



Reporting Standard ARS 112.1

Standardised Credit Risk – On-balance Sheet Assets

Objective of this Reporting Standard

This Reporting Standard outlines the overall requirements for the provision of information to APRA relating to an authorised deposit-taking institution's on-balance sheet assets.

It includes reporting form *ARF 112.1A Standardised Credit Risk – On-balance Sheet Assets* and should be read in conjunction with *Prudential Standard APS 112 Capital Adequacy: Standardised Approach to Credit Risk*.

Authority

1. This Reporting Standard is made under section 13 of the *Financial Sector (Collection of Data) Act 2001*.

Purpose

2. Information collected in *Reporting Form ARF 112.1A Standardised Credit Risk - On-balance Sheet Assets* (ARF 112.1A) is used by APRA for the purpose of prudential supervision including assessing compliance with *Prudential Standard APS 112 Capital Adequacy: Standardised Approach to Credit Risk* (APS 112). It may also be used by the Reserve Bank of Australia and the Australian Bureau of Statistics.

Application and commencement

3. This Reporting Standard applies to an authorised deposit-taking institution (ADI) that satisfies the following criteria:
 - (a) it is applying the standardised approach to credit risk to all or part of its on-balance sheet assets for capital adequacy purposes (refer to APS 112 or *Prudential Standard APS 113 Capital Adequacy: Internal Ratings-based Approach to Credit Risk*, as appropriate); and
 - (b) it is included in one of the classes of ADI to which this Reporting Standard applies, as set out in the following table.

| Class of ADI | Applicable |
|--------------------------------------|------------|
| ADI – Advanced or Applicant Advanced | Yes |

| | |
|--|-----|
| ADI – Standardised | Yes |
| Branch of a Foreign Bank | No |
| Building Society | Yes |
| Credit Union | Yes |
| Provider of Purchased Payment Facilities | No |
| Other ADI | Yes |

This Reporting Standard may also apply to the non-operating holding company (NOHC) of an ADI (refer to paragraph 6).

4. This Reporting Standard applies for reporting periods commencing on or after 1 January 2022.

Information required

5. An ADI to which this Reporting Standard applies must provide APRA with the information required by the version of ARF 112.1A designated for an ADI at Level 1 for each reporting period.
6. If an ADI to which this Reporting Standard applies is part of a Level 2 group, the ADI must also provide APRA with the information required by the version of ARF 112.1A designated for an ADI at Level 2 for each reporting period, unless the ADI is a subsidiary of an authorised NOHC. If the ADI is a subsidiary of an authorised NOHC, the ADI's immediate parent NOHC must provide APRA with the information required by that form for each reporting period. In doing so, the immediate parent NOHC must comply with this Reporting Standard (other than paragraphs 5 and 13) as if it were the relevant ADI.

Forms and method of submission

7. The information required by this Reporting Standard must be given to APRA in electronic format, using an electronic method available on APRA's website or by a method notified by APRA prior to submission.

Reporting periods and due dates

8. Subject to paragraph 9, an ADI to which this Reporting Standard applies must provide the information required by this Reporting Standard in respect of each quarter based on the financial year (within the meaning of the *Corporations Act 2001* (Corporations Act)) of the ADI.
9. APRA may, by notice in writing, change the reporting periods, or specified reporting periods, for a particular ADI, to require it to provide the information required by this Reporting Standard more frequently, or less frequently, having regard to:
 - (a) the particular circumstances of the ADI;
 - (b) the extent to which the information is required for the purposes of the prudential supervision of the ADI; and
 - (c) the requirements of the Reserve Bank of Australia or the Australian Bureau of Statistics.

10. Subject to paragraph 12, an advanced or applicant advanced ADI to which this Reporting Standard Applies must provide the information required by this Reporting Standard to APRA within 30 business days after the end of the quarter based on the financial year (within the meaning of the Corporations Act) of the ADI. All other ADIs to which this Reporting Standard applies must provide the information required by this Reporting Standard to APRA within 35 calendar days after the end of the quarter based on the financial year (within the meaning of the Corporations Act 2001) of the ADI.
11. In certain cases an ADI may be both an ‘ADI – advanced or applicant advanced’ and a ‘ADI – standardised’. The instructions associated with ARF 112.1A set out the relevant reporting requirements and timeframes in those circumstances.
12. APRA may grant an ADI an extension of a due date, in writing, in which case the new due date for the provision of the information will be the due date specified on the notice of extension.

Quality control

13. The information provided by an ADI under this Reporting Standard (except for the information required under paragraph 6) must be the product of systems, processes and controls that have been reviewed and tested by the external auditor of the ADI as set out in *Prudential Standard APS 310 Audit and Related Matters*. Relevant standards and guidance statements issued by the Auditing and Assurance Standards Board provide information on the scope and nature of the review and testing required from external auditors. This review and testing must be done on an annual basis or more frequently if required by the external auditor to enable the external auditor to form an opinion on the accuracy and reliability of the information provided by an ADI under this Reporting Standard.
14. All information provided by an ADI under this Reporting Standard must be subject to systems, processes and controls developed by the ADI for the internal review and authorisation of that information. These systems, processes and controls are to assure the completeness and reliability of the information provided.

Authorisation

15. When an officer or agent of an ADI submits information under this Reporting Standard using a method notified by APRA, the officer or agent must digitally sign the relevant information using a digital certificate acceptable to APRA.

Transitional

16. An ADI must report under the old Reporting Standard in respect of a transitional reporting period. For these purposes:

old reporting standard means the Reporting Standard revoked in the determination making this Reporting Standard (being the Reporting Standard which this Reporting Standard replaces).

transitional reporting period means a reporting period under the old Reporting Standard:

- (a) which ended before the date of revocation of the old Reporting Standard; and

- (b) in relation to which the ADI was required, under the old Reporting Standard, to report by a date on or after the date of revocation of the old Reporting Standard.

Note: For the avoidance of doubt, if an ADI was required to report under an old Reporting Standard, and the reporting documents were due before the date of revocation of the old Reporting Standard, the ADI is still required to provide any overdue reporting documents in accordance with the old Reporting Standard.

Interpretation

17. In this Reporting Standard:

ADI means an authorised deposit-taking institution within the meaning of the *Banking Act 1959*.

ADI – advanced or applicant advanced means an Australian-owned bank or a foreign subsidiary ADI that has APRA’s approval or is seeking APRA’s approval to use an internal ratings-based approach to credit risk and/or an advanced measurement approach to operational risk for capital adequacy purposes.

ADI – standardised means an Australian-owned bank or a foreign subsidiary ADI that uses the standardised approaches to credit risk and operational risk for capital adequacy purposes in respect of the whole of its operations.

ADI Reporting Category A is as defined in *Reporting Standard ARS 701.0 Definitions for the EFS Collection* (ARS 701.0).

ADI Reporting Category B is as defined in ARS 701.0.

APRA means the Australian Prudential Regulation Authority established under the *Australian Prudential Regulation Authority Act 1998*.

Australian-owned bank means a locally incorporated ADI that assumes or uses the word ‘bank’ in relation to its banking business and is not a foreign subsidiary bank.

authorised NOHC has the meaning given in the *Banking Act 1959*.

branch of a foreign bank means a ‘foreign ADI’ as defined in the *Banking Act 1959*, but does not include an SCCI that is a foreign ADI.

building society means a locally incorporated ADI that assumes or uses the expression ‘building society’ in relation to its banking business.

business days means ordinary business days, exclusive of Saturdays, Sundays and public holidays.

class of ADI means each of the following:

- (i) ADI – advanced or applicant advanced;
- (ii) ADI – standardised;
- (iii) branch of a foreign bank;

- (iv) building society;
- (v) credit union;
- (vi) other ADI; and
- (vii) provider of purchased payment facilities.

credit union means a locally incorporated ADI that assumes or uses the expression ‘credit union’ in relation to its banking business and, for the purposes of this reporting standard, includes Cairns Penny Savings and Loans Limited.

foreign subsidiary bank means a locally incorporated ADI in which a bank that is not locally incorporated has a stake of more than 15 per cent.

immediate parent NOHC means an authorised NOHC, or a subsidiary of an authorised NOHC, that is an immediate parent NOHC within the meaning of *Prudential Standard APS 001 Definitions (APS 001)*.

Level 1 has the meaning in APS 001.

Level 2 has the meaning in APS 001.

locally incorporated means incorporated in Australia or in a State or Territory of Australia, by or under a Commonwealth, State or Territory law.

other ADI means an ADI that is not an Australian-owned bank, a branch of a foreign bank, a building society, a credit union, a foreign subsidiary bank, a provider of purchased payment facilities or a specialist credit card institution, but for the purposes of this Reporting Standard, does not include Cairns Penny Savings and Loans Limited.

provider of purchased payment facilities means an ADI that is subject to a condition on its authority under section 9 of the *Banking Act 1959* confining the banking business that the ADI is authorised to carry on to providing purchased payment facilities.

reporting period means a period mentioned in paragraph 8 or, if applicable, paragraph 9.

Reporting Category A has the meaning given by *Reporting Standard ARS 701.0 ABS/RBA Definitions for the EFS Collection (ARS 701.0)*.

Reporting Category B has the meaning given by ARS 701.0.

stake means a stake determined under the *Financial Sector Shareholdings Act 1998*, as if the only associates that were taken into account under paragraph (b) of subclause 10(1) of the Schedule to that Act were those set out in paragraphs (h), (j) and (l) of subclause 4(1).

subsidiary has the meaning given in the *Corporations Act 2001*.

18. APRA may determine, in writing, that an individual ADI of one class of ADI is to be treated, for the purposes of this Reporting Standard, as though it were an ADI of another class of ADI.

19. Unless the contrary intention appears, any reference to an Act, Prudential Standard, Reporting Standard, or Australian Accounting or Auditing Standard is a reference to the instrument as in force or existing from time to time

ARF_112_1A: Standardised credit risk - On-balance sheet assets

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|-----------------------------------|---|
| Australian Business Number | Institution Name |
| | |
| Reporting Period | Scale Factor |
| Quarterly | Millions to one decimal place for Reporting Category B ADIs Whole dollars no decimal place for Reporting Category A ADIs |
| Reporting Consolidation | |
| Level 1 / Level 2 | |

| Exposures before CRM (1) | Exposures after CRM (2) | Risk-weights % (3) | RWA (4) |
|-----------------------------|----------------------------|-----------------------|------------|
|-----------------------------|----------------------------|-----------------------|------------|

1. Class I - Cash items

- 1.1. Notes and coins
- 1.2. Australian dollar balances with the Reserve Bank of Australia
- 1.3. Gold bullion held in the ADI's own vault or on an allocated basis by another party to the extent that it is backed by gold bullion liabilities
- 1.4. Cash items in the process of collection

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2. Class II - Claims on Australian and foreign governments and central banks

- 2.1. Australian dollar claims on the Australian Government
- 2.2. Claims on overseas central governments and state or regional governments, State or Territory Governments in Australia (including State or Territory central borrowing authorities), central banks (including the Reserve Bank of

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Australia) and foreign currency claims on the Australian Government

- 2.2.1. Credit rating grade 1
- 2.2.2. Credit rating grade 2
- 2.2.3. Credit rating grade 3
- 2.2.4. Credit rating grade 4
- 2.2.5. Credit rating grade 5
- 2.2.6. Credit rating grade 6
- 2.2.7. Unrated
- 2.2.8. Total

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2.3. Claims on local governments and non-commercial public sector entities in Australia and overseas

- 2.3.1. Credit rating grade 1
- 2.3.2. Credit rating grade 2
- 2.3.3. Credit rating grade 3
- 2.3.4. Credit rating grade 4
- 2.3.5. Credit rating grade 5
- 2.3.6. Credit rating grade 6
- 2.3.7. Unrated
- 2.3.8. Total

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3. Class III - Claims on international banking agencies, regional development banks, ADIs & overseas banks

3.1. Claims on international banking agencies and multilateral regional development banks

- 3.1.1. Credit rating grade 1
- 3.1.2. Credit rating grade 2
- 3.1.3. Credit rating grade 3
- 3.1.4. Credit rating grade 4

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- 3.1.5. Credit rating grade 5
- 3.1.6. Credit rating grade 6
- 3.1.7. Unrated
- 3.1.8. Concessional risk rate for specified highly rated institutions and banks
- 3.1.9. Issue-specific short-term rated
- 3.1.10. Total
- 3.2. Claims (other than equity) on ADIs & overseas banks, being claims with an original maturity of three months or less
 - 3.2.1. Credit rating grade 1
 - 3.2.2. Credit rating grade 2
 - 3.2.3. Credit rating grade 3
 - 3.2.4. Credit rating grade 4
 - 3.2.5. Credit rating grade 5
 - 3.2.6. Credit rating grade 6
 - 3.2.7. Unrated
 - 3.2.8. Exposures to unrated ADIs or overseas banks subject to a risk-weight floor equal to that applicable to exposures to their central governments
 - 3.2.9. Issue-specific short-term rated
 - 3.2.10. Total
- 3.3. Claims (other than equity) on ADIs & overseas banks, being claims with an original maturity of more than three months
 - 3.3.1. Credit rating grade 1
 - 3.3.2. Credit rating grade 2
 - 3.3.3. Credit rating grade 3
 - 3.3.4. Credit rating grade 4
 - 3.3.5. Credit rating grade 5

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- 3.3.6. Credit rating grade 6
- 3.3.7. Unrated
- 3.3.8. Exposures to unrated ADIs or overseas banks subject to a risk-weight floor equal to that applicable to exposures to their central governments
- 3.3.9. Issue-specific short-term rated
- 3.3.10. Total

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4. Class IV - Claims secured against eligible residential mortgages

4.1. Standard eligible mortgage - no mortgage insurance

- 4.1.1. LVR 0%-60%
- 4.1.2. LVR 60.01% - 80%
- 4.1.3. LVR 80.01% - 90%
- 4.1.4. LVR 90.01% - 100%
- 4.1.5. LVR > 100.01%

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4.2. Standard eligible mortgage - mortgage insured with an acceptable LMI

- 4.2.1. LVR 0%-60%
- 4.2.2. LVR 60.01% - 80%
- 4.2.3. LVR 80.01% - 90%
- 4.2.4. LVR 90.01% - 100%
- 4.2.5. LVR > 100.01%

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4.3. Non-standard eligible mortgage - no mortgage insurance

- 4.3.1. LVR 0%-60%
- 4.3.2. LVR 60.01% - 80%
- 4.3.3. LVR 80.01% - 90%
- 4.3.4. LVR 90.01% - 100%
- 4.3.5. LVR > 100.01%

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4.4. Non-standard eligible mortgage - mortgage insured with an acceptable LMI

- 4.4.1. LVR 0%-60%
- 4.4.2. LVR 60.01% - 80%
- 4.4.3. LVR 80.01% - 90%
- 4.4.4. LVR 90.01% - 100%
- 4.4.5. LVR > 100.01%

4.5. Total loans and all other claims secured against eligible residential mortgages

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5. Class V - Unsettled and failed transactions

5.1. Delivery-versus-payment transactions

- 5.1.1. 5 to 15 days
- 5.1.2. 16 to 30 days
- 5.1.3. 31 to 45 days
- 5.1.4. 46 days or more

5.2. Non-delivery-versus-payment transactions

- 5.2.1. 0 to 4 days
- 5.2.2. 5 days or more

5.3. Total

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6. Class VI - Non Performing claims

6.1. Unsecured portion of any claim (other than a loan or claim secured against eligible residential mortgages) that is past due for more than 90 days and/or non-performing, where specific provisions are:

- 6.1.1. Less than 20 per cent of the outstanding amount of the past due claim or non-performing asset
- 6.1.2. No less than 20 per cent of the outstanding amount of the past due claim or non-performing asset

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6.2. Loans and claims secured against eligible residential mortgages that are past due for more than 90 days and/or non-performing, where the claim is:

- 6.2.1. Not mortgage insured with an acceptable LMI
- 6.2.2. Mortgage insured with an acceptable LMI, and the total of past due loans and claims covered by each single insurer does not exceed the ADI's large exposure limit
- 6.2.3. Mortgage insured with an acceptable LMI, and the total of past due loans and claims covered by each single insurer exceeds the ADI's large exposure limit

6.3. Total

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7. Class VII - Other assets and claims

7.1. Claims (other than equity) on Australian and international corporate counterparties (including insurance and securities companies) and commercial public sector entities

- 7.1.1. Credit rating grade 1
- 7.1.2. Credit rating grade 2
- 7.1.3. Credit rating grade 3
- 7.1.4. Credit rating grade 4
- 7.1.5. Credit rating grade 5
- 7.1.6. Credit rating grade 6
- 7.1.7. Unrated
- 7.1.8. Issue-specific short-term rated
- 7.1.9. Total

7.2. All claims (other than equity) on private sector counterparties (other than ADIs, overseas banks and corporate counterparties)

7.3. Investments in premises, plant and equipment and all other fixed assets

7.4. Claims on all fixed assets under operating leases

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- 7.5. Equity exposures that are not deducted from capital and are listed on a recognised exchange
- 7.6. Equity exposures that are not deducted from capital and are not listed on a recognised exchange
- 7.7. Margin lending against listed instruments on recognised exchanges
- 7.8. Margin lending against unlisted instruments
- 7.9. All other assets and claims not specified elsewhere

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8. Total on-balance sheet credit risk-weighted assets

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Reporting Form ARF 112.1A

Standardised Credit Risk – On-balance Sheet Assets

Instruction Guide

This instruction guide is designed to assist in the completion of the reporting form *Standardised Credit Risk - On-balance Sheet Assets*. This form captures the risk-weighted assets (RWA) relating to an authorised deposit-taking institution's (ADI's) on-balance sheet assets under the standardised approach to credit risk. In completing this form, an ADI should refer to *Prudential Standard APS 112 Capital Adequacy: Standardised Approach to Credit Risk* (APS 112).

General directions and notes

Reporting entity

This form is to be completed at Level 1 and Level 2¹ by an ADI that satisfies both of the following requirements:

- (a) it is applying the standardised approach to credit risk to all or part of its on-balance sheet assets for capital adequacy purposes (refer to APS 112 or *Prudential Standard APS 113 Capital Adequacy: Internal Ratings-based Approach to Credit Risk*, as appropriate); and
- (b) it is included in one of the classes of ADI to which this form applies, as set out in the following table.

| Class of ADI | Reporting required |
|---|--------------------|
| ADI – Advanced or Applicant Advanced ² | Yes |
| ADI – Standardised | Yes |
| Branch of a Foreign Bank | No |
| Building Society | Yes |
| Credit Union | Yes |
| Provider of Purchased Payment Facilities | No |
| Other ADI | Yes |

If an ADI is a subsidiary of an authorised non-operating holding company (NOHC), the report at Level 2 is to be provided by the ADI's immediate parent NOHC.³

¹ Level 1 and Level 2 are defined in accordance with *Prudential Standard APS 001 Definitions*.

² When an ADI is seeking APRA's approval to use the internal ratings-based approach to credit risk and/or an advanced measurement approach to operational risk and is therefore classified as a 'ADI – Advanced or Applicant Advanced', the ADI may concurrently be classified as a 'ADI – Standardised' and therefore also subject to the reporting requirements for a 'ADI – Standardised' (refer to the section below on "Where both 'ADI – Standardised' and 'ADI – Advanced or Applicant Advanced' reporting requirements and timeframes apply to an ADI").

³ Refer to paragraph 6 of *Reporting Standard ARS 112.1 Standardised Credit Risk – On-balance Sheet Assets*.

Securitisation deconsolidation principle

Except as otherwise specified in these instructions, the following applies:

1. Where an ADI (or a member of its Level 2 consolidated group) participates in a securitisation that meets APRA's operational requirements for regulatory capital relief under *Prudential Standard APS 120 Securitisation* (APS 120):
 - (a) special purpose vehicles (SPVs) holding securitised assets may be treated as non-consolidated independent third parties for regulatory reporting purposes, irrespective of whether the SPVs (or their assets) are consolidated for accounting purposes;
 - (b) the assets, liabilities, revenues and expenses of the relevant SPVs may be excluded from the ADI's reported amounts in APRA's regulatory reporting returns; and
 - (c) the underlying assets (i.e. the pool) under such a securitisation may be excluded from the calculation of the ADI's regulatory capital (refer to APS 120). However, the ADI must still hold regulatory capital for the securitisation exposures⁴ that it retains or acquires and such exposures are to be reported in reporting form *ARF 120.0 Standardised – Securitisation* or the series of reporting forms *ARF 120.1A to ARF 120.1C IRB – Securitisation* (as appropriate). The RWA relating to such securitisation exposures must also be reported in reporting form *ARF 110.0 Capital Adequacy* (ARF 110.0).
2. Where an ADI (or a member of its Level 2 consolidated group) participates in a securitisation that does not meet APRA's operational requirements for regulatory capital relief under APS 120, or the ADI elects to treat the securitised assets as on-balance sheet assets under APS 112 or *Prudential Standard APS 113 Capital Adequacy: Internal Ratings-based Approach to Credit Risk* (APS 113), such exposures are to be reported as on-balance sheet assets in APRA's regulatory reporting returns. In addition, these exposures must also be reported as a part of the ADI's total securitised assets within reporting form *ARF 120.2 Securitisation – Supplementary Items*.

Reporting period and timeframes for lodgement

This form is to be completed as at the last day of the stated reporting period (i.e. the relevant quarter). The following table specifies the number of business days after the end of the relevant reporting period within which each class of ADI must submit data to APRA.

| Class of ADI | Number of days |
|---|------------------|
| ADI – Advanced or Applicant Advanced | 30 business days |
| ADI – Standardised | 35 calendar days |
| Branch of a Foreign Bank | Not applicable |
| Building Society | 35 calendar days |
| Credit Union | 35 calendar days |
| Specialist Credit Card Institution (SCCI) | 35 calendar days |
| Provider of Purchased Payment Facilities | Not applicable |

⁴ Securitisation exposures are defined in accordance with APS 120.

| | |
|------------------------|------------------|
| Other ADI ⁵ | 35 calendar days |
|------------------------|------------------|

An immediate parent NOHC must submit data to APRA within the same timeframe as its subsidiary ADI.

Where both ‘ADI – Standardised’ and ‘ADI – Advanced or Applicant Advanced’ reporting requirements and timeframes apply to an ADI

In the following cases, an Australian-owned bank or a foreign subsidiary bank must meet reporting requirements and timeframes applicable to both a ‘ADI – Advanced or Applicant Advanced’ and a ‘ADI – Standardised’:

- (a) where the ADI is operating under the standardised approach to credit risk under APS 112, but has applied for IRB approval under APS 113, in which case the ADI will be both a ‘ADI – Advanced or Applicant Advanced’ and a ‘ADI – Standardised’; and
- (b) where the ADI has received IRB approval under APS 113 in respect of most (but not all) of its operations, and has approval for partial use of the standardised approach under APS 112 for the remainder of its operations.

In either case the ADI must report under ARF 112.1A (the form) in accordance with the following table.

| Description of ADI | Reporting requirement | Timeframes for lodgement |
|--|---|--|
| ADI is operating under the APS 112 standardised approach to credit risk, but has applied to adopt IRB approach for <u>all</u> its operations | Report under the form (for purposes of calculating credit risk component of regulatory capital for all of its operations) | All other applicable ADI timeframe (within 35 calendar days) |
| ADI is operating under the APS 112 standardised approach, but has applied to adopt the IRB approach for <u>most (but not all)</u> of its operations (or APRA has indicated that it does not propose to grant IRB approval in respect of all of the ADI’s operations) | Report under the form (for purposes of calculating credit risk component of regulatory capital for all of its operations) | All other applicable ADI timeframe (within 35 calendar days) |
| | Separately report under the form in respect of assets that will remain under the | ‘ADI – Advanced or Applicant Advanced’ |

⁵ Cairns Penny Savings and Loans Limited is to be treated in accordance with the reporting period requirements applicable to credit unions.

| Description of ADI | Reporting requirement | Timeframes for lodgement |
|--|--|--|
| | standardised approach (i.e. partial use) after IRB approval given (for purposes of assessing prospective credit risk component of regulatory capital calculation after IRB approval (i.e. ‘parallel run’ of data)) | timeframe (within 30 business days) |
| ADI has IRB approval, but some operations remain under the standardised approach | Report under the form in respect of operations that remain under standardised approach (for purposes of calculating partial use credit risk component of regulatory capital) | ‘ADI – Advanced or Applicant Advanced’ timeframe (within 30 business days) |

These ADIs will also have certain reporting obligations under the ARF 113 series of reporting forms.

Unit of measurement

This form should be completed in Australian dollars (AUD) and in accordance with the units set out for each class of ADI in the following table.

| Class of ADI | Units |
|----------------------------------|--|
| <i>Reporting Category A ADIs</i> | Whole dollars with no decimal place |
| <i>Reporting Category B ADIs</i> | Millions of dollars rounded to one decimal place |

An immediate parent NOHC must complete this form in AUD and in accordance with the same units as its subsidiary ADI.

Amounts denominated in foreign currency are to be converted to AUD in accordance with *AASB 121 The Effects of Changes in Foreign Exchange Rates*.

Scope

The risk-weighting process used for measuring the on-balance sheet credit RWA of an ADI covers all or part of the ADI’s on-balance sheet assets that are subject to the standardised approach, except the following specifically excluded items:

- (a) those assets or investments that are required to be deducted from Tier 1 and/or Tier 2 capital under *APS 111 Capital Adequacy: Measurement of Capital* (APS 111); and
- (b) securitisation exposures, which are subject to the requirements of APS 120.

Definitions

In this instruction guide and its corresponding reporting form (ARF 112.1A), the following expressions have the defined meanings as set out below:

State and Territory central borrowing authorities in Australia

These include the following corporations established by State and Territory governments to provide finance for government authorities and to manage their surplus funds:

- (a) New South Wales Treasury Corporation (NSW TCorp);
- (b) Treasury Corporation of Victoria (TCV);
- (c) Queensland Treasury Corporation (QTC);
- (d) South Australian Government Financing Authority (SAFA);
- (e) Western Australian Treasury Corporation (WATC);
- (f) Tasmanian Public Finance Corporation (Tas Corp);
- (g) Northern Territory Treasury Corporation (NT TCorp); and
- (h) ACT Treasury.

International banking agencies and multilateral regional development banks

These include, for example, the International Monetary Fund, the International Bank for Reconstruction and Development, the Bank for International Settlements and the Asian Development Bank.

Overseas banks

This category includes a financial institution in another country that:

- (a) has the power to accept deposits in the regular course of business;
- (b) is supervised by the supervisor of banks or by state-based regulatory agencies; and
- (c) is subject to the same prudential requirements as banks (including capital adequacy).

ADIs

ADIs have an authority under subsection 9(3) of the *Banking Act 1959* to carry on banking business in Australia (refer to APRA's website for a complete list of ADIs). ADIs include:

- (a) Australian-owned banks;
- (b) foreign subsidiary banks;
- (c) branches of foreign banks;

- (d) credit unions, credit societies and credit co-operatives;
- (e) building societies;
- (f) Specialist Credit Card Institutions (SCCIs);
- (g) providers of purchased payment facilities; and
- (h) other ADIs.

Specific instructions (for selected items)

Guidance on columns 1 to 4

Column 1 Exposures before CRM

Report on-balance sheet items at current book value (i.e. current outstanding amount including accrued interest or revaluations, and net of any specific provision or associated depreciation).

Column 2 Exposures after CRM

Report the adjusted amount for each category of on-balance sheet asset after taking into account the credit risk mitigation (CRM) techniques used by the ADI (refer to Attachments G, H and I to APS 112). In cases where CRM techniques cannot be used to reduce the credit risk associated with an asset, the exposure amount after CRM to be reported in this column will equate to the exposures before CRM amount reported in column 1.

Column 3 Risk-weights %

Risk-weights are generally pre-defined in the form in accordance with the weightings detailed in Attachment A to APS 112. Where risk-weights have not been pre-defined in the form, the ADI does not need to report a risk-weight as more than one weighting may have been applied in relation to that asset type (see the column 4 *RWA* section below for further detail).

Column 4 RWA

Generally, the RWA is a derived field in the form, calculated by multiplying column 2 *Exposures after CRM* by column 3 *Risk-weights %*. In some cases, however, the RWA must be entered manually. The RWA amount for some asset types may consist of several discrete asset exposures, each potentially attracting different risk-weights. The ADI must, by reference to Attachment A to APS 112, determine the appropriate risk-weight(s) to be applied to the exposure(s) to calculate the RWA for that asset type and report the total for the asset type as a single RWA amount.

1. Class I – Cash items

1.1 Notes and coins

Include all notes and coins irrespective of currency of issue. Notes and coins in transit between any branches or offices of the reporting entity should be reported.

1.2 Australian dollar balances with the Reserve Bank of Australia

Include balances denominated in Australian dollars held in the Exchange Settlement Account with the Reserve Bank of Australia (RBA) and all other Australian dollar claims on the RBA. Report all other claims on the RBA under item 2.2 of Class II.

1.3 Gold bullion held in the ADI's own vault or on an allocated basis by another party to the extent that it is backed by gold bullion liabilities

Include:

- (a) gold bullion held in the ADI's own vaults or on an allocated basis by another party to the extent that it is backed by gold bullion liabilities (gold bullion liabilities include gold borrowings, gold futures and forward sales of gold); and
- (b) all claims collateralised by gold to the extent that the underlying claim being collateralised is denominated in gold.

Exclude:

- (a) gold held in safe custody for other institutions; and
- (b) gold held on an unallocated basis by another party, although backed by gold bullion liabilities, as this is weighted as a claim on the counterparty unless a lower risk-weight is approved by APRA.

1.4 Cash items in the process of collection

Include:

- (a) the amount of cheques, draft and other items drawn on other ADIs or overseas banks that are payable immediately upon presentation and that are in the process of collection; and
- (b) overnight settlement balances relating to Clearing House and Austraclear transactions.

Exclude import and export trade bills held by the ADI that are in the process of collection. These should be risk-weighted according to the exposure class/type of the counterparty.

2. Class II – Claims on Australian and foreign governments and central banks

Include all claims held in the banking book on, or claims to the extent that they are guaranteed by or secured against securities issued by, specified entities under this category. All claims held in the trading book (e.g. securities issued by these entities) are to be treated in accordance with *Prudential Standard APS 116 Capital Adequacy: Market Risk* (APS 116).

3. Class III – Claims on international banking agencies, regional development banks, ADIs & overseas banks

Include all claims held in the banking book on, or claims to the extent that they are guaranteed by, or secured against securities issued by, specified entities under this category. All claims held in the trading book (e.g. securities issued by these entities) are to be treated in accordance with APS 116.

For items 3.2 to 3.3 *Claims (other than equity) on ADIs & overseas banks*, exclude investments in equity and other capital instruments of other ADIs or overseas banks (including their subsidiaries) that are not consolidated for capital adequacy purposes but are deducted from capital in accordance with APS 111.

4. Class IV – Claims secured against eligible residential mortgages

Refer to Attachment D to APS 112 for the definition of eligible residential mortgage.

5. Class V – Unsettled and failed transactions

5.1 Delivery-versus-payment transactions

Include the positive current exposure amount for delivery-versus-payment (DvP) transactions that remain unsettled after their due delivery dates (refer to Attachment E to APS 112), in the relevant rows based on the number of days the transactions remain unsettled after their due delivery dates (i.e. 5 to 15 days, 16 to 30 days, 31 to 45 days, 46 days or more).

Exclude all repurchase and reverse-repurchase agreements, as well as securities lending and borrowing transactions.

5.2 Non-delivery-versus-payment transactions

5.2.1 Non-delivery-versus payment transactions 0-4 days

There are two options for treatment of non-DvP transactions that remain unsettled for up to, and including, four business days after their due delivery dates (refer to Attachment E to APS 112):

- (a) such transactions are to be treated as exposures and are to be risk-weighted in accordance with the standardised approach; or
- (b) where the exposures are not material, the ADI may choose to apply a 100 per cent risk-weight to all exposures, in which case, all such exposures are to be reported under this item.

Exclude from this item, the value transferred and the positive current exposure of non-DvP transactions that remain unsettled for five business days or more after their due delivery dates, which are to be risk-weighted at 1250 per cent, in accordance with Attachment E to APS 112.

5.2.2 Non-delivery-versus payment transactions 5 days or more

Include in this item, the value transferred and the positive current exposure of non-DvP transactions that remain unsettled for five business days or more after their due delivery dates, which are to be risk-weighted at 1250 per cent, in accordance with Attachment E to APS 112.

6. Class VI – Non-Performing claims

Refer to *Prudential Standard APS 220 Credit Risk Management* for the definition of past due and non-performing.

For the purpose of defining the secured portion of past due claims, qualifying collateral and guarantees will be the same as those recognised for CRM purposes (refer to Attachments G, H and I to APS 112).

6.2 Loans and claims secured against eligible residential mortgages that are past due for more than 90 days and/or non-performing, where the claim is:

6.2.2 *Mortgage insured with an acceptable LMI, and the total of past due/non-performing loans and claims covered by each single insurer does not exceed the ADI's large exposure limit*

Where the claim is mortgage insured with an acceptable lenders mortgage insurer (LMI), report the total amount of past due/non-performing loans and claims covered by each single LMI that does not exceed the ADI's large exposure limit. For these exposures, the ADI may use the original risk-weights applicable under Attachment A to APS 112.

6.2.3 *Mortgage insured with an acceptable LMI, and the total of past due/non-performing loans and claims covered by each single insurer exceeds the ADI's large exposure limit*

Where the claim is mortgage insured with an acceptable LMI, report the total amount of past due/non-performing loans and claims covered by each single LMI that exceeds the ADI's large exposure limit. For these exposures, a 100 per cent risk-weight must be applied (refer to Attachment D to APS 112).

7. Class VII – Other assets & claims

7.1 Claims (other than equity) on Australian and international corporate counterparties (including insurance and securities companies) and commercial public sector entities

Attachment A to APS 112 provides for an ADI to obtain approval in writing from APRA to risk-weight all claims (other than equity) held in the banking book on Australian and international corporate counterparties (including insurance and securities companies) and commercial public sector entities at 100 per cent. If an ADI has obtained approval in writing to use a 100 per cent risk-weight for these claims, it must do so in a consistent manner and not use any external ratings for any of these claims (refer to Attachment A to APS 112). Where this is the case, the ADI must report the total *Exposures before CRM* and *Exposures after CRM* under item 7.1.7 *Unrated*.

7.2 All claims (other than equity) on private sector counterparties (other than ADIs, overseas banks and corporate counterparties)

For example, include:

- (a) personal loans;
- (b) leasing finance and bill acceptances drawn by private sector counterparties;
- (c) credit cards;
- (d) overdrafts;

- (e) small business facilities; and
- (f) all other property loans (including loans secured against commercial property).