# 2014 BASEL III PILLAR 3 DISCLOSURE

## QUARTER ENDED 30 JUNE 2014

## 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 June 2014. 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.

## Table 3 Capital adequacy - Capital ratios and Risk Weighted Assets

| Risk weighted assets (RWA) | Jun-14 $M | Mar-14 $M | Dec-13 $M |
|---|---|---|---|
| **Subject to Advanced Internal Rating Based (IRB) approach** | | | |
| Corporate | 124,835 | 123,743 | 124,250 |
| Sovereign | 4,681 | 4,545 | 4,360 |
| Bank | 20,846 | 20,269 | 21,701 |
| Residential Mortgage | 50,821 | 50,426 | 49,396 |
| Qualifying Revolving Retail | 7,036 | 7,260 | 7,167 |
| Other Retail | 26,711 | 26,416 | 25,839 |
| **Credit risk weighted assets subject to Advanced IRB approach** | **234,930** | **232,659** | **232,713** |
| **Credit risk Specialised Lending exposures subject to slotting approach[1]** | **29,309** | **28,522** | **28,359** |
| **Subject to Standardised approach** | | | |
| Corporate | 25,054 | 26,255 | 24,281 |
| Residential Mortgage | 1,996 | 1,966 | 2,081 |
| Qualifying Revolving Retail | 1,796 | 1,796 | 1,819 |
| Other Retail | 1,066 | 1,073 | 1,070 |
| **Credit risk weighted assets subject to Standardised approach** | **29,912** | **31,090** | **29,251** |
| **Credit Valuation Adjustment and Qualifying Central Counterparties** | **7,227** | **8,065** | **9,170** |
| Credit risk weighted assets relating to securitisation exposures | 1,116 | 1,253 | 2,803 |
| Other assets | 3,834 | 3,739 | 4,083 |
| **Total credit risk weighted assets** | **306,328** | **305,328** | **306,379** |
| Market risk weighted assets | 7,536 | 7,104 | 5,988 |
| Operational risk weighted assets | 31,797 | 31,949 | 32,054 |
| Interest rate risk in the banking book (IRRBB) risk weighted assets | 13,711 | 16,359 | 18,264 |
| **Total risk weighted assets** | **359,372** | **360,740** | **362,685** |
| **Capital ratios (%)** | | | |
| Level 2 Common Equity Tier 1 capital ratio | **8.3%** | **8.3%** | **7.9%** |
| Level 2 Tier 1 capital ratio | **10.2%** | **10.3%** | **9.6%** |
| Level 2 Total capital ratio | **12.1%** | **12.1%** | **11.2%** |

**Credit Risk Weighted Assets (CRWA)**
Total CRWA movement increased $1 billion (0.3%) from March 2014 to $306.3 billion at June 2014. Growth in the Institutional business contributing to the increase in AIRB Corporate and Specialised Lending, and growth in the Australian Mortgage portfolio drove the increase in the IRB Residential Mortgage asset class. Growth in the portfolio was partially offset by the impact of foreign currency movements.

**Market Risk, Operational Risk and IRRBB Risk Weighted Assets (RWA)**
There were increases in Traded Market Risk over the quarter, subsequently reduced in July and August. Exposure remained within risk appetite at all times.

The decrease in Operational Risk RWA since March is due to foreign currency movements.

RWA for Interest Rate Risk in the Banking Book was lower due to reduction in repricing and yield curve risk combined with an improvement in embedded gains.

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

# Table 4 Credit risk exposures

### Table 4(a) part (i): Period end and average Exposure at Default[2] [3]

| | Jun 14 | | | | |
|---|---|---|---|---|---|
| **Advanced IRB approach** | Risk Weighted Assets $M | Exposure at Default $M | Average Exposure at Default for three months $M | Individual provision charge for three months $M | Write-offs for three months $M |
| Corporate | 124,835 | 235,653 | 233,045 | 61 | 168 |
| Sovereign | 4,681 | 93,603 | 84,122 | - | - |
| Bank | 20,846 | 109,879 | 108,077 | - | - |
| Residential Mortgage | 50,821 | 291,971 | 289,693 | 13 | 7 |
| Qualifying Revolving Retail | 7,036 | 20,950 | 21,037 | 55 | 74 |
| Other Retail | 26,711 | 39,089 | 38,815 | 104 | 100 |
| **Total Advanced IRB approach** | **234,930** | **791,145** | **774,789** | **233** | **349** |
| | | | | | |
| **Specialised Lending** | **29,309** | **34,762** | **34,366** | **2** | **10** |
| | | | | | |
| **Standardised approach** | | | | | |
| Corporate | 25,054 | 27,797 | 28,463 | (1) | 1 |
| Residential Mortgage | 1,996 | 5,550 | 5,500 | 3 | - |
| Qualifying Revolving Retail | 1,796 | 1,789 | 1,789 | 5 | 11 |
| Other Retail | 1,066 | 1,060 | 1,063 | 13 | 18 |
| **Total Standardised approach** | **29,912** | **36,196** | **36,815** | **20** | **30** |
| | | | | | |
| **Credit Valuation Adjustment and Qualifying Central Counterparties** | **7,227** | **12,329** | **11,311** | **-** | **-** |
| | | | | | |
| **Total** | **301,378** | **874,432** | **857,281** | **255** | **389** |

[2] Exposure at Default in Table 4 includes Advanced IRB, Specialised Lending and Standardised exposures, however does not include Securitisation, Equities or Other Assets exposures. Exposure at Default in Table 4 is gross of credit risk mitigation such as guarantees, credit derivatives, netting and financial collateral.

[3] Average Exposure at Default for quarter is calculated as the simple average of the balances at the start and the end of each three month period.

| | Mar 14 | | | | |
|---|---|---|---|---|---|
| **Advanced IRB approach** | Risk Weighted Assets $M | Exposure at Default $M | Average Exposure at Default for three months $M | Individual provision charge for three months $M | Write-offs for three months $M |
| Corporate | 123,743 | 230,437 | 232,722 | 220 | 144 |
| Sovereign | 4,545 | 74,641 | 81,012 | - | - |
| Bank | 20,269 | 106,275 | 110,128 | - | - |
| Residential Mortgage | 50,426 | 287,414 | 284,842 | 10 | 10 |
| Qualifying Revolving Retail | 7,260 | 21,124 | 21,162 | 46 | 64 |
| Other Retail | 26,416 | 38,540 | 38,173 | 99 | 97 |
| **Total Advanced IRB approach** | **232,659** | **758,431** | **768,039** | **375** | **315** |
| | | | | - | - |
| **Specialised Lending** | **28,522** | **33,969** | **33,423** | **39** | **21** |
| | | | | - | - |
| **Standardised approach** | | | | - | - |
| Corporate | 26,255 | 29,128 | 27,655 | 11 | (3) |
| Residential Mortgage | 1,966 | 5,450 | 5,560 | 1 | 3 |
| Qualifying Revolving Retail | 1,796 | 1,789 | 1,801 | 6 | 22 |
| Other Retail | 1,073 | 1,065 | 1,065 | 13 | 19 |
| **Total Standardised approach** | **31,090** | **37,432** | **36,081** | **31** | **41** |
| | | | | **-** | **-** |
| **Credit Valuation Adjustment and Qualifying Central Counterparties** | **8,065** | **10,293** | **8,635** | **-** | **-** |
| | | | | - | - |
| **Total** | **300,336** | **840,125** | **846,178** | **445** | **377** |

| | Dec 13 | | | | |
|---|---|---|---|---|---|
| **Advanced IRB approach** | Risk Weighted Assets $M | Exposure at Default $M | Average Exposure at Default for three months $M | Individual provision charge for three months $M | Write-offs for three months $M |
| Corporate | 124,250 | 235,007 | 229,547 | 4 | 90 |
| Sovereign | 4,360 | 87,383 | 80,615 | - | - |
| Bank | 21,701 | 113,981 | 108,309 | - | - |
| Residential Mortgage | 49,396 | 282,271 | 278,513 | 3 | 8 |
| Qualifying Revolving Retail | 7,167 | 21,199 | 21,187 | 51 | 70 |
| Other Retail | 25,839 | 37,806 | 37,420 | 79 | 89 |
| **Total Advanced IRB approach** | **232,713** | **777,647** | **755,591** | **137** | **257** |
| **Specialised Lending** | **28,359** | **32,877** | **32,475** | **(2)** | **16** |
| **Standardised approach** | | | | | |
| Corporate | 24,281 | 26,181 | 22,969 | 3 | 3 |
| Residential Mortgage | 2,081 | 5,670 | 5,431 | 1 | 8 |
| Qualifying Revolving Retail | 1,819 | 1,812 | 1,767 | 5 | 11 |
| Other Retail | 1,070 | 1,064 | 1,022 | 13 | 16 |
| **Total Standardised approach** | **29,251** | **34,727** | **31,189** | **22** | **38** |
| **Credit Valuation Adjustment and Qualifying Central Counterparties** | **9,170** | **6,976** | **6,023** | **-** | **-** |
| **Total** | **299,493** | **852,227** | **825,278** | **157** | **311** |

**Table 4(a) part (ii): Exposure at Default by portfolio type**

| Portfolio Type | Jun-14 $M | Mar-14 $M | Dec-13 $M | Average for the quarter ended Jun-14 $M |
|---|---|---|---|---|
| Cash | 18,630 | 16,264 | 18,838 | 17,447 |
| Contingents liabilities, commitments, and other off-balance sheet exposures | 144,212 | 144,397 | 142,518 | 144,305 |
| Derivatives | 91,810 | 95,155 | 96,918 | 93,483 |
| Settlement Balances | 29,315 | 24,749 | 30,606 | 27,032 |
| Investment Securities | 25,166 | 23,323 | 25,613 | 24,245 |
| Net Loans, Advances & Acceptances | 517,238 | 498,544 | 499,986 | 507,891 |
| Other assets | 14,634 | 5,926 | 6,974 | 10,280 |
| Trading Securities | 33,427 | 31,767 | 30,774 | 32,597 |
| **Total exposures** | **874,432** | **840,125** | **852,227** | **857,280** |

**Table 4(b): Impaired asset[4] [5], Past due loans[6], Provisions and Write-offs**

| | Jun 14 | | | | | |
|---|---|---|---|---|---|---|
| | Impaired derivatives $M | Impaired loans/ facilities $M | Past due loans ≥ 90 days $M | Individual provision balance $M | Individual provision charge for three months $M | Write-offs for three months $M |
| **Portfolios subject to Advanced IRB approach** | | | | | | |
| Corporate | 10 | 1,617 | 339 | 691 | 61 | 168 |
| Sovereign | - | - | - | - | - | - |
| Bank | - | - | - | - | - | - |
| Residential Mortgage | - | 357 | 1,221 | 128 | 13 | 7 |
| Qualifying Revolving Retail | - | 85 | - | - | 55 | 74 |
| Other Retail | - | 438 | 234 | 255 | 104 | 100 |
| **Total Advanced IRB approach** | **10** | **2,497** | **1,794** | **1,074** | **233** | **349** |
| | | | | | | |
| **Specialised Lending** | **57** | **572** | **113** | **124** | **2** | **10** |
| | | | | | | |
| **Portfolios subject to Standardised approach** | | | | | | |
| Corporate | - | 142 | 43 | 93 | (1) | 1 |
| Residential Mortgage | - | 51 | 7 | 16 | 3 | - |
| Qualifying Revolving Retail | - | 68 | - | 36 | 5 | 11 |
| Other Retail | - | 66 | 3 | 21 | 13 | 18 |
| **Total Standardised approach** | **-** | **327** | **53** | **166** | **20** | **30** |
| | | | | | | |
| **QCCP** | **-** | **-** | **-** | **-** | **-** | **-** |
| | | | | | | |
| **Total** | **67** | **3,396** | **1,960** | **1,364** | **255** | **389** |

[4] Impaired derivatives is net of credit valuation adjustment (CVA) of $83 million, being a market value based assessment of the credit risk of the relevant counterparties (March 2014: $80 million; December 2013: $78 million).

[5] Impaired loans / facilities include restructured items of $62 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 2014: $60 million; December 2013: $329 million).

[6] Not well secured portfolio managed retail exposures have been reclassified from past due loans ≥ 90 days to impaired loans / facilities.

| | Mar 14 | | | | | |
|---|---|---|---|---|---|---|
| | Impaired derivatives $M | Impaired loans/ facilities $M | Past due loans ≥ 90 days $M | Individual provision balance $M | Individual provision charge for three months $M | Write-offs for three months $M |
| **Portfolios subject to Advanced IRB approach** | | | | | | |
| Corporate | 1 | 1,871 | 300 | 792 | 220 | 144 |
| Sovereign | - | - | - | - | - | - |
| Bank | - | - | - | - | - | - |
| Residential Mortgage | - | 388 | 1,214 | 126 | 10 | 10 |
| Qualifying Revolving Retail | - | 86 | - | - | 46 | 64 |
| Other Retail | - | 424 | 225 | 242 | 99 | 97 |
| **Total Advanced IRB approach** | **1** | **2,769** | **1,739** | **1,160** | **375** | **315** |
| **Specialised Lending** | **57** | **635** | **100** | **138** | **39** | **21** |
| **Portfolios subject to Standardised approach** | | | | | | |
| Corporate | - | 146 | 39 | 97 | 11 | (3) |
| Residential Mortgage | - | 52 | 10 | 14 | 1 | 3 |
| Qualifying Revolving Retail | - | 72 | - | 39 | 6 | 22 |
| Other Retail | - | 58 | 3 | 22 | 13 | 19 |
| **Total Standardised approach** | **-** | **328** | **52** | **172** | **31** | **41** |
| **QCCP** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Total** | **58** | **3,732** | **1,891** | **1,470** | **445** | **377** |

| | Dec 13 | | | | | |
|---|---|---|---|---|---|---|
| | Impaired Derivatives $M | Impaired loans/ facilities $M | Past dueloans ≥ 90 days $M | Individual provision balance $M | Individual provision charge for three months $M | Write-offs for three months $M |
| **Portfolios subject to Advanced IRB approach** | | | | | | |
| Corporate | - | 2,047 | 377 | 738 | 4 | 90 |
| Sovereign | - | - | - | - | - | - |
| Bank | - | - | - | - | - | - |
| Residential Mortgage | - | 371 | 1,054 | 129 | 3 | 8 |
| Qualifying Revolving Retail | - | 79 | - | - | 51 | 70 |
| Other Retail | - | 367 | 198 | 210 | 79 | 89 |
| **Total Advanced IRB approach** | **-** | **2,864** | **1,629** | **1,077** | **137** | **257** |
| **Specialised Lending** | **59** | **743** | **94** | **116** | **(2)** | **16** |
| **Portfolios subject to Standardised approach** | | | | | | |
| Corporate | - | 156 | 26 | 97 | 3 | 3 |
| Residential Mortgage | - | 44 | 10 | 7 | 1 | 8 |
| Qualifying Revolving Retail | - | 87 | - | 52 | 5 | 11 |
| Other Retail | - | 58 | 3 | 26 | 13 | 16 |
| **Total Standardised approach** | **-** | **345** | **39** | **182** | **22** | **38** |
| **Total** | **59** | **3,952** | **1,762** | **1,375** | **157** | **311** |

**Table 4(c): Specific Provision Balance and General Reserve for Credit Losses [7]**

| | Jun 14 | | |
|---|---|---|---|
| | Specific Provision Balance $M | General Reserve for Credit Losses $M | Total $M |
| Collective Provision | 300 | 2,518 | 2,818 |
| Individual Provision | 1,364 | - | 1,364 |
| **Total Provision for Credit Impairment** | | | **4,182** |

| | Mar 14 | | |
|---|---|---|---|
| | Specific Provision Balance $M | General Reserve for Credit Losses $M | Total $M |
| Collective Provision | 300 | 2,543 | 2,843 |
| Individual Provision | 1,470 | - | 1,470 |
| **Total Provision for Credit Impairment** | | | **4,313** |

| | Dec 13 | | |
|---|---|---|---|
| | Specific Provision Balance $M | General Reserve for Credit Losses $M | Total $M |
| Collective Provision | 339 | 2,617 | 2,956 |
| Individual Provision | 1,375 | - | 1,375 |
| **Total Provision for Credit Impairment** | | | **4,331** |

[7] 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 5 Securitisation

### Table 5(a) part (i): Banking Book - Summary of current period's activity by underlying asset type and facility [8]

| | Jun-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 | - | (72) | - | - |
| Credit cards and other personal loans | - | - | - | - |
| Auto and equipment finance | - | - | - | - |
| Commercial loans | - | - | - | - |
| Other | - | - | - | - |
| **Total** | **-** | **(72)** | **-** | **-** |

| **Securitisation activity by facility provided** | | | | Notional amount $M |
|---|---|---|---|---|
| Liquidity facilities | - | - | - | (43) |
| Funding facilities | - | - | - | - |
| Underwriting facilities | - | - | - | - |
| Lending facilities | - | - | - | - |
| Credit enhancements | - | - | - | - |
| Holdings of securities (excluding trading book) | - | - | - | (93) |
| Other | - | - | - | - |
| **Total** | **-** | **-** | **-** | **(136)** |

| | Mar-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 | - | 2,670 | - | - |
| Credit cards and other personal loans | - | - | - | - |
| Auto and equipment finance | - | - | - | - |
| Commercial loans | - | - | - | - |
| Other | - | - | - | - |
| **Total** | **-** | **2,670** | **-** | **-** |

| **Securitisation activity by facility provided** | | | | Notional amount $M |
|---|---|---|---|---|
| Liquidity facilities | - | - | - | - |
| Funding facilities | - | - | - | 433 |
| Underwriting facilities | - | - | - | - |
| Lending facilities | - | - | - | - |
| Credit enhancements | - | - | - | - |
| Holdings of securities (excluding trading book) | - | - | - | (390) |
| Other | - | - | - | 44 |
| **Total** | **-** | **-** | **-** | **87** |

[8] Activity represents net movement in outstandings.

| | Dec-13 | | | |
|---|---|---|---|---|
| | 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 | - | 2,225 | - | - |
| Credit cards and other personal loans | - | - | - | - |
| Auto and equipment finance | - | - | - | - |
| Commercial loans | - | - | - | - |
| Other | - | - | - | - |
| **Total** | **-** | **2,225** | **-** | **-** |

| Securitisation activity by facility provided | | | | Notional amount $M |
|---|---|---|---|---|
| Liquidity facilities | - | - | - | - |
| Funding facilities | - | - | - | 454 |
| Underwriting facilities | - | - | - | - |
| Lending facilities | - | - | - | - |
| Credit enhancements | - | - | - | - |
| Holdings of securities (excluding trading book) | - | - | - | (150) |
| Other | - | - | - | - |
| **Total** | **-** | **-** | **-** | **304** |

**Table 5(a) part (ii): Trading Book - Summary of current period's activity by underlying asset type and facility**

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

**Securitisation activities:**

ANZ’s key securitisation activities are:

• Securitisation of ANZ originated assets (including self-securitisation) – use of securitisation as a funding, liquidity and capital management tool which may or may not involve the transfer of credit risk i.e. may or may not provide regulatory capital relief.

• Securitisation of third-party originated assets.

• Provision of facilities and services to securitisations or resecuritisations (where the underlying assets may be ANZ or third-party originated) e.g. liquidity, funding derivatives and/or credit support, structuring and arranging services, conduit management and (via ANZ Capel Court Limited) trust management services.

• Investment in securities - ANZ may purchase notes issued by securitisation programmes.

**Table 5(b) part (i): Banking Book – Exposure at Default by exposure type**

| Securitisation exposure type - On balance sheet | Jun14 $M | Mar14 $M | Dec13 $M |
|---|---|---|---|
| Liquidity facilities | - | - | - |
| Funding facilities | 5,967 | 6,511 | 6,735 |
| Underwriting facilities | - | - | - |
| Lending facilities | - | - | - |
| Credit enhancements | - | - | - |
| Holdings of securities (excluding trading book) | 2,556 | 2,650 | 2,890 |
| Protection provided | - | - | - |
| Other | 464 | 460 | 429 |
| **Total** | **8,987** | **9,621** | **10,054** |

| Securitisation exposure type - Off Balance Sheet | Jun14 $M | Mar14 $M | Dec13 $M |
|---|---|---|---|
| Liquidity facilities | 77 | 118 | 124 |
| Funding facilities | - | - | - |
| Underwriting facilities | - | - | - |
| Lending facilities | - | - | - |
| Credit enhancements | - | - | - |
| Holdings of securities (excluding trading book) | - | - | - |
| Protection provided | - | - | - |
| Other | - | - | - |
| **Total** | **77** | **118** | **124** |

| Total Securitisation exposure type | Jun14 $M | Mar14 $M | Dec13 $M |
|---|---|---|---|
| Liquidity facilities | 77 | 118 | 124 |
| Funding facilities | 5,967 | 6,511 | 6,735 |
| Underwriting facilities | - | - | - |
| Lending facilities | - | - | - |
| Credit enhancements | - | - | - |
| Holdings of securities (excluding trading book) | 2,556 | 2,650 | 2,890 |
| Protection provided | - | - | - |
| Other | 464 | 460 | 429 |
| **Total** | **9,064** | **9,739** | **10,178** |

### Table 5(b) part (ii): Trading Book - Exposure at Default by exposure type

| Securitisation exposure type - On balance sheet | Jun14 $M | Mar 14 $M | Dec13 $M |
|---|---|---|---|
| Liquidity facilities | - | - | - |
| Funding facilities | - | - | - |
| Underwriting facilities | - | - | - |
| Lending facilities | - | - | - |
| Credit enhancements | - | - | - |
| Holdings of securities | - | 23 | 11 |
| Protection provided | - | - | - |
| Other | - | - | - |
| **Total** | **-** | **23** | **11** |

| Securitisation exposure type - Off Balance Sheet | Jun14 $M | Mar 14 $M | Dec13 $M |
|---|---|---|---|
| Liquidity facilities | - | - | - |
| Funding facilities | - | - | - |
| Underwriting facilities | - | - | - |
| Lending facilities | - | - | - |
| Credit enhancements | - | - | - |
| Holdings of securities | - | - | - |
| Protection provided | - | - | - |
| Other | - | - | - |
| **Total** | **-** | **-** | **-** |

| Total Securitisation exposure type | Jun14 $M | Mar 14 $M | Dec13 $M |
|---|---|---|---|
| Liquidity facilities | - | - | - |
| Funding facilities | - | - | - |
| Underwriting facilities | - | - | - |
| Lending facilities | - | - | - |
| Credit enhancements | - | - | - |
| Holdings of securities | - | 23 | 11 |
| Protection provided | - | - | - |
| Other | - | - | - |
| **Total** | **-** | **23** | **11** |

# 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 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. |
| 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) | Impaired provision charge is the amount of expected credit losses on financial instruments assessed for impairment on an individual basis (as opposed to on a collective basis). It takes into account expected cash flows over the lives of those financial instruments. |
| Individual provisions (IP) | Individual provisions are assessed on a case-by-case basis for all individually managed impaired assets taking into consideration factors such as the realisable value of security (or other credit mitigants), the likely return available upon liquidation or bankruptcy, legal uncertainties, estimated costs involved in recovery, the market price of the exposure in secondary markets and the amount and timing of expected receipts and recoveries. |
| 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:<br>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.<br>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. |

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| Operational risk | The risk of loss resulting from inadequate or failed internal controls or from external events, including legal risk but excluding reputation risk. |
| Past due facilities | Facilities where a contractual payment has not been met or the customer is outside of contractual arrangements are deemed past due. Past due facilities include those operating in excess of approved arrangements or where scheduled repayments are outstanding but do not include impaired assets. |
| Recoveries | Payments received and taken to profit for the current period for the amounts written off in prior financial periods. |
| Restructured items | Restructured items comprise facilities in which the original contractual terms have been modified for reasons related to the financial difficulties of the customer. Restructuring may consist of reduction of interest, principal or other payments legally due, or an extension in maturity materially beyond those typically offered to new facilities with similar risk. |
| Risk Weighted Assets (RWA) | Assets 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. |
| 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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