

AIFRS Revenue

Fee Impacts - Illustrative Examples

Recognition of revenue under AASB118 & 139

- Previously under AGAAP ANZ recognised certain fees upfront
- Under AASB 118 & AASB 139, ANZ will recognise financial service fees using one of three methods
 1. On completion of a significant event (AASB 118)
 2. As services are provided (AASB 118)
 3. As part of the effective yield on a financial instrument (AASB 139)

1. On completion of a significant act

Example: Loan syndication fee

- ANZ arranges a syndicated loan for a corporate client
 - ANZ receives the mandate and agrees a fee for the syndication
 - Work commences and, after a period, the facility agreement is signed
 - ANZ receives a \$50,000 fee for the loan syndication and syndicates out the loan to other banks
 - The \$50,000 fee is credited to fee income as received (no change to accounting treatment under AGAAP)
- **Other key examples:** ATM fees, advisory fees where no debt is retained

Disclosure

- No change to previous AGAAP treatment, fees booked to P&L at completion of the significant event
- No financial impact on transition to AIFRS

2. As services are provided

Example: Monthly transaction account fees

- A customer holds an ANZ Access Advantage Account which incurs a monthly fee of \$5
- The \$5 monthly fee is credited to fee income (reported in Other Income) on a monthly basis
- **Other key examples:** fees for ongoing admin services, commitment fees to originate a loan where it is unlikely that a specific lending arrangement will be entered into, fees for ongoing provision of miscellaneous services

Disclosure

- No change to previous AGAAP disclosure, fees booked to P&L as services rendered
- In accordance with the AASB 118 fees received upfront for services to be provided in the future will be deferred and amortised as services are provided. ANZ does not receive a significant number of this type of fees.
- The financial impact is immaterial as ANZ will continue to book service fees as rendered.

3. As part of the effective yield

Example: Loan approval fee

- A client applies for a mortgage
 - We approve the loan and charge an approval fee
 - The client pays this fee when they sign the contract
- **Other key examples:** underwriting fees received as compensation for retention of part of a deal, deal structuring fees resulting in a financial asset, restructuring/ renegotiation fees and commitment fees/credit facility fees where it is probable that the specific lending arrangement will be entered into

Treatment of Costs

- Costs associated with effective yield fees may be netted against fees if they are;
 - Directly attributable to the establishment of a specific individual loan
 - Incremental to the acquisition, issue or disposal of the loan (that is, they would not have been incurred otherwise)
 - External to the organisation i.e. external mortgage broker commissions

3. As part of the effective yield (cont...)

Disclosure

- Fees are required to be deferred and subsequently recognised as interest income over the effective life of the financial instrument to which the fee relates
- Fees reclassified as **Interest Income (previously Other Income)** – will be disclosed as 'Fees treated as interest income' over the life of the financial instrument
- Deferred balance of fees to be disclosed as an **adjustment to Net Loans & Advances**, also described as 'Deferred Fee Revenue & Expense'
- Financial impact on transition to AIFRS is material

Numerical Example

- Customer draws down a mortgage and pays a loan approval fee of \$500
- Costs associated with the mortgage application include, valuation fee of \$210 and search costs of \$50*
- \$240 net loan approval fee amortised over effective life of the mortgage (approx. 5 years)

• Year 1	Dr	Cash (B/S)	\$240	
		Cr	Interest Income (P&L)	\$48
		Cr	Net Loans & Advances (B/S)	\$192
• Year 2 to 5	Dr	Net Loans & Advances (B/S)	\$48	
		Cr	Interest Income (P&L)	\$48

**broker generated loan commission is presently amortised over effective life so no change in accounting treatment*

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