-	-
Residential Mortgage	9	17
Qualifying Revolving Retail	102	145
Other Retail	279	272
Total Advanced IRB	**592**	**631**
Specialised Lending	(15)	61
Standardised approach	78	123
Total	**655**	**815**

	Half year Mar 15	
Basel Asset Class	Individual provision charge $M	Write-offs $M
Corporate	144	142
Sovereign	1	-
Bank	-	-
Residential Mortgage	4	21
Qualifying Revolving Retail	89	129
Other Retail	190	206
Total Advanced IRB	**428**	**498**
Specialised Lending	16	21
Standardised approach	11	90
Total	**455**	**609**

	Half year Sep 14	
Basel Asset Class	Individual provision charge $M	Write-offs $M
Corporate	156	376
Sovereign	-	-
Bank	-	-
Residential Mortgage	24	27
Qualifying Revolving Retail	100	139
Other Retail	211	211
Total Advanced IRB	**491**	**753**
Specialised Lending	(6)	33
Standardised approach	57	125
Total	**542**	**911**

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

	Sep 15				
Portfolio Type	Average Estimated PD %	Average Actual PD %	Average estimated to actual EAD ratio	Average Estimated LGD %	Average Actual LGD %
Corporate	1.52	0.98	1.12	40.03	28.98
Sovereign	0.37	nil	n/a	n/a	n/a
Bank	0.56	0.05	0.93	46.00	58.3
Specialised Lending	n/a	2.06	1.10	n/a	22.31
Residential Mortgage	0.77	0.79	1.00	21.0	3.9
Qualifying Revolving Retail	2.68	1.95	1.05	73.2	72.2
Other Retail	3.54	3.52	1.05	49.9	43.1

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

Estimated PD and LGD for Specialised Lending exposures have not been provided, since APRA requires the use of supervisory slotting for Regulatory EL calculations.

Actual PD, EAD ratio, Estimated LGD and Actual LGD for Sovereign exposures have not been provided, since there was no Sovereign defaults observed in ANZ Sovereign exposures for the observation period.

The estimated PD is based on the average of the internally estimated long-run PD's for obligors that are not in default at the beginning of each financial year over the period of observation being 2009 to September 2015. The actual PD is based on the number of defaulted obligors compared to the total number of obligors measured at the beginning of each financial year over the period of observation being 2009 to September 2015.

The EAD ratio compares internally estimated EAD prior to default to realised EAD for defaulted obligors over the six years of observation being 2009 to September 2015. 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 2013. The actual LGD is based on the average realised losses over the period for the accounts observed at beginning and defaulted during the observation period. For non-retail portfolios, the estimated and actual LGDs are based on accounts that defaulted in 2009 to September 2013. For retail portfolios, the estimated and actual LGDs are based on accounts that defaulted in 2009 to 2015 financial years. For non-retail portfolios, defaults occurring in between October 2013 and September 2015 have been excluded from the analysis to allow sufficient time for workout period. For retail portfolios, defaults occurring in 2015 have been excluded. For non-retail portfolios, actual LGD for defaults where workouts were not finalised have been estimated to approximate the final actual loss. For the retail portfolios, defaults with non-finalised workout have been excluded from the analysis.

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

Table 10 Credit risk mitigation disclosures

Main types of collateral taken by ANZ

Collateral is used to mitigate credit risk, as the secondary source of repayment in case the counterparty cannot meet its contractual repayment obligations.[31] Types of collateral typically taken by ANZ include:

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

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

Credit policy, requirements and processes set out the acceptable types of collateral, as well as a process by which additional instruments and/or asset types can be considered for approval. ANZ's credit risk modelling teams use historical internal loss data and other relevant external data to assist in determining the discount that each type would be expected to incur in a forced sale. The discounted value is used in the determination of a SI for LGD purposes.

Policies and processes for collateral valuation and management

ANZ has well established policies, requirements and processes around collateral valuation and management, 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 are an integral component in transaction structuring for ANZ. The guarantee of a financially strong party can help improve the PD of a transaction through its explicit support of the weaker rated borrower.

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

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

Use of credit derivatives for risk mitigation

ANZ uses purchased credit derivatives to mitigate credit risk by lowering exposures to reference entities that generate high concentration risk exposures or to improve risk return performance.

Only certain credit derivatives such as credit default swaps (CDS) are recognised for risk mitigation purposes in the determination of regulatory capital. A CDS entails the payment by one party in

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

exchange for credit default protection payment if a credit default event on a reference asset occurs. Standard, legally enforceable documentation applies.

For regulatory capital purposes, ANZ only recognises protection using credit derivatives where they meet several policy and regulatory requirements around the strength of the protection offered such as being irrevocable.

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

The use of netting

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

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

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

Transaction structuring to mitigate credit risk

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

Concentrations of credit risk mitigation

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

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

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

	Sep 15			
	Exposure $M	Eligible Financial Collateral $M	Other Eligible Collateral $M	% Coverage
Standardised approach				
Corporate	30,365	496	-	1.6%
Residential Mortgage	7,829	36	-	0.5%
Other Retail	3,636	-	-	0.0%
Total	**41,830**	**532**	**-**	**1.3%**

	Mar 15			
	Exposure $M	Eligible Financial Collateral $M	Other Eligible Collateral $M	% Coverage
Standardised approach				
Corporate	30,201	461	-	1.5%
Residential Mortgage	7,289	41	-	0.6%
Other Retail	3,283	-	-	0.0%
Total	**40,773**	**502**	**-**	**1.2%**

	Sep 14			
	Exposure $M	Eligible Financial Collateral $M	Other Eligible Collateral $M	% Coverage
Standardised approach				
Corporate	25,477	530	-	2.1%
Residential Mortgage	6,559	51	-	0.8%
Other Retail	3,012	-	-	0.0%
Total	**35,048**	**581**	**-**	**1.7%**

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

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

	Sep 15			
	Exposure $M	Exposures covered by Guarantees $M	Exposures covered by Credit Derivatives $M	% Coverage
Advanced IRB				
Corporate (incl. Specialised Lending)	314,270	13,851	345	4.5%
Sovereign	127,349	337	-	0.3%
Bank	115,898	13,260	-	11.4%
Residential Mortgage	323,174	-	-	0.0%
Qualifying Revolving Retail	22,088	-	-	0.0%
Other Retail	46,351	-	-	0.0%
Total	**949,130**	**27,448**	**345**	**2.9%**
Standardised approach				
Corporate	30,365	-	-	0.0%
Residential Mortgage	7,829	-	-	0.0%
Other Retail	3,636	-	-	0.0%
Total	**41,830**	**-**	**-**	**0.0%**
Qualifying Central Counterparties	**33,255**	**-**	**-**	**0.0%**

	Mar 15			
	Exposure $M	Exposures covered by Guarantees $M	Exposures covered by Credit Derivatives $M	% Coverage
Advanced IRB				
Corporate (incl. Specialised Lending)	309,092	15,211	235	5.0%
Sovereign	112,983	470	-	0.4%
Bank	122,594	9,680	-	7.9%
Residential Mortgage	310,799	-	-	0.0%
Qualifying Revolving Retail	21,934	-	-	0.0%
Other Retail	46,120	-	-	0.0%
Total	**923,523**	**25,361**	**235**	**2.8%**
Standardised approach				
Corporate	30,201	-	-	0.0%
Residential Mortgage	7,289	-	-	0.0%
Other Retail	3,283	-	-	0.0%
Total	**40,773**	-	-	**0.0%**
Qualifying Central Counterparties	**26,287**	**-**	**-**	**0.0%**

	Sep 14			
	Exposure $M	Exposures covered by Guarantees $M	Exposures covered by Credit Derivatives $M	% Coverage
Advanced IRB				
Corporate (incl. Specialised Lending)	283,695	17,742	233	6.3%
Sovereign	87,346	202	-	0.2%
Bank	118,889	8,027	-	6.8%
Residential Mortgage	294,407	-	-	0.0%
Qualifying Revolving Retail	21,471	-	-	0.0%
Other Retail	39,445	-	-	0.0%
Total	**845,252**	**25,972**	**233**	**3.1%**
Standardised approach				
Corporate	25,477	-	-	0.0%
Residential Mortgage	6,559	-	-	0.0%
Other Retail	3,012	-	-	0.0%
Total	**35,049**	-	-	**0.0%**
Qualifying Central Counterparties	**10,444**	**-**	**-**	**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 fulfill present and future contractual payment obligations. The amount at risk may change over time as a function of the underlying market parameters up to the positive value of the contract in favour of ANZ.

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

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

ANZ transacts market instruments with the following counterparties:

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

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

Counterparty credit risk governance

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

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

Counterparty credit risk measurement and reporting

The approach to measure counterparty credit risk exposure is based on internal models. These measures are referred to as potential credit risk exposure (PCRE) and potential future exposure (PFE) and measure the worst case credit exposure of derivative transactions at future time points. 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.

ANZ is moving from PCRE based on add-on methodology to a more sophisticated PFE Monte Carlo based approach to assess possible exposure movements for certain derivative products and will use these estimates in internal Economic Capital calculations.

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 and excesses above approved limits are reported to account controllers and Credit officers for action.

Credit value adjustment (CVA)

Over the life of a derivative instrument, ANZ uses a CVA model to adjust fair value to take into account the impact of counterparty credit quality. The methodology calculates the present value of expected losses over the life of the financial instrument as a function of PD, LGD, 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. ANZ’s credit policies and independent transaction evaluation by Credit Risk are central to managing wrong way risk.

Counterparty credit risk mitigation and credit enhancements

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

- A bilateral netting master agreement (e.g. an International Swaps and Derivatives Association - ISDA) allowing close-out netting of exposures in a portfolio with offsetting contracts, with a single net payment with the same legal counterparty.
- Use of collateral agreements in some transactions based on standard market documentation (i.e. ISDA master agreement with credit support annex) that governs the amount of collateral required to be posted or received by ANZ throughout the life of the contract. Some agreements are linked to external credit ratings which means in the event of a party’s (ANZ or a counterparty) external rating being downgraded, it would likely be required to lodge collateral. 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 collaterised 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 counterparty clearing houses.

In the event of a downgrading of ANZ’s rating by one notch from AA- to A+, as at 30 September 2015, ANZ would be required to lodge USD 112 million additional collateral with its counterparties. This represents a small percentage of ANZ's overall liquidity portfolio.

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

Net derivative credit exposure

	Sep 15 $M
Gross positive fair value of contracts	85,625
Netting benefits	(62,782)
Netted current credit exposure	22,843
Collateral held	(7,165)
Net derivatives credit exposure	**15,678**

Counterparty credit risk exposure – by portfolio type

Portfolio Type	Sep 15 $M
Corporate	35,221
Sovereign	5,433
Bank	67,406
Qualifying Central Counterparties	32,733
Specialised Lending	848
Total exposures	**141,641**

Notional value of credit derivative hedges

	Sep 15 $M
Credit Default Swaps	728
Interest Rate Swaps	-
Currency Swaps	-
Other	-
Net derivatives credit exposure	**728**

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

	Protection Bought $M	Protection Sold $M	Total $M
Credit derivative products used for own credit portfolio			
Credit default swaps	22,284	21,474	43,758
Total notional value	22,284	21,474	43,758
Credit derivative products used for intermediation			
Credit default swaps	728	728	1,456
Total return swaps	-	-	-
Total notional value	728	728	1,456
Total credit derivative notional value	23,012	22,202	45,214

Chapter 7 – Securitisation

Table 12 Securitisation disclosures

Definition of securitisation and resecuritisation

A securitisation is a financial structure where the cash flow from a pool of assets is used to service obligations to at least two different tranches or classes of creditors,[33] typically holders of debt securities, with each class or tranche reflecting a different degree of credit risk. This stratification of credit risk means that one class of creditors is entitled to receive payments from the pool before another class. A resecuritisation exposure is a securitisation exposure in which the risk associated with an underlying pool of exposures is tranched and at least one of the underlying exposures is a securitisation exposure.

Securitisations may be categorised as:

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

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

Regulatory capital approaches used in ANZ's securitisation activities

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

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

Securitisation activities

ANZ's key securitisation activities are:

- Securitisation of third-party originated assets, including residential mortgages, credit cards, 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.

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.

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

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

ANZ has no affiliated entities that ANZ manages or advises and that invests in securitisation exposures that ANZ has securitised or in SPV's that ANZ sponsors.

Governance of securitisation activities

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

Many functions within ANZ are involved in securitisation activities given the range of activities undertaken and risks that need to be managed. For origination and structuring 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.

Risk measurement and reporting of securitisation exposures

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

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. In addition to adopting IAA for regulatory and economic capital requirements, IAA may be used for internal management purposes

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.

All facilities provided to or 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.

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

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

The use and treatment of Credit Risk Mitigation (CRM) techniques with respect to securitisation exposures is assessed on a case-by-case basis in a manner consistent with the bank-wide CRM methodology.[35]

Accounting policies

The principal accounting policies governing ANZ's securitisation activities are outlined in ANZ's 2015 Annual Report, Notes to the Financial Statements. These include the valuation, derecognition, consolidation and income recognition principles outlined in Note 1 – Significant Accounting Policies and the critical judgments applied to these policies outlined in Note 2 – Critical Estimates and Judgments Used in Applying Accounting Policies. ANZ applies these group accounting policies to its securitisation activities, as appropriate and these policies have not changed since the prior year. Note 36 – Structured Entities and Note 37 – Transfers of Financial Assets also provides details about the nature of ANZ's securitisation activities and certain accounting policies as they specifically apply to these activities.

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

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 2015 Annual Report.

Use of external rating agencies

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.

Banking Book

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

Traditional securitisations

	Sep 15		
Underlying asset	ANZ Originated $M	ANZ Self Securitised $M	ANZ Sponsored $M
Residential mortgage	-	79,355	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
Commercial loans	-	-	-
Other	-	-	-
Total	**-**	**79,355**	**-**

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	-	79,355	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
Commercial loans	-	-	-
Other	-	-	-
Total	**-**	**79,355**	**-**

Traditional securitisations	Mar 15		
Underlying asset	ANZ Originated $M	ANZ Self Securitised $M	ANZ Sponsored $M
Residential mortgage	-	74,060	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
Commercial loans	-	-	-
Other	-	-	-
Total	**-**	**74,060**	**-**

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	-	74,060	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
Commercial loans	-	-	-
Other	-	-	-
Total	**-**	**74,060**	**-**

Traditional securitisations	Sep 14		
Underlying asset	ANZ Originated $M	ANZ Self Securitised $M	ANZ Sponsored $M
Residential mortgage	-	73,368	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
Commercial loans	-	-	-
Other	-	-	-
Total	**-**	**73,368**	**-**

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	-	73,368	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
Commercial loans	-	-	-
Other	-	-	-
Total	**-**	**73,368**	**-**

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

	Sep 15				
Underlying asset	ANZ Originated $M	ANZ Self Securitised $M	Impaired $M	Past due $M	Losses recognised for the six month ended $M
Residential mortgage	-	79,355	-	36	1
Credit cards and other personal loans	-	-	-	-	-
Auto and equipment finance	-	-	-	-	-
Commercial loans	-	-	-	-	-
Other	-	-	-	-	-
Total	**-**	**79,355**	**-**	**36**	**1**

	Mar 15				
Underlying asset	ANZ Originated $M	ANZ Self Securitised $M	Impaired $M	Past due $M	Losses recognised for the six month ended $M
Residential mortgage	-	74,060	1	31	-
Credit cards and other personal loans	-	-	-	-	-
Auto and equipment finance	-	-	-	-	-
Commercial loans	-	-	-	-	-
Other	-	-	-	-	-
Total	**-**	**74,060**	**1**	**31**	**-**

	Sep 14				
Underlying asset	ANZ Originated $M	ANZ Self Securitised $M	Impaired $M	Past due $M	Losses recognised for the six month ended $M
Residential mortgage	-	73,368	1	28	-
Credit cards and other personal loans	-	-	-	-	-
Auto and equipment finance	-	-	-	-	-
Commercial loans	-	-	-	-	-
Other	-	-	-	-	-
Total	**-**	**73,368**	**1**	**28**	**-**

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

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

Table 12(j): Banking Book: Securitisation - Summary of current period's activity by underlying asset type and facility[36]

Sep 15

Securitisation activity by underlying asset type	Original value securitised ANZ Originated $M	ANZ Self Securitised $M	ANZ Sponsored $M	Recognised gain or loss on sale $M
Residential mortgage	-	5,295	-	-
Credit cards and other personal loans	-	-	-	-
Auto and equipment finance	-	-	-	-
Commercial loans	-	-	-	-
Other	-	-	-	-
Total	-	**5,295**	-	-

Securitisation activity by facility provided	Notional amount $M
Liquidity facilities	-
Funding facilities	329
Underwriting facilities	-
Lending facilities	-
Credit enhancements	-
Holdings of securities (excluding trading book)	240
Other	4
Total	**573**

Mar 15

Securitisation activity by underlying asset type	Original value securitised ANZ Originated $M	ANZ Self Securitised $M	ANZ Sponsored $M	Recognised gain or loss on sale $M
Residential mortgage	-	692	-	-
Credit cards and other personal loans	-	-	-	-
Auto and equipment finance	-	-	-	-
Commercial loans	-	-	-	-
Other	-	-	-	-
Total	-	**692**	-	-

Securitisation activity by facility provided	Notional amount $M
Liquidity facilities	-
Funding facilities	12
Underwriting facilities	-
Lending facilities	-
Credit enhancements	-
Holdings of securities (excluding trading book)	875
Other	30
Total	**917**

[36] Activity represents net movement in outstandings.

	Sep 14			
	Original value securitised			
Securitisation activity by underlying asset type	ANZ Originated $M	ANZ Self Securitised $M	ANZ Sponsored $M	Recognised gain or loss on sale $M
Residential mortgage	-	25,422	-	-
Credit cards and other personal loans	-	-	-	-
Auto and equipment finance	-	-	-	-
Commercial loans	-	-	-	-
Other	-	-	-	-
Total	**-**	**25,422**	**-**	**-**

Securitisation activity by facility provided	Notional amount $M
Liquidity facilities	(43)
Funding facilities	(722)
Underwriting facilities	-
Lending facilities	-
Credit enhancements	-
Holdings of securities (excluding trading book)	1,312
Other	4
Total	**551**

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

Securitisation exposure type - On balance sheet	Sep 15 $M	Mar 15 $M	Sep 14 $M
Liquidity facilities	5	6	-
Funding facilities	5,593	4,789	4,599
Underwriting facilities	-	-	-
Lending facilities	-	-	-
Credit enhancements	-	-	-
Holdings of securities (excluding trading book)	5,076	4,836	3,962
Protection provided	-	-	-
Other	168	315	356
Total	**10,842**	**9,946**	**8,917**

Securitisation exposure type - Off balance sheet	Sep 15 $M	Mar 15 $M	Sep 14 $M
Liquidity facilities	66	76	70
Funding facilities	-	-	-
Underwriting facilities	-	-	-
Lending facilities	-	-	-
Credit enhancements	-	-	-
Holdings of securities (excluding trading book)	-	-	-
Protection provided	-	-	-
Other	-	-	-
Total	**66**	**76**	**70**

Total Securitisation exposure type	Sep 15 $M	Mar 15 $M	Sep 14 $M
Liquidity facilities	71	82	70
Funding facilities	5,593	4,789	4,599
Underwriting facilities	-	-	-
Lending facilities	-	-	-
Credit enhancements	-	-	-
Holdings of securities (excluding trading book)	5,076	4,836	3,962
Protection provided	-	-	-
Other	168	315	356
Total	**10,908**	**10,022**	**8,987**

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

Securitisation risk weights	Sep-15 Regulatory credit exposure $M	Sep-15 Risk weighted assets $M	Mar-15 Regulatory credit exposure $M	Mar-15 Risk weighted assets $M	Sep-14 Regulatory credit exposure $M	Sep-14 Risk weighted assets $M
≤ 25%	10,799	1,065	9,891	952	8,762	853
>25 ≤ 35%	-	-	-	-	-	-
>35 ≤ 50%	-	-	-	-	-	-
>50 ≤ 75%	43	24	48	27	135	71
>75 ≤ 100%	66	66	76	77	71	71
>100 ≤ 650%	-	1	7	11	19	35
1250% (Deduction)	-	-	-	-	-	-
Total	**10,908**	**1,156**	**10,022**	**1,067**	**8,987**	**1,030**

Resecuritisation risk weights	Sep-15 Regulatory credit exposure $M	Sep-15 Risk weighted assets $M	Mar-15 Regulatory credit exposure $M	Mar-15 Risk weighted assets $M	Sep-14 Regulatory credit exposure $M	Sep-14 Risk weighted assets $M
≤ 25%	-	-	-	-	-	-
>25 ≤ 35%	-	-	-	-	-	-
>35 ≤ 50%	-	-	-	-	-	-
>50 ≤ 75%	-	-	-	-	-	-
>75 ≤ 100%	-	-	-	-	-	-
>100 ≤ 650%	-	-	-	-	-	-
1250% (Deduction)	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**

Total Securitisation risk weights	Sep-15 Regulatory credit exposure $M	Sep-15 Risk weighted assets $M	Mar-15 Regulatory credit exposure $M	Mar-15 Risk weighted assets $M	Sep-14 Regulatory credit exposure $M	Sep-14 Risk weighted assets $M
≤ 25%	10,799	1,065	9,891	952	8,762	853
>25 ≤ 35%	-	-	-	-	-	-
>35 ≤ 50%	-	-	-	-	-	-
>50 ≤ 75%	43	24	48	27	135	71
>75 ≤ 100%	66	66	76	77	71	71
>100 ≤ 650%	-	1	7	11	19	35
1250% (Deduction)	-	-	-	-	-	-
Total	**10,908**	**1,156**	**10,022**	**1,067**	**8,987**	**1,030**

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

No longer required under Basel III; defaulted exposures given a risk weight of 1250% are 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

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

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

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

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

	Sep 14		
Resecuritisation exposures retained or purchased	Exposures subject to CRM $M	Exposures not subject to CRM $M	Total $M
Residential mortgage	-	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
Commercial loans	-	-	-
Other	-	-	-
Total	-	-	-

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

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-15 $M	Mar-15 $M	Sep-14 $M
Liquidity facilities	-	-	-
Funding facilities	-	-	-
Underwriting facilities	-	-	-
Lending facilities	-	-	-
Credit enhancements	-	-	-
Holdings of securities	-	-	10
Protection provided	-	-	-
Other	-	-	-
Total	**-**	**-**	**10**

Securitisation exposure type - Off balance sheet	Sep-15 $M	Mar-15 $M	Sep-14 $M
Liquidity facilities	-	-	-
Funding facilities	-	-	-
Underwriting facilities	-	-	-
Lending facilities	-	-	-
Credit enhancements	-	-	-
Holdings of securities	-	-	-
Protection provided	-	-	-
Other	-	-	-
Total	**-**	**-**	**-**

Total Securitisation exposure type	Sep-15 $M	Mar-15 $M	Sep-14 $M
Liquidity facilities	-	-	-
Funding facilities	-	-	-
Underwriting facilities	-	-	-
Lending facilities	-	-	-
Credit enhancements	-	-	-
Holdings of securities	-	-	10
Protection provided	-	-	-
Other	-	-	-
Total	**-**	**-**	**10**

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

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

Table 12(t)(ii) & Table 12(u)(ii): Trading Book: Aggregate securitisation exposures subject to APS120 and the associated Capital requirements

ANZ does not have any aggregate Securitisation exposures subject to APS 120 and the associated Capital requirements.

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

ANZ does not have any Securitisation exposures deducted from Capital.

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

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

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

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

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

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

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

Sep 14			
Resecuritisation exposures retained or purchased	Exposures subject to CRM $M	Exposures not subject to CRM $M	Total $M
Residential mortgage	-	-	-
Credit cards and other personal loans	10	-	10
Auto and equipment finance	-	-	-
Commercial loans	-	-	-
Other	-	-	-
Total	**10**	**-**	**10**

Resecuritisation exposures by credit worthiness of guarantors	Exposures to Guarantors $M
Credit Rating Level 1	10
Credit Rating Level 2	-
Credit Rating Level 3	-
Credit Rating Level 4	-
Credit Rating Level 5 or below	-
No Guarantor	-
Total	**10**

Chapter 8 – Market risk

Table 13 Market risk – Standard approach

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

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

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

	Sep 15 $M	Mar 15 $M	Sep 14 $M
Interest rate risk	118	132	193
Equity position risk	1	-	-
Foreign exchange risk	-	-	-
Commodity risk	2	1	4
Total	**121**	**133**	**197**
Risk Weighted Assets equivalent	**1,513**	**1,663**	**2,466**

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

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

Table 14 Market risk – Internal models approach

Definition and scope of market risk

Market risk 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 all trading portfolios except for specific interest rate risk, equity specific risk and electricity trading. ANZ uses the Standardised approach to market risk capital for these segments.

Governance of market risk

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

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

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

Traded market risk

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

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

Measurement of market risk

ANZ's traded market risk management framework incorporates a risk measurement approach to quantify the magnitude of market risk within trading books. This approach and related analysis identifies the range of 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, sensitivities and stress tests. VaR is calculated in two forms – Standard and Stressed. Standard VaR is based on a historical simulation using a 500 day observation period. Stressed VaR is based on a one-year period of stressed market conditions. Traded VaR is calculated at a 99% confidence level with one and ten-day holding periods for standard VaR, and a ten-day holding period for stressed VaR. All material market risk factors and all trading portfolios are captured within the VaR model, with the exception of specific interest rate risk, equity specific risk and electricity trading, for which capital is calculated using the Standardised approach described in Table 13(b). Risk measurement methods and models are reviewed and validated by an independent function to comply with the prudential requirements for prudent valuation practices for positions held in the trading book contained in Attachment A of APS 111.

ANZ also applies a wide range of stress tests to the Group trading portfolio and to individual trading portfolios. Standard stress tests are executed daily and measure the potential loss that would arise from the largest market movements during the previous seven years given prescribed holding periods.

The prescribed holding periods used in the stress tests vary to reflect the liquidity of each product type.

Results from stress testing on severe yet plausible scenarios are calculated monthly and potential losses are reported to the CMRC.

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

Comparison of VaR estimates to gains/losses

Back testing involves 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.

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

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

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

	Six months ended 30 Sep 15			
99% 1 Day Value at Risk (VaR)	Mean $M	Maximum $M	Minimum $M	Period end $M
Foreign Exchange	6.7	14.2	2.8	5.0
Interest Rate	8.3	12.9	5.5	10.1
Credit	3.8	5.4	2.9	3.5
Commodity	2.4	3.6	1.5	1.6
Equity	0.9	4.5	0.1	2.5

	Six months ended 31 Mar 15			
99% 1 Day Value at Risk (VaR)	Mean $M	Maximum $M	Minimum $M	Period end $M
Foreign Exchange	9.0	18.2	3.3	4.6
Interest Rate	10.3	20.2	4.8	6.5
Credit	3.9	4.9	2.9	3.3
Commodity	2.3	3.5	1.3	2.2
Equity	1.3	6.3	0.4	0.6

	Six months ended 30 Sep 14			
99% 1 Day Value at Risk (VaR)	Mean $M	Maximum $M	Minimum $M	Period end $M
Foreign Exchange	11.2	18.5	5.4	11.9
Interest Rate	8.4	15.7	3.8	10.4
Credit	3.6	5.8	2.7	5.8
Commodity	1.4	2.7	0.9	1.9
Equity	1.0	2.5	0.5	1.3

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

99% 10 Day Stressed VaR	Six months ended 30 Sep 15 Mean $M	Maximum $M	Minimum $M	Period end $M
Foreign Exchange	36.1	71.6	13.3	25.5
Interest Rate	67.3	161.7	38.5	45.2
Credit	26.5	40.4	19.2	23.6
Commodity	10.7	19.6	5.3	11.6
Equity	1.3	5.0	0.5	2.9

99% 10 Day Stressed VaR	Six months ended 31 Mar 15 Mean $M	Maximum $M	Minimum $M	Period end $M
Foreign Exchange	67.7	138.7	30.9	53.7
Interest Rate	62.9	170.3	18.5	63.5
Credit	26.0	39.9	18.8	23.6
Commodity	14.3	22.2	9.7	9.8
Equity	1.2	7.3	0.3	0.7

99% 10 Day Stressed VaR	Six months ended 30 Sep 14 Mean $M	Maximum $M	Minimum $M	Period end $M
Foreign Exchange	73.0	171.5	22.8	81.4
Interest Rate	65.3	113.9	25.1	48.4
Credit	26.0	38.3	19.9	28.9
Commodity	14.8	44.9	3.6	10.9
Equity	12.2	42.0	0.2	0.9

Reporting of market risk

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

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

Mitigation of market risk

The Market Risk team's responsibilities, including the reporting and escalation processes described above, 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 of various commodities. All exposures are transferred to the trading book and centrally managed by the Global Markets business and monitored by Market Risk in accordance with the TFC framework.

Foreign exchange risk

Foreign exchange risk arises as a result of movements in relative values of various currencies.

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

Structural exposures from foreign investments and capital management activities are managed in accordance with policies approved by the Board Risk Committee, with the main objective of ensuring that ANZ's capital ratio is largely protected from changes in foreign exchange. As at 30 September 2015, 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 defined as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. This definition includes legal risk, and the risk of reputation loss, or damage arising from inadequate or failed internal processes, people and systems, but excludes strategic risk.

The objective of operational risk management is to ensure that risks are identified, assessed, measured, evaluated, treated, monitored and reported in a structured environment with appropriate governance 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.

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 Framework which is in accordance with Australian Prudential Standard APS 115. The Operational Risk Executive Committee (OREC) is the primary senior executive management forum responsible for the oversight of operational risk and the compliance risk control environment. OREC supports the Risk Committee in carrying out its role in relation to operational risk and compliance. OREC undertakes review and challenge of ANZ’s operational risk profile including treatment plans for extreme risks.

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

Enterprise Operational Risk is responsible for exercising governance and assurance over the operational risk framework, policy development, operational risk capital calculation and allocation and reporting of operational risk issues to executive committees.

Three lines of defense

ANZ operates three lines of defence model for the management of Operational Risk. Each line of Defence has defined roles, responsibilities and escalation paths to support effective two way communication and management of operational risk at ANZ. There are also on-going review mechanisms in place to ensure the Operational Risk Measurement and Management Framework (ORMMF) and Compliance frameworks continue to meet organisational needs and regulatory requirements.

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

- take primary accountability for the 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 (Divisional and Enterprise) form the second line of defence

Division Risk is accountable for:

- undertaking independent oversight of the application of the ORMMF;
- coordinating, oversighting and reporting on material operational risks and change initiatives;
- contributing to the identification of systemic issues and risk collation across the Division;
- undertaking review and challenge of business activities and ensuring that the strategy is maintained across the division.

Enterprise 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 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.

Global 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 Global 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 Enterprise 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

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

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

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

Operational risk reporting

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

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.

ANZ's advanced measurement approach

Enterprise 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 expected and unexpected losses as data inputs:

- historical internal losses captured and reported in the Bank-wide Operational Loss Database;
- 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 estimated 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 based on a 99.97% confidence interval.

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

Compliance

ANZ's Compliance Function is responsible for the development and maintenance of ANZ' 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

At ANZ, Compliance refers to our adherence to laws, regulations, industry standards and codes, internal policies and procedures and the principles of good governance that impact the Group and its activities.

Compliance Governance and structure

The roles of the Board Risk Committee and OREC are described in Section 2.

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.

ANZ's compliance principles and framework

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

1. 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.

2. Enterprise-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.

3. 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.

4. 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.

5. 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.

6. 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 on which capital gains are expected - These transactions are originated and managed by dedicated equity finance teams. These transactions represent funding solutions for known customers of ANZ and are governed by specific policies. ANZ ensures that the investment in these entities does not constitute a controlling interest in the relevant business.

- Equity investments made as the result of a work out of a problem exposure - From time to time, ANZ will take an equity stake in a customer as part of a work out arrangement for problem exposures. These investments are made only where there is no other viable option available and form an immaterial part of ANZ's equity exposures.

Valuation of and accounting for equity investments in the banking book

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

Investments in associates

Where significant influence 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 annually for impairment, using either market value, or a discounted cash flow methodology to assess value in-use.

Available-for-Sale Investments

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

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

Equity investments	Sep 15 $M Balance sheet value	Fair value
Value of listed (publicly traded) equities	2,328	1,853
Value of unlisted (privately held) equities	3,157	3,157
Total	**5,485**	**5,010**

Equity investments	Mar 15 $M Balance sheet value	Fair value
Value of listed (publicly traded) equities	2,415	2,941
Value of unlisted (privately held) equities	2,940	2,940
Total	**5,355**	**5,881**

Equity investments	Sep 14 $M Balance sheet value	Fair value
Value of listed (publicly traded) equities	2,341	2,656
Value of unlisted (privately held) equities	2,354	2,354
Total	**4,695**	**5,010**

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

Realised gains (losses) on equity investments	Half Year Sep 15 $M	Half Year Mar 15 $M	Half Year Sep 14 $M
Cumulative realised gains (losses) from disposals and liquidations in the reporting period	-	-	-
Total	**-**	**-**	**-**

Unrealised gains (losses) on equity investments	Half Year Sep 15 $M	Half Year Mar 15 $M	Half Year Sep 14 $M
Total unrealised gains (losses)	-	2	(2)
Reversal of prior period unrealised gains (losses) from disposals and liquidations in the reporting period	-	-	-
Total unrealised gains (losses) included in Common Equity Tier 1, Tier 1 and/or Tier 2 capital	**-**	**2**	**(2)**

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

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 GALCO to manage the strategic position (capital investment term) and oversee the interest rate risk arising from the repricing of asset and liabilities (mismatch risk) in the banking book. GALCO has delegated the management of this mismatch risk to the Global Markets business.

Markets Risk is the independent function responsible for:

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

Management framework

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

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

Measurement of interest rate risk in the banking book

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

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

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

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

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

Reporting of interest rate risk in the banking book

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

IRRBB regulatory capital is calculated monthly.

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

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

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

Results of standard shock scenario

The Basel II framework sets out a standard shock scenario of a 200 basis point parallel shift change in interest rates, in order to establish a comparable test across banks.
Table 17(b) that follows shows the results of this test by currency of the exposures outside the trading book.

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

Standard Shock Scenario Stress Testing: Interest rate shock applied	Change in Economic Value Sep 15 $M	Mar 15 $M	Sep 14 $M
AUD			
200 basis point parallel increase	(17)	(393)	(722)
200 basis point parallel decrease	34	455	774
NZD			
200 basis point parallel increase	17	(15)	(4)
200 basis point parallel decrease	(23)	11	1
USD			
200 basis point parallel increase	(112)	(53)	(32)
200 basis point parallel decrease	123	57	37
GBP			
200 basis point parallel increase	-	6	-
200 basis point parallel decrease	-	(6)	-
Other			
200 basis point parallel increase	(74)	(43)	13
200 basis point parallel decrease	80	50	(8)
IRRBB regulatory capital	**595**	**615**	**1,090**
IRRBB regulatory RWA	**7,433**	**7,690**	**13,627**

IRRBB stress testing methodology

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

Chapter 12 – 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. APRA intends to consult on the appropriate application of the Leverage Ratio as a minimum requirement for Australian ADIs once BCBS finalises its calibration for implementation as a Pillar 1 requirement by January 2018

At 30 September 2015, the Group's Leverage Ratio of 5.1% was above the 3% minimum currently proposed by the BCBS. Table 18 below shows the Group's Leverage Ratio calculation as at 30 September 2015 and Table 19 summarises the reconciliation of accounting assets and leverage ratio exposure measure at 30 September 2015.

Table 18 Leverage Ratio

		Sep 15 $M
On-balance sheet exposures		
1	On-balance sheet items (excluding derivatives and securities financing transactions (SFTs), but including collateral)	751,843
2	Asset amounts deducted in determining Basel III Tier 1 capital	(18,087)
3	Total on-balance sheet exposures (excluding derivatives and SFTs)	**733,756**
Derivative exposures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	16,078
5	Add-on amounts for potential future credit exposures (PFCE) associated with all derivatives transactions	27,960
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the Australian Accounting Standards	-
7	Deductions of receivables assets for cash variation margin provided in derivatives transactions	(8,121)
8	Exempted central counterparty (CCP) leg of client-cleared trade exposures	-
9	Adjusted effective notional amount of written credit derivatives	22,115
10	Adjusted effective notional offsets and add-on deductions for written credit derivatives	(19,917)
11	Total derivative exposures	**38,115**
Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	17,319
13	Netted amounts of cash payables and cash receivables of gross SFT assets	(763)
14	CCR exposure for SFT assets	741
15	Agent transaction exposures	-
16	Total securities financing transaction exposures	**17,297**
Other off-balance sheet exposures		
17	Off-balance sheet exposure at gross notional amount	271,129
18	Adjustments for conversion to credit equivalent amounts	(163,312)
19	Off-balance sheet items	**107,817**
Capital and total exposures		
20	**Tier 1 capital**	**45,484**
21	**Total exposures**	**896,985**
Leverage ratio		
22	**Basel III leverage ratio**	**5.1%**

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

		Sep 15 $M
1	Total consolidated assets as per published financial statements	889,900
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation.	(35,113)
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.	(47,510)
5	Adjustment for SFTs (i.e. repos and similar secured lending)	(22)
6	Adjustment for off-balance sheet exposures (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	107,817
7	Other adjustments	(18,087)
8	**Leverage ratio exposure**	**896,985**

Table 20 Liquidity Coverage Ratio disclosure template

		Sep 15		Jun 15	
		Total Unweighted Value $M	Total Weighted Value $M	Total Unweighted Value $M	Total Weighted Value $M
Liquid assets, of which:					
1	High-quality liquid assets (HQLA)	-	107,769	-	94,764
2	Alternative liquid assets (ALA)	-	54,000	-	54,000
3	Reserve Bank of New Zealand (RBNZ) securities	-	11,627	-	11,622
Cash outflows					
4	Retail deposits and deposits from small business customers	197,388	23,012	197,935	23,572
5	of which: stable deposits	70,393	3,520	71,583	3,579
6	of which: less stable deposits	126,995	19,492	126,352	19,993
7	Unsecured wholesale funding	182,225	108,264	173,363	104,543
8	of which: operational deposits (all counterparties) and deposits in networks for cooperative banks	48,026	11,918	43,475	10,780
9	of which: non-operational deposits (all counterparties)	120,049	82,196	115,299	79,174
10	of which: unsecured debt	14,150	14,150	14,589	14,589
11	Secured wholesale funding	-	5,993	-	5,077
12	Additional requirements	139,039	35,940	133,866	31,841
13	of which: outflows related to derivatives exposures and other collateral requirements	21,212	23,049	19,561	19,561
14	of which: outflows related to loss of funding on debt products	-	-	-	-
15	of which: credit and liquidity facilities	117,827	12,891	114,305	12,280
16	Other contractual funding obligations	13,597	-	14,944	-
17	Other contingent funding obligations	115,501	5,785	114,187	6,304
18	Total cash outflows		178,994		171,337
Cash inflows					
19	Secured lending (e.g. reverse repos)	9,270	15	13,624	15
20	Inflows from fully performing exposures	40,293	26,696	43,083	28,139
21	Other cash inflows	16,155	16,155	14,241	14,241
22	Total cash inflows	65,718	42,866	70,948	42,395
23	Total liquid assets	-	173,396	-	160,386
24	Total net cash outflows	-	136,128	-	128,942
25	Liquidity Coverage Ratio (%)		127.4%		124.4%

Liquidity Coverage Ratio (LCR)

ANZ's average LCR for the 6 months to 30 September 2015 was 1.26 with total liquid assets exceeding net outflows by an average of $34.4b.

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 HQLA1 securities making up on average 58.5% of total liquid assets.

Through the period the Liquidity Coverage Ratio has remained within a range of 1.20 to 1.35.
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 including LCR by site and currency, ensuring ongoing compliance across the network.

Appendix 1 – ANZ Bank (Europe) Limited

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

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

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

Glossary

Collective provision (CP)	Collective provision is the provision for credit losses that are inherent in the portfolio but not able to be individually identified. A collective provision may only be recognised when a loss event has already occurred. Losses expected as a result of future events, no matter how likely, are not recognised.
Credit Default Swaps (CDS)	A sequence of payments by one party (often called the "Buyer") in exchange for an obligation of the other party (often called the "Seller") to make a payment to the buyer if a credit default event occurs in relation to a specified reference entity (and possibly a specified obligation of that reference entity).
Credit exposure	The aggregate of all claims, commitments and contingent liabilities arising from on- and off-balance sheet transactions (in the banking book and trading book) with the counterparty or group of related counterparties.
Credit risk	The risk of financial loss resulting from the failure of ANZ's customers and counterparties to honour or perform fully the terms of a loan or contract.
Credit Valuation Adjustment (CVA)	Over the life of a derivative instrument, ANZ uses a CVA model to adjust fair value to take into account the impact of counterparty credit quality. The methodology calculates the present value of expected losses over the life of the financial instrument as a function of probability of default, loss given default, expected credit risk exposure and an asset correlation factor. Impaired derivatives are also subject to a CVA.
Days past due	The number of days a credit obligation is overdue, commencing on the date that the arrears or excess occurs and accruing for each completed calendar day thereafter.
Equity risk	Is the potential loss that may be incurred on equity investments in the banking book.
Expected loss (EL)	Expected loss is determined based on the expected average annual loss of principal over the economic cycle for the current risk profile of the lending portfolio.
Exposure at Default (EAD)	Exposure At Default is defined as the expected facility exposure at the date of default.
Impaired assets (IA)	Facilities are classified as impaired when there is doubt as to whether the contractual amounts due, including interest and other payments, will be met in a timely manner. Impaired assets include impaired facilities, and impaired derivatives. Impaired derivatives have a credit valuation adjustment (CVA), which is a market assessment of the credit risk of the relevant counterparties.
Impaired loans (IL)	Impaired loans comprise of drawn facilities where the customer's status is defined as impaired.
Individual provision charge (IPC)	Individual provision charge is the amount of expected credit losses on financial instruments assessed for impairment on an individual basis (as opposed to on a collective basis). It takes into account expected cash flow over the lives of those financial instruments.

Loss Given Default (LGD)	Loss Given Default is an estimate of the potential economic loss on a credit exposure, incurred as a consequence of obligor default and expressed as a percentage of the facility's EAD.
Market risk	The risk to ANZ's earnings arising from changes in interest rates, currency exchange rates and credit spreads, or from fluctuations in bond, commodity or equity prices. ANZ has grouped market risk into two broad categories to facilitate the measurement, reporting and control of market risk: Traded market risk - the risk of loss from changes in the value of financial instruments due to movements in price factors for physical and derivative trading positions. Trading positions arise from transactions where ANZ acts as principal with clients or with the market. Non-traded market risk (or balance sheet risk) - comprises interest rate risk in the banking book and the risk to the AUD denominated value of ANZ's capital and earnings due to foreign exchange rate movements.
Operational risk	The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, and the risk of reputation loss, or damage arising from inadequate or failed internal processes, people and systems, but excludes strategic risk.
Past due facilities	Facilities where a contractual payment has not been met or the customer is outside of contractual arrangements are deemed past due. Past due facilities include those operating in excess of approved arrangements or where scheduled repayments are outstanding but do not include impaired assets.
Probability of Default (PD)	Probability of Default is an estimate of the level of the risk of borrower default.
Recoveries	Payments received and taken to profit for the current period for the amounts written off in prior financial periods.
Regulatory Expected Loss	Regulatory Expected Loss is a measure of expected credit losses at the start of the year.
Restructured items	Restructured items comprise facilities in which the original contractual terms have been modified for reasons related to the financial difficulties of the customer. Restructuring may consist of reduction of interest, principal or other payments legally due, or an extension in maturity materially beyond those typically offered to new facilities with similar risk.
Risk Weighted Assets (RWA)	Assets which are weighted for credit risk according to a set formula (APS 112/113).
Securitisation risk	The risk of credit related losses greater than expected due to a securitisation failing to operate as anticipated, or of the values and risks accepted or transferred, not emerging as expected.
Slotting	Exposures where repayment is dependent on funds generated by the asset financed and with little/no recourse to any alternative source.
Write-Offs	Facilities are written off against the related provision for impairment when they are assessed as partially or fully uncollectable, and after proceeds from the realisation of any collateral have been received. Where individual provisions recognised in previous periods have subsequently decreased or are no longer required, such impairment losses are reversed in the current period income statement.

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