2020

Annual U.S. Disclosure Document

for the fiscal year ended September 30, 2020

Australia and New Zealand Banking Group Limited ABN 11 005 357 522

The date of this 2020 Annual U.S. Disclosure Document is November 13, 2020.

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All references in this document to the “U.S. Disclosure Document” refer to the 2020 Annual U.S. Disclosure Document of Australia and New Zealand Banking Group Limited for the fiscal year ended September 30, 2020 (the “2020 fiscal year” or “2020”), including the Annex attached hereto, and we refer to prior fiscal years in a similar fashion. References to the “September 2020 half” refer to the fiscal half year ended September 30, 2020 and references to the “March 2020 half” refer to the fiscal half year ended March 31, 2020. References in this document to the “2019 Annual U.S. Disclosure Document” refer to the 2019 Annual U.S. Disclosure Document for the fiscal year ended September 30, 2019.

Where information for the comparative periods has not been restated, as identified by footnotes or commentaries, the financial information presented for those periods is not comparable to the financial information presented in the 2020 fiscal year, and where relevant, the 2019 fiscal year.

This U.S. Disclosure Document is dated November 13, 2020. All references in this document to “the date of this U.S. Disclosure Document” are to November 13, 2020.

All references in this U.S. Disclosure Document to “ANZ”, the “ANZ Group”, the “Group”, the “Bank”, “we”, “us” and “our” are to Australia and New Zealand Banking Group Limited (ABN 11 005 357 522) together with its subsidiaries. All references in this U.S. Disclosure Document to the “Company” and to “ANZBGL” are to Australia and New Zealand Banking Group Limited only.

Information contained in or accessible through any website referred to in this U.S. Disclosure Document does not form part of this document unless we specifically state that it is incorporated by reference and forms part of this U.S. Disclosure Document. All references in this document to websites are inactive textual references and are not active links.

This U.S. Disclosure Document has been prepared in order to provide U.S. investors with certain information regarding ANZ’s business and operations, as well as its financial position, as of September 30, 2020, and the results of operations for the fiscal year then ended. All financial information disclosed in this U.S. Disclosure Document relates to the Group.

Attached to this U.S. Disclosure Document as Annex A are the following extracts of ANZ’s 2020 Annual Report, as prepared by the Company and filed with the Australian Securities Exchange (“ASX”) in accordance with its rules:

- The 2020 Remuneration Report of the Group;
- The 2020 Financial Report of the Group (comprising the financial statements, notes to the financial statements and directors’ declaration) (hereafter referred to as the “2020 Financial Report”); and
- The Independent Auditor’s Report on the audit of the 2020 Financial Report.

Attached to this U.S. Disclosure Document as Annex B are the following documents prepared by the Company and filed with the ASX in accordance with its rules:

- The 2020 Financial Report of the Company (comprising the financial statements, notes to the financial statements and directors’ declaration); and
- The Independent Auditor’s Report on the audit of the 2020 Financial Report of the Company.

Attached to this U.S. Disclosure Document as Annex C are the following extracts of ANZ’s 2019 Annual Report, as prepared by the Company and filed with the ASX in accordance with its rules:

- The 2019 Remuneration Report of the Group;
- The 2019 Financial Report of the Group (comprising the financial statements, notes to the financial statements and directors’ declaration) (hereafter referred to as the “2019 Financial Report”); and
- The Independent Auditor’s Report on the audit of the 2019 Financial Report.

Attached to this U.S. Disclosure Document as Annex D are the following documents prepared by the Company and filed with the ASX in accordance with its rules:

- The 2019 Financial Report of the Company (comprising the financial statements, notes to the financial statements and directors’ declaration); and
- The Independent Auditor’s Report on the audit of the 2019 Financial Report of the Company.

FORWARD-LOOKING STATEMENTS

This U.S. Disclosure Document contains various forward-looking statements regarding events and trends that are subject to risks and uncertainties that could cause the actual results and financial position of the Company or the Group to differ materially from the information presented herein. When used in this U.S. Disclosure Document, the words “forecast”, “estimate”, “project”, “intend”, “anticipate”, “believe”, “expect”, “may”, “probability”, “risk”, “will”, “seek”, “would”, “could”, “should” and similar expressions, as they relate to the Company or the Group and its management, are intended to identify such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. Such statements constitute “forward-looking statements” for the purposes of the United States (“U.S.”) Private Securities Litigation Reform Act of 1995. ANZ does not undertake any obligation to publicly release the result of any revisions to these forward-looking statements to reflect events or circumstances after the date of this U.S Disclosure Document or to reflect the occurrence of unanticipated events.

For example, the forward-looking statements contained in this U.S. Disclosure Document will be affected by:

- the outbreak of the novel coronavirus and related respiratory disease (“COVID-19”), which is continuing to have a negative impact on global economic conditions, creating increased volatility in financial markets and resulting in disruptions to the Group’s business and operations;
- political, general business and economic conditions in Australia, New Zealand and the Asia Pacific region, Europe and the United States and other jurisdictions in which we, our customers or counterparties operate, including without limitation, impacts from the COVID-19 pandemic, changes that impact consumers (including demographic changes, consumer spending, saving or borrowing habits), and changes that may result from the exit of the United Kingdom from the European Union and the trade policies of the United States;
- the stability of Australian and other regional and global financial systems, disruptions to financial markets and any losses we, our customers or counterparties may experience as a result;
- the effects of competition in the geographic and business environments in which we or our customers operate, including our ability to maintain or increase market share and control expenses, our timely development of new products and services, and the perceived overall value of these products and services by customers, as well as our ability to adjust to and compete in the various markets in which we operate or seek to operate;
- commercial and residential mortgage lending and real estate market conditions in Australia and New Zealand;
- market liquidity and investor confidence;
- inflation, interest rates, exchange rates, markets and monetary fluctuations and longer term changes;
- sovereign risk events that may have an adverse effect on global financial markets;
- our ability to complete, integrate or separate and process acquisitions and dispositions;
- credit risk, including losses associated with the Group’s counterparty exposures;
- an increase in defaults in credit exposures because of a deterioration in economic conditions, including due to the impacts from the COVID-19 pandemic;
- challenges in managing the Group’s capital base, which could give rise to greater volatility in capital ratios;
- changes to our credit ratings;
- the failure to meet the capital adequacy and liquidity requirements that the Group is subject to;
- changes in the valuation of some of the Group’s assets and liabilities;
- any changes to the Group’s accounting policies and their application;
- the impact of current, pending and future legislation, regulation (including capital, leverage, liquidity and prudential requirements), regulatory disclosures and taxation laws in Australia and worldwide;
- the impact of legal, regulatory, administrative and other current and future action, proceedings or litigation against us, our customers or counterparties, including the risk of fines or sanctions, arising out of alleged or actual failure to comply with applicable laws, regulations and administrative or other requirements;
- changes in monetary policies;
- the impact of compliance costs, the risk of heightened penalties and ongoing regulatory scrutiny with respect to the significant obligations imposed by global tax reporting regimes;
- unexpected changes to the Group’s license to operate in any jurisdiction;
- operational factors, including internal and external fraud, employment practices and workplace safety, and business disruption (including systems failures);
- adverse impacts on our reputation;
- conduct-related risk events or behaviors;
- risks associated with the information systems we maintain, including the reliability and security of our technology and our ability to protect our information from security risks and potential cyber-attacks;
- the impact of future climate-related and geological events, including risks relating to lending to customers that are impacted by climate events and counterparties that are impacted by climate events;
- the effectiveness of our risk management framework;
- other risks and uncertainties detailed under “Competition”, “Supervision and regulation”, and “Risk factors” in “Section 2: Information on the Group”, “Legal proceedings” in “Section 6: Additional Information” and elsewhere throughout this U.S. Disclosure Document; and
- various other factors beyond our control.

There can be no assurance that actual outcomes will not differ materially from the forward-looking statements contained in this U.S. Disclosure Document. For further discussion, refer to “Risk factors” in “Section 2: Information on the Group”.

Investors are strongly cautioned to not place undue reliance on any forward-looking statement, particularly in light of the current economic climate and the significant volatility, uncertainty and disruption caused by the COVID-19 pandemic.

BASIS OF PREPARATION

The summary of condensed consolidated income statements and selected ratios for the fiscal years ended September 30, 2020, 2019, 2018, 2017, and 2016, and the summary of condensed consolidated balance sheets and selected ratios as of September 30, 2020, 2019, 2018, 2017, and 2016, have been derived from the Group's financial statements. The 2020 Financial report is contained within ANZ's 2020 Annual Report (extracts of which, including the 2020 Financial Report, are attached to this U.S. Disclosure Document as part of Annex A). The 2019 Financial Report is contained within ANZ's 2019 Annual Report (extracts of which, including the 2019 Financial Report, are attached to this U.S. Disclosure Document as Annex C).

The Group's financial statements and the financial information included herein, except where otherwise noted, have been prepared in accordance with the recognition and measurement requirements of Australian Accounting Standards ("AASs"), issued by the Australian Accounting Standards Board ("AASB"), and the *Corporations Act 2001*(Cth) (the "Corporations Act"). International Financial Reporting Standards ("IFRS") are standards and interpretations issued by the International Accounting Standards Board ("IASB"). IFRS forms the basis of AASs. The Group's financial statements and the financial information included herein comply with the recognition and measurement requirements of IFRS.

Amounts in this U.S. Disclosure Document are presented in Australian Dollars ("$", "AUD" or "A$") unless otherwise stated. Amounts reported in United States Dollars ("USD" or "US$") have been translated at the September 30, 2020 Noon Buying Rate in New York City for cable transfers in Australian Dollars as certified for customs purposes by the Federal Reserve Bank of New York (the "Noon Buying Rate"), which was US$0.7160 = AUD$1.00. For further information on the currency of presentation in this U.S. Disclosure Document, refer to "Currency of presentation and exchange rates" in "Section 2: Information on the Group". References to "NZD", "EUR" and "JPY" in this U.S. Disclosure Document are to New Zealand dollars, Euros and Japanese Yen respectively. References throughout this U.S. Disclosure Document to "$B" and "$M" are to billions and millions of Australian Dollars (or, if specified, such other currency), respectively.

CORONAVIRUS ("COVID-19")

The ongoing COVID-19 pandemic is causing major disruptions to community health and economic activity with wide-ranging impacts across many business sectors in Australia, New Zealand and globally. Additionally, many of the Group's customers have been impacted by the COVID-19 pandemic. As a result during the year, the Group launched support packages for retail and commercial customers in Australia and New Zealand, including the option of an up to six-month loan repayment deferral. The Group is continuing to work with customers impacted by COVID-19 to return to regular payments and in some circumstances will provide an extension to loan repayment deferrals for a further period. For further details on customer support and deferral packages refer to the Credit Risk note in Group Results.

COVID-19 has affected and continues to impact the operations of the Group. Where possible, the Group has moved staff to work-at-home arrangements, split teams and introduced greater distance between those staff performing essential functions on premises. The number of staff working from home continues to vary in line with changing circumstances and associated government restrictions. Measures have been introduced for staff who need to come to work, with protective equipment and social distancing in bank branches, and thermal scanning in major buildings.

Regulators and governments have implemented a broad range of measures to promote financial stability in response to COVID-19. Those measures implemented by governments and regulators in Australia and New Zealand include:

- the Australian Commonwealth Government announced a temporary 'JobKeeper Payment' (where eligible businesses significantly impacted by COVID-19 are able to access a subsidy from the Australian Government to continue paying their eligible employees) and a 'Coronavirus Small and Medium Enterprises ("SME") Guarantee Scheme' (where the Australian Commonwealth Government provides a guarantee of 50% to SME lenders to support new short-term unsecured loans to SMEs);
- a term funding facility ("TFF") for the banking system in Australia, whereby the Reserve Bank of Australia ("RBA") is providing a three-year funding facility to Authorized Deposit-taking Institutions ("ADIs") at a fixed interest rate of 0.25%;
- the injection of substantial liquidity into the Australian financial system by the RBA through its daily market operations;
- a temporary change to the Australian Prudential Regulatory Authority's ("APRA") expectations with regards to ADIs maintaining bank capital ratios at the "unquestionably strong" benchmark and APRA advised ADIs to maintain caution in planning capital distributions, including dividend payments;
- the New Zealand Government and the Reserve Bank of New Zealand ("RBNZ") have implemented financial support packages for homeowners and businesses affected by the economic impacts of COVID-19, in which ANZ New Zealand, along with other New Zealand banks, has agreed to participate. The packages include a 'Mortgage Repayment Deferral Scheme' for residential mortgages (refer to New Zealand Regulatory Developments in Section 2: Information on the Group in this U.S. Disclosure Document for further details), a Business Finance Guarantee Scheme and a Small Business Cashflow Scheme for business customers;
- the RBNZ delayed the start date for the implementation of the capital reforms for New Zealand incorporated banks by 12 months while retaining a seven year transition period;
- the RBNZ added Condition 1D, which restricts ANZ New Zealand, until at least March 31, 2021, from paying dividends or other distributions, other than discretionary payments payable to holders of AT1 capital instruments; and
- the RBNZ delayed a number of other regulatory initiatives including the delayed implementation of BS11 compliance by 12 months to October 2023.

The ongoing COVID-19 pandemic has increased the estimation uncertainty in the preparation of the 2020 Financial Report (attached as part of Annex A to this U.S. Disclosure Document) and this U.S. Disclosure Document.

The estimation uncertainty is that associated with determining:

- the extent and duration of the disruption to business arising from the actions by governments, businesses and consumers to contain the spread of the virus;
- the extent and duration of the expected economic downturn (and forecasts for key economic factors including GDP, employment and house prices).This includes the disruption to capital markets, deteriorating credit quality, liquidity concerns, increasing unemployment, declines in consumer discretionary spending, reductions in production because of decreased demand, and other restructuring activities; and
- the effectiveness of government and central bank measures that have been and will be put in place to support businesses and consumers through this disruption and economic downturn.

The Group has made various accounting estimates for future events in the 2020 Financial Report based on forecasts of economic conditions which reflect expectations and assumptions as at September 30, 2020 and that the Group believes are reasonable under the circumstances. There is a considerable degree of judgement involved in preparing these estimates. The underlying assumptions are also subject to uncertainties which are often outside the control of the Group. Accordingly, actual economic conditions are likely to be different from those forecast since anticipated events frequently do not occur as expected, and the effect of those differences may significantly impact accounting estimates included in the Group's consolidated financial statements.

The significant accounting estimates impacted by these forecasts and associated uncertainties are predominantly related to expected credit losses, fair value measurement, and recoverable amount assessments of non-financial assets.

While pervasive across the 2020 Financial Report, the estimation uncertainty is predominantly related to expected credit losses where the Group recognized a credit impairment charge of $2.7 billion pre-tax in the September 2020 full year, the fair value measurement and recoverable amount assessments of non-financial assets where the Group recognized an impairment charge of $815 million in respect of two of the Group's Asian associates investment and an impairment charge of $77 million in respect of goodwill. For further details of these estimation uncertainties refer to Note 1 of the 2020 Financial Report.

The ramifications of COVID-19 continue to be uncertain and it remains difficult to predict the impact or duration of the pandemic.

The impact of the COVID-19 pandemic on our accounting estimates is discussed further in the 2020 Financial Report (attached as part of Annex A to this U.S. Disclosure Document).

Allowance for expected credit losses

The Group measures the allowance for expected credit losses ("ECL") using an expected credit loss impairment model as required by AASB 9 *Financial Instruments*. The Group's accounting policy for the recognition and measurement of the allowance for expected credit losses is described in Note 13 to the 2020 Financial Report (attached as part of Annex A to this U.S. Disclosure Document) which is consistent with that disclosed in the prior year. The impact of COVID-19 on the global economy and how governments, businesses and consumers respond is uncertain. This uncertainty is reflected in the Group's assessment of expected credit losses from its credit portfolio which are subject to a number of management judgements and estimates.

The table below shows the Group's allowance for expected credit losses (refer to Note 13 of the 2020 Financial Report (attached as part of Annex A to this U.S. Disclosure Document) for further information).

	As of September 30	
	2020 $M	**2019 $M**
Collectively assessed	**5,008**	3,376
Individually assessed	**891**	814
Total[1]	**5,899**	4,190

1. *Includes allowance for expected credit losses for Net loans and advances – at amortized cost, Investment securities – debt securities at amortised cost and Off-balance sheet commitments - undrawn and contingent facilities.*

Individually assessed allowance for expected credit losses

During the 2020 fiscal year, there was a net increase in the individually assessed allowance for expected credit losses of $77 million.

In estimating individually assessed ECL for Stage 3 exposures, the Group makes judgements and assumptions in relation to expected repayments, the realizable value of collateral, the business prospects for the customer, competing claims and the likely cost and duration of the work-out process. Judgements and assumptions in respect of these matters have been updated to reflect the potential impact of COVID-19.

Collectively assessed allowance for expected credit losses

During the 2020 fiscal year the collectively assessed allowance for expected credit losses increased by $1,632 million. This was attributable to changes in economic outlook including impact of scenario weights of $1,018 million, COVID-19 related management adjustments of $592 million, changes in risk of $61 million, and a change in portfolio composition of $46 million, partially offset by reductions from foreign exchange and divestments of $85 million.

In estimating collectively assessed ECL, the Group makes judgements and assumptions in relation to:

- the selection of an estimation technique or modelling methodology, noting that the modelling of the Group's ECL estimates are complex; and
- the selection of inputs for those models, and the interdependencies between those inputs.

The following table summarises the key judgements and assumptions in relation to the model inputs and the interdependencies between those inputs, and highlights significant changes during the current period.

The judgements and associated assumptions have been made within the context of the impact of COVID-19, and reflect historical experience and other factors that are considered to be relevant, including expectations of future events that are believed to be reasonable under the circumstances. In relation to COVID-19, judgements and assumptions include the extent and duration of the pandemic, the impacts of actions of governments and other authorities, and the responses of businesses and consumers in different industries, along with the associated impact on the global economy. Accordingly, the Group's ECL estimates are inherently uncertain and, as a result, actual results may differ from these estimates.

Judgement/Assumption	Description	Considerations for the 2020 fiscal year
Determining when a significant increase in credit risk ("SICR") has occurred	In the measurement of ECL, judgement is involved in setting the rules and trigger points to determine whether there has been a SICR since initial recognition of a loan, which would result in the financial asset moving from 'stage 1' to 'stage 2'. This is a key area of judgement since transition from stage 1 to stage 2 increases the ECL from an allowance based on the probability of default in the next 12 months, to an allowance for lifetime expected credit losses. Subsequent decreases in credit risk resulting in transition from stage 2 to stage 1 may similarly result in significant changes in the ECL allowance. The setting of precise trigger points requires judgement which may have a material impact upon the size of the ECL allowance. The Group monitors the effectiveness of SICR criteria on an ongoing basis.	In response to the impacts of COVID-19, various packages, such as repayment deferrals, have been offered to eligible retail and commercial customers in Australia and New Zealand. The Group does not consider that when a customer is first provided assistance, all other things being equal, that there has been a SICR and a consequent impact on ECL when assessing provisions. Subsequent to take-up, customers have been contacted to discuss available options once the packages reach their end date. This additional information on the customer's financial position and ability to recommence their loan repayments is used to assist in classification of customers into risk categories. Customers in higher risk categories, and those who have requested a deferral extension, have been classified as having a SICR.
Measuring both 12-month and lifetime credit losses	The probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD") credit risk parameters used in determining ECL are point-in-time measures reflecting the relevant forward-looking information determined by management. Judgement is involved in determining which forward-looking information variables are relevant for particular lending portfolios and for determining each portfolio's point-in-time sensitivity.	The PD, EAD and LGD models are subject to the Group's model risk policy that stipulates periodic model monitoring, periodic re-validation and defines approval procedures and authorities according to model materiality. There were no material changes to the policies during the 2020 fiscal year.
	In addition, judgement is required where behavioral characteristics are applied in estimating the lifetime of a facility to be used in measuring ECL.	There were no changes to behavioral lifetime estimates during the 2020 fiscal year.
Base case economic forecast	The Group derives a forward-looking "base case" economic scenario which reflects ANZ's view of the most likely future macro-economic conditions.	There have been no changes to the types of forward-looking variables (key economic drivers) used as model inputs in the current half year. As at September 30, 2020, the base case assumptions have been updated to reflect the rapidly evolving situation with respect to COVID-19. This includes an assessment of the impact of central bank policies, governments' actions, the response of businesses, and institution specific responses (such as repayment deferrals). These are considered in determining the length and severity of the forecast economic downturn. The expected outcomes of key economic drivers for the base case scenario as at September 30, 2020 are described below under the heading "Base case economic forecast assumptions".

Judgement/Assumption	Description	Considerations for the 2020 fiscal year
Probability weighting of each scenario (base case, upside, downside and severe downside scenarios)[1,2]	Probability weighting of each economic scenario is determined by management considering the risks and uncertainties surrounding the base case economic scenario at each measurement date.	The key consideration for probability weightings in the current period is the continuing impact of COVID-19. The Group considers these weightings in each geography to provide the best estimate of the possible loss outcomes and has analyzed inter-relationships and correlations (over both the short and long term) within the Group's credit portfolios in determining them. In addition to the base case economic forecast which reflects the negative economic consequences of COVID-19, greater weighting has been applied to the downside scenario given the Group's assessment of downside risks. The assigned probability weightings in Australia, New Zealand and Rest of World are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected.
Management temporary adjustments	Management temporary adjustments to the ECL allowance are used in circumstances where it is judged that our existing inputs, assumptions and model techniques do not capture all the risk factors relevant to our lending portfolios. Emerging local or global macroeconomic, microeconomic or political events, and natural disasters that are not incorporated into our current parameters, risk ratings, or forward-looking information are examples of such circumstances. The use of management temporary adjustments may impact the amount of ECL recognized. The uncertainty associated with the COVID-19 pandemic, and the extent to which the actions of governments, businesses and consumers mitigate against potentially adverse credit outcomes are not fully incorporated into existing ECL models. Accordingly, management overlays have been applied to ensure credit provisions are appropriate.	Management have applied a number of adjustments to the modelled ECL primarily due to the uncertainty associated with COVID-19. Management overlays (including COVID-19 overlays) which add to the modelled ECL provision have been made for risks particular to small business and commercial banking in Australia, for retail, commercial and agribusiness banking in New Zealand, and for tourism in the Pacific.

1. The upside and downside scenarios are fixed by reference to average economic cycle conditions (that is, they are not based on the economic conditions prevailing at balance date) and are based on a combination of more optimistic (in the case of the upside) and pessimistic (in the case of the downside) economic conditions.
2. The severe downside scenario is fixed by reference to average economic cycle conditions and accounts for the potentially severe downside impact of less likely extremely adverse economic conditions.

Base case economic forecast assumptions

The uncertain evolution of the COVID-19 pandemic increases the risk to the economic forecast resulting in an understatement or overstatement of the ECL balance due to uncertainties around:

- The extent and duration of measures to stop or reduce the speed of the spread of COVID-19;
- The extent and duration of the economic down turn, along with the time required for economies to recover; and
- The effectiveness of government stimulus measures, in particular their impact on the magnitude of economic downturn and the extent and duration of the recovery.

The economic drivers of the base case economic forecasts as at September 30, 2020 are set out below. These reflect ANZ's view of the most likely future macro-economic conditions as at September 30, 2020. For years beyond the near term forecasts below, the ECL models project future year economic conditions including an assumption to eventual reversion to mid-cycle economic conditions.

	Forecast calendar year		
	2020	**2021**	**2022**
Australia:			
GDP	-4.3%	1.6%	4.0%
Unemployment	7.3%	8.8%	7.7%
Residential property prices	-2.2%	-4.8%	2.0%
Consumer price index	0.8	1.2	1.3
New Zealand			
GDP	-5.6%	2.0%	5.6%
Unemployment	5.7%	9.1%	6.5%
Residential property prices	-0.3%	0.9%	4.1%
Consumer price index	1.6	1.0	1.2
Rest of world			
GDP	-4.5%	2.5%	2.5%
Consumer price index	1.0	1.8	2.0

The base case economic forecasts as at September 30, 2020 reflect a significant deterioration in current and expected economic conditions from the forecasts as at September 30, 2019 reflecting the emergence and ongoing impact of the COVID-19 pandemic.

Probability weightings

Probability weighting of each scenario is determined by management considering the risks and uncertainties surrounding the base case economic scenario. The key consideration for probability weightings in the current period is the continuing impact of COVID-19.

In addition to the base case economic forecast which reflects the negative economic consequences of COVID-19, greater weighting has been applied to the downside economic scenario given the Group's assessment of downside risks.

The assigned probability weightings in Australia, New Zealand and Rest of World are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Group considers these weightings in each geography to provide the best estimate of the possible loss outcomes and has analyzed inter-relationships and correlations (over both the short and long term) within the Group's credit portfolios in determining them. The average weightings applied across the Group are set out below:

	As at September 30	
	2020	2019
Group		
Base	50.0%	50.0%
Upside	10.4%	15.7%
Downside	33.3%	29.3%
Severe Downside	6.3%	5.0%

ECL - Sensitivity analysis

The uncertainty of the impact of COVID-19 introduces significant estimation uncertainty in relation to the measurement of the Group's allowance for expected credit losses. The rapidly evolving consequences of COVID-19 and government, business and consumer responses could result in significant adjustments to the allowance in future fiscal years.

Given current economic uncertainties and the judgment applied to factors used in determining the expected default of borrowers in future periods, expected credit losses reported by the Group should be considered as a best estimate within a range of possible estimates.

The table below illustrates the sensitivity of collectively assessed ECL to key factors used in determining it as at September 30, 2020:

	Total ECL $M	Impact $M
If 1% of stage 1 facilities were included in stage 2	5,069	61
If 1% of stage 2 facilities were included in stage 1	4,998	(10)
100% upside scenario	1,898	(3,110)
100% base scenario	4,011	(997)
100% downside scenario	5,144	136
100% severe downside scenario	6,315	1,307

Fair Value Measurement of Financial Instruments

The majority of valuation models the Group uses to value financial instruments employ only observable market data as inputs. This has not changed as a result of COVID-19, however the Group has considered the impact of related economic and market disruptions on fair value measurement assumptions and the appropriateness of valuation inputs, notably valuation adjustments, and the impact of COVID-19 on the classification of exposures in the fair value hierarchy.

For certain financial instruments, we may use data that is not readily observable in current markets where we need to exercise more management judgement to determine fair value depending on the significance of the unobservable input to the overall valuation. Generally, we derive unobservable inputs from other relevant market data and compare them to observed transaction prices where available.

As at September 30, 2020 the Group had $1,183 million of assets and $55 million of liabilities where the valuation was primarily derived using an unobservable input (September 2019: $1,272 million assets and $52 million liabilities). The financial instruments which are valued using unobservable inputs are predominantly equity investment securities where quoted prices in active markets are not available.

The Group has an investment in the Bank of Tianjin, which as at September 30, 2020 has a carrying value of $934 million (September 2019: $1,106 million). As a result of persistent illiquidity of the quoted share price, the Group determines the fair value based on a valuation model using comparable bank pricing multiples as determined by management. Judgement is required in both the selection of the model and inputs used. Although the comparator group entities operate in the same industry, the nature of their business and local economic conditions may be different from the Group's investment. Thus where local conditions change, which impact the price-to-book ratio of the comparator group, the fair value of the asset will change proportionately. That is, if the price-to-book ratio changed by 10%, the fair value would change by 10%. As the asset is classified as fair value through other comprehensive income, changes in the fair value are reflected directly in equity.

INVESTMENTS IN ASSOCIATES

The Group assesses the carrying value of its associate investments for impairment indicators semi-annually.

As at March 31, 2020, neither the market values of the investments in AMMB Holdings Berhad ("AmBank") and PT Bank Pan Indonesia ("PT Panin") (based on share price) nor the value-in-use ("VIU") calculation supported the carrying value of either investment. Accordingly, the Group recorded an impairment charge of $815 million ($595 million for AmBank and $220 million for PT Panin).

VIU assessments were also conducted as at September 30, 2020 given the market values were below their carrying values. The assumptions used in the VIU were updated to reflect the ongoing impact of COVID-19 and the uncertainty of the future performance of these investments. The VIU assessments supported the carrying value of both Ambank and PT Panin as at September 30, 2020, however they did not indicate the recoverable amount of either investment had increased sufficiently to reverse any of the impairment recorded in the March 31, 2020 fiscal half year.

The ongoing impact of COVID-19 on the valuation of AmBank and PT Panin is uncertain. Significant management judgment is required to determine the key assumptions underpinning the VIU calculations. Factors that may change in subsequent periods and lead to potential future impairments include lower than forecast earnings levels in the near term and/or a decrease in the long term growth forecasts, increases to required levels of regulatory capital and an increase in the post-tax discount rate arising from an increase in the risk premium or risk-free rates.

The key assumptions used in the VIU calculations are outlined below:

	AmBank		PT Panin	
	2020	2019	2020	2019
Carrying Value ($m)	1,056	1,586	1,084	1,350
Post-tax discount rate	11.3%	10.7%	15.2%	13.3%
Terminal growth rate	4.8%	4.8%	5.3%	5.3%
Expected earnings growth (compound annual growth rate - 5 years)	2.8%	4.1%	4.2%	6.5%
Common Equity Tier 1 ratio (5 year average)	12.9%	12.6%	12.8%	11.6%

The VIU calculations are sensitive to changes in the underlying assumptions with reasonably possible changes in key assumptions having a positive or negative impact on the VIU outcome, and as such the recoverable amount of the investment.

- A change in the September 2020 post-tax discount rate by +/- 50bps would impact the VIU outcome for PT Panin by $(46 million) / $50 million, and $(87 million) / $99 million for AmBank.
- A change in the September 2020 terminal growth rate by +/- 25bps would impact the VIU outcome for PT Panin by $8 million / ($8 million) and $47 million / ($44 million) for Ambank.

Neither investment would be impaired if the discount rate were increased or the terminal growth rate reduced by the reasonable possible changes above.

Goodwill

During the 2020 fiscal year, $124 million of goodwill was written off in relation to completed divestments. In addition, as a result of changes in economic outlook, the Group announced its intention to begin winding up the Bonus Bonds business, a managed investment product in New Zealand and the Group wrote off the associated goodwill of $27 million. The balance of goodwill was subject to an impairment assessment as set out below.

An assessment as to whether the current carrying value of goodwill is impaired is undertaken annually or where there are indicators of potential impairment. For the purpose of impairment testing, goodwill acquired in a business combination is allocated at the date of acquisition to the cash generating units ("CGUs") that are expected to benefit from the synergies of the related business combination. These CGUs are ANZ's reportable segments. Goodwill is considered to be impaired if the carrying amount of the relevant CGU exceeds its recoverable amount.

In determining the carrying amount of the CGUs to which goodwill is allocated, we include all direct assets and liabilities and an allocation, on a reasonable and consistent basis, of corporate assets and liabilities that are recorded outside those CGUs to which goodwill is allocated.

We estimate the recoverable amount of each CGU to which goodwill is allocated using a fair value less costs of disposal ("FVLCOD") approach, with a VIU assessment performed where the FVLCOD approach indicates an impairment.

The assessment of the recoverable amount of each CGU has been made within the context of the ongoing impact of COVID-19 on both earnings and asset prices, and reflects expectations of future events that are believed to be reasonable under the circumstances. The rapidly evolving consequences of COVID-19 and government, business and consumer responses create heightened uncertainty in these estimates and any variations could have a positive or adverse impact on the recoverable amount outcomes.

As the Group's market capitalization was below the Group's net asset value, and considering uncertainties surrounding COVID-19, the Group assessed the carrying value of goodwill as at September 30, 2020. Based on this assessment:

- No impairment was identified in the Australia Retail and Commercial, New Zealand and Institutional CGUs under the FVLCOD approach;
- The Pacific CGU's recoverable amount measured on a VIU basis (being higher than its FVLCOD) indicated a shortfall in recoverable amount relative to carrying amount. Accordingly an impairment loss of $50 million has been recognized as at September 30, 2020, reducing the carrying amount of goodwill to zero.

- **Fair Value Less Cost Of Disposal**

  The recoverable amount of each CGU to which goodwill is allocated is estimated on a FVLCOD basis, calculated using a market multiple approach. Under this approach, we determine the estimated fair value of each of our CGUs by applying observable price earnings multiples of appropriate comparator companies to the estimated future maintainable earnings of each CGU. A deduction is then made for estimated costs of disposal. The valuation is considered to be level 3 in the fair value hierarchy due to unobservable inputs used in the valuation.

Management's approach and the key assumptions used to determine FVLCOD, for those CGUs where the recoverable amount was determined on the basis of FVLCOD were as follows:

<table>
<tr><th>Key assumption</th><th>Approach to determining the value (or values) for each key assumption</th></tr>
<tr><td>Future maintainable earnings</td><td>Future maintainable earnings for each CGU have been estimated as the sum of:
• The 2021 fiscal year financial plan results for each CGU, which incorporate management estimates of the impacts of COVID-19; plus
• An allocation of the central costs recorded outside of the CGU's to which goodwill is allocated.
Adjustments have been made to the 2021 fiscal year plan results to:
• reflect longer term expected credit losses; and
• normalize certain other operating expenditure where specific factors result in 2021 fiscal year planned expenditure exceeding longer term maintainable levels, with the higher operating expenditure treated as a one-off adjustment in the valuations.</td></tr>
<tr><td>Price/Earnings (P/E) multiple applied (including control premium)</td><td>Trading multiples:
The P/E multiples used have been derived from valuations of comparable publicly traded companies as at September 30, 2020 and are the median P/E multiple (2021 earnings multiple) of the comparator group:
• For the Australia Retail and Commercial and New Zealand CGUs, the comparator group is the four major banking groups headquartered in Australia;
• For the Institutional CGU, the comparator group includes the four major banking groups headquartered in Australia plus certain major financial institutions who compete with the Group in international markets.
In the case of the New Zealand and Institutional CGUs, management has made downwards adjustments to comparator group multiples to address specific factors relevant to those CGUs.

For each of ANZ's CGUs where the recoverable amount was determined on the basis of FVLCOD, the P/E multiples applied (including a 30% control premium discussed below) were as follows:
<table><tr><th>Division</th><th>2020</th><th>2019</th></tr><tr><td>Australia Retail and Commercial</td><td>16.0</td><td>17.9</td></tr><tr><td>New Zealand</td><td>12.7</td><td>17.8</td></tr><tr><td>Institutional</td><td>13.4</td><td>14.7</td></tr></table>
Control premium:
A control premium has been applied which recognizes the increased consideration a potential acquirer would be willing to pay in order to gain sufficient ownership to achieve control over the relevant activities of the CGU. For each CGU, the control premium has been estimated as 30% of the comparator group P/E multiple, based on historical transactions.</td></tr>
<tr><td>Costs of disposal</td><td>Costs of disposal have been estimated as 2% of the fair value of the CGU based on input from historical and recent transactions.</td></tr>
</table>

- **FVLCOD Assessment Outcomes**

  For those CGUs where recoverable amount was determined on the basis of FVLCOD, the surplus of the recoverable amount over the carrying amount was as follows:

Cash Generating Unit:	Surplus September 30, 2020 $M
Australia Retail and Commercial	4,539
New Zealand	1,201
Institutional	516

- **Sensitivity Analysis**

  The surpluses disclosed above are sensitive to judgements and estimates in respect of:

  - For recoverable amount - The future maintainable earnings and the P/E multiple applied (including the control premium applied in determining the P/E multiple);
  - For carrying amount - The allocation of corporate assets and liabilities recorded outside those CGUs to which goodwill is allocated

  The FVLCOD estimates for the respective CGUs would continue to show a surplus in recoverable amount over carrying amount if:

  - Either the P/E multiple applied or the future maintainable earnings estimates were reduced (in isolation) by 13.6% in Australia Retail and Commercial; 8.6% in New Zealand or 2.6% in Institutional; or
  - The 30% control premium applied was reduced by 59.5% in Australia Retail and Commercial (resulting in a control premium applied of 12.1%), by 38.1% in New Zealand (resulting in a control premium applied of 18.6%) or by 11.4% in Institutional (resulting a control premium applied of 26.6%); or
  - The share of corporate assets and liabilities was increased (in isolation) by 17.3% to Australia Retail and Commercial, 10.1% to New Zealand or 3.2% to Institutional.

  As the recoverable amounts estimated on the basis of FVLCOD show a surplus of recoverable amount over carrying amount for the Australia Retail and Commercial, New Zealand and Institutional CGUs, such adverse movements would not necessarily trigger an impairment, rather they would trigger the need for a VIU assessment to be performed with any impairment determined on the basis of the higher of FVLCOD and VIU.

- **Value In Use**

  The Pacific CGU's recoverable amount was measured on the basis of its VIU (as this was higher than the FVLCOD). Recoverable amount under the VIU assessment was estimated at $466 million using a post-tax discount rate of 13%, which resulted in a shortfall relative to carrying amount. Accordingly an impairment loss of $50 million has been recognized as at September 30, 2020, reducing the carrying amount of goodwill to zero. In addition, an associated assessment of the carrying values of the other assets in the Pacific was completed and no impairment (apart from goodwill) was recorded.

Customer remediation provision

At September 30, 2020, the Group has recognized provisions of $1,109 million (September 2019: $1,139 million) in respect of customer remediation which includes provisions for expected refunds to customers, remediation project costs and related customer and regulatory claims, penalties and litigation outcomes.

Determining the amount of the provisions, which represent management's best estimate of the cost of settling the identified matters, requires the exercise of significant judgement. It will often be necessary to form a view on a number of different assumptions, including the number of impacted customers, the average refund per customer, associated remediation project costs, and the implications of regulatory exposures and customer claims having regard to their specific facts and circumstances.

Consequently, the appropriateness of the underlying assumptions is reviewed on a regular basis against actual experience and other relevant evidence, including expert legal advice, and adjustments are made to the provisions where appropriate.

Other provisions

The Group holds provisions for various obligations including restructuring costs, non-lending losses, fraud and forgeries and litigation related claims. These provisions involve judgements regarding the timing and outcome of future events, including estimates of expenditure required to satisfy such obligations. The appropriateness of the underlying assumptions is reviewed on a regular basis against actual experience and other relevant evidence, including expert legal advice, and adjustments are made to the provisions where appropriate.

Useful life of software

Management judgement is used to assess the useful life of software assets. A number of factors can influence the useful life of software assets, including changes to business strategy, significant divestments and the pace of technological change.

The Group reassess the useful life of software assets on a semi-annual basis. During the 2020 fiscal year, the Group amended the application of its software amortization policy to reflect the shorter useful life of certain types of software, including regulatory and compliance focused assets and purchased assets. These changes better reflect the Group's rapidly changing technology and business needs and ongoing reinvestments in purchased and internally developed software to ensure assets remains fit for purpose. As a result of these changes, the Group recognized accelerated amortization of $197 million during the 2020 fiscal year.

ACCOUNTING STANDARDS ADOPTED

During the 2020 fiscal year, the Group adopted AASB 16 *Leases* ("AASB 16") and applied a modified retrospective transition approach in recognizing all leases (except for leases of low value assets and short term leases) on the balance sheet based on the present value of remaining lease payments as of October 1, 2019. Consequently on October 1, 2019 the Group recognized an increase in lease liabilities of $1.7 billion, a right-of-use lease asset of $1.6 billion, an increase in deferred tax assets of $37 million and a net reduction to opening retained earnings of $88 million. For further details on key requirements and impacts of the changes refer to Note 1 of the 2020 Financial Report (attached as part of Annex A to this U.S. Disclosure Document).

The Group early adopted AASB 2019-3 *Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform* from October 1, 2019 ("AASB 2019-3"), which has not had a significant impact on the Group. The standard modifies certain hedge accounting requirements to provide relief from the potential effects of the uncertainty caused by interest rate benchmark reform. For further details on key requirements and impacts of the changes, refer to Note 1 of the 2020 Financial Report (attached as part of Annex A to this U.S. Disclosure Document).

AASB Interpretation 23 became effective for the Group from October 1, 2019. The interpretation clarifies the application of recognition and measurement requirements in AASB 112 Income Taxes where there is uncertainty over income tax treatments. As the Group's existing policy aligned with the requirements of AASB Interpretation 23, the interpretation had no material impact on the Group

DISCONTINUED OPERATIONS

As a result of the sale transactions outlined below under "Sale of Wealth Australia Businesses", the financial results of the Wealth Australia businesses being divested and associated Group reclassification and consolidation impacts are treated as discontinued operations from a financial reporting perspective. These businesses qualify as discontinued operations, a subset of assets and liabilities held for sale, as they represent a major line of business.

The information presented in the summary of condensed consolidated income statements set forth in Section 1 and otherwise disclosed in this U.S. Disclosure Document and selected ratios for the fiscal years ended September 30, 2020, 2019, 2018, 2017, and 2016 show discontinued operations separately from continuing operations in the 'Profit/(Loss) after income tax from discontinued operations' line item.

Sale of Wealth Australia Businesses

- Sale to IOOF Holdings Limited ("IOOF")

  In October 2017, the Group announced it had agreed to sell its OnePath pensions and investments ("OnePath P&I") business and Aligned Dealer Groups ("ADGs") businesses to IOOF. The sale of the ADG business completed on October 1, 2018 and the OnePath P&I business completed on January 31, 2020.

- Sale to Zurich Financial Services Australia Limited ("Zurich")

  In December 2017, the Group announced it had agreed to sell its life insurance business to Zurich and the transaction completed on May 31, 2019.

Included in the 'Profit/(Loss) after income tax from discontinued operations' is:

- $13 million loss after tax was recognized in the 2020 fiscal year attributable to sale completion costs.
- $65 million loss after tax was recognized in the 2019 fiscal year, comprising a net loss of $1 million from sale related adjustments and write-downs, partially offset by the recycling of gains previously deferred in equity reserves on sale completion, and a $64 million income tax expense.
- As shown in the table below, customer remediation includes provisions for expected refunds to customers and related remediation costs associated with inappropriate advice or services not provided in the pensions and investments and life insurance businesses.

	Full year	
	Sep 20 $M	**Sep 19 $M**
Customer remediation (pre-tax)	**126**	241
Customer remediation (post-tax)	**96**	207

SUMMARY OF CONDENSED CONSOLIDATED INCOME STATEMENTS AND SELECTED RATIOS - INCLUDING DISCONTINUED OPERATIONS

Condensed Consolidated Income Statement	Years ended September 30					
	2020 USD M[1]	2020 $M	2019 $M	2018 $M	2017 $M	2016 $M
Interest income	**17,489**	**24,426**	31,077	30,327	29,120	29,950
Interest expense	**(7,430)**	**(10,377)**	(16,738)	(15,813)	(14,245)	(14,848)
Net interest income	**10,059**	**14,049**	14,339	14,514	14,875	15,102
Other operating income	**2,569**	**3,588**	4,446	5,470	4,523	4,400
Operating income	**12,628**	**17,637**	18,785	19,984	19,398	19,502
Operating expenses	**(6,718)**	**(9,383)**	(9,071)	(9,401)	(8,967)	(9,920)
Profit before credit impairment and income tax	**5,910**	**8,254**	9,714	10,583	10,431	9,582
Credit impairment charge[2]	**(1,960)**	**(2,738)**	(794)	(688)	(1,198)	(1,929)
Profit before income tax	**3,950**	**5,516**	8,920	9,895	9,233	7,653
Income tax expense	**(1,317)**	**(1,840)**	(2,609)	(2,784)	(2,874)	(2,142)
Profit after income tax from continuing operations	**2,633**	**3,676**	6,311	7,111	6,359	5,511
Profit/(Loss) after income tax from discontinued operations[3]	**(70)**	**(98)**	(343)	(695)	62	209
Profit for the period	**2,563**	**3,578**	5,968	6,416	6,421	5,720
Profit attributable to non-controlling interests	**(1)**	**(1)**	(15)	(16)	(15)	(11)
Profit attributable to shareholders of the Company	**2,562**	**3,577**	5,953	6,400	6,406	5,709

1. *The USD amounts are disclosed for information purposes only. There is no assurance that the AUD amounts could be translated at the September 30, 2020 Noon Buying Rate applied in this U.S. Disclosure Document.*
2. *The credit impairment charge represents the aggregation of the individually and collectively assessed credit impairment charges.*
3. *Discontinued operations comprise the sale of the OnePath P&I and ADGs businesses to IOOF and the sale of life insurance business to Zurich. See "Basis of Preparation – Discontinued Operations".*

Selected Ratios	Years ended September 30					
	2020 USD[1]	2020	2019	2018	2017	2016
Other operating income as a % of operating income - including discontinued operations	**20.1%**	**20.1%**	24.7%	27.7%	26.6%	26.5%
Net interest margin - including discontinued operations	**1.63%**	**1.63%**	1.75%	1.87%	1.99%	2.07%
Operating expense to operating income ratio - including discontinued operations	**54.5%**	**54.5%**	50.2%	49.6%	46.6%	50.8%
Dividends on ordinary shares ($M)	**1,219**	**1,703**	4,535	4,585	4,609	5,001
Earnings per fully paid ordinary share (cents) including discontinued operations						
Basic	**91.0**	**126.4**	210.0	221.6	220.1	197.4
Diluted	**84.0**	**118.0**	201.9	212.1	210.8	190.2
Earnings per fully paid ordinary share (cents) from continuing operations						
Basic	**92.9**	**129.8**	222.1	245.6	218.0	189.3
Diluted	**86.7**	**121.1**	213.0	234.2	208.8	182.7
Ordinary share dividend payout ratio including discontinued operations (%)[2]	**47.6%**	**47.6%**	76.2%	72.1%	73.4%	81.9%
Dividend per ordinary share (cents) including discontinued operations	**43**	**60**	160	160	160	160

1. *The USD amounts are disclosed for information purposes only. There is no assurance that the AUD amounts could be translated at the September 30, 2020 Noon Buying Rate applied in this U.S. Disclosure Document.*
2. *The ordinary dividend payout ratio calculation is based on the following dividend payments:*

	2020 $M	*2019 $M*	*2018 $M*	*2017 $M*	*2016 $M*
Interim	*709*	*2,267*	*2,317*	*2,349*	*2,334*
Final	*994**	*2,268*	*2,295*	*2,350*	*2,342*
Total	*1,703**	*4,535*	*4,612*	*4,699*	*4,676*

**Based on the proposed final dividend announced on October 29, 2020 and on the forecast number of ordinary shares expected to be on issue at the dividend record date.*

SUMMARY OF CONDENSED CONSOLIDATED BALANCE SHEETS AND SELECTED RATIOS - INCLUDING DISCONTINUED OPERATIONS[1]

	As of September 30					
	2020 USD M[2]	**2020 $M**	**2019 $M**	**2018 $M**	**2017 $M**	**2016 $M**
Shareholders' equity excluding non-controlling interests[3]	**43,881**	**61,287**	60,783	59,265	58,959	57,818
Subordinated debt[4]	**15,080**	**21,061**	16,586	15,908	17,710	21,964
Unsubordinated debt	**70,603**	**98,607**	113,105	105,271	90,263	91,080
Deposits and other borrowings	**488,550**	**682,333**	637,677	618,150	595,611	588,195
Gross loans and advances	**445,405**	**622,074**	618,767	608,380	584,091	580,035
Less: Individually assessed provision for credit impairment	**(609)**	**(851)**	(790)	(894)	(1,136)	(1,307)
Less: Collectively assessed provision for credit impairment	**(2,957)**	**(4,130)**	(2,719)	(2,023)	(2,662)	(2,876)
Less: Loans and advances held for sale	**-**	**-**	-	(999)	(5,962)	-
Net loans and advances (excluding held for sale)	**441,839**	**617,093**	615,258	604,464	574,331	575,852
Total assets[3]	**746,277**	**1,042,286**	981,137	943,182	897,326	914,869
Net assets[3]	**43,889**	**61,297**	60,794	59,405	59,075	57,927
Risk weighted assets[5]	**307,439**	**429,384**	416,961	390,820	391,113	408,582
Capital adequacy ratios:[5]						
Common Equity Tier 1	**11.3%**	**11.3%**	11.4%	11.4%	10.6%	9.6%
Tier 1	**13.2%**	**13.2%**	13.2%	13.4%	12.6%	11.8%
Tier 2	**3.3%**	**3.3%**	2.1%	1.9%	2.2%	2.5%
Total capital ratio	**16.4%**	**16.4%**	15.3%	15.2%	14.8%	14.3%
Number of ordinary shares on issue (millions)	**2,840.4**	**2,840.4**	2,834.6	2,873.6	2,937.4	2,927.5

	Years ended September 30					
	2020 USD[2]	**2020**	**2019**	**2018**	**2017**	**2016**
Selected ratios						
Profit attributable to the shareholders of the Company as a percentage of:						
Average total assets[6]	**0.34%**	**0.34%**	0.61%	0.68%	0.70%	0.63%
Average ordinary shareholders' equity excluding non-controlling interests[6]	**5.9%**	**5.9%**	10.0%	10.9%	11.0%	10.0%
Average ordinary shareholders' equity excluding non-controlling interests as a percentage of average total assets[6]	**5.7%**	**5.7%**	6.1%	6.3%	6.3%	6.3%

1. *Balance sheet amounts and ratios include assets and liabilities reclassified as held for sale from continuing and discontinued operations unless otherwise stated.*
2. *The USD amounts are disclosed for information purposes only. There is no assurance that the AUD amounts could be translated at the September 30, 2020 Noon Buying Rate applied in this U.S. Disclosure Document.*
3. *The Group adopted AASB 16 from October 1, 2019 and applied a modified retrospective transition approach. Under this approach, the Group recognized lease liabilities of $1.7 billion presented within Payables and other liabilities and right-of-use assets of $1.6 billion presented within Premises and Equipment. This resulted in a reduction to opening retained earnings of $88 million and an increase in deferred tax assets of $37 million as of October 1, 2019. Comparative information has not been restated. Refer to Note 1 of the 2020 Financial Report (attached as part of Annex A to this U.S. Disclosure Document) for further details.*
4. *For the composition of subordinated debt refer to Note 15 of the 2020 Financial Report (attached as part of Annex A to this U.S. Disclosure Document) for further details.*
5. *Risk weighted assets and capital adequacy ratios are calculated using the APRA Basel 3 methodology (refer to page 22).*
6. *Averages are calculated using predominantly daily averages.*

SUMMARY OF CREDIT RISK DATA - INCLUDING DISCONTINUED OPERATIONS[1]

	As of September 30			
	2020 USD M[2]	**2020 $M**	**2019 $M**	**2018 $M**
Gross impaired assets				
Impaired loans[3]	1,433	2,001	1,711	1,802
Restructured items[4]	182	254	267	269
Non-performing commitments and contingencies[3]	146	204	51	68
Total gross impaired assets	**1,761**	**2,459**	**2,029**	**2,139**
Allowance for expected credit losses[5]				
Individually assessed provision - impaired loans	609	851	791	894
Individually assessed provision - non-performing commitments and contingencies	29	40	23	26
Collectively assessed provision	3,586	5,008	3,376	2,523
Total allowance for expected credit losses	**4,224**	**5,899**	**4,190**	**3,443**
Total gross loans and advances[6]	**445,405**	**622,074**	**618,767**	**608,380**
Credit risk weighted assets[7]	257,786	360,037	358,106	337,580
Collectively assessed provision as a percentage of credit risk weighted assets[7]	1.39%	1.39%	0.94%	0.75%
Gross impaired assets as a percentage of gross loans and advances	0.40%	0.40%	0.33%	0.35%
Individually assessed provision for credit impairment as a percentage of gross impaired assets	36.2%	36.2%	40.1%	43.0%
Individually assessed provision for impaired loans as a percentage of impaired loans	42.5%	42.5%	46.2%	49.6%
Total allowance for expected credit losses as a percentage of:				
Gross loans and advances[6]	0.9%	0.9%	0.7%	0.6%
Credit risk weighted assets[7]	1.6%	1.6%	1.2%	1.0%

1. *Balance sheet and credit risk data includes assets and liabilities reclassified as held for sale from continuing and discontinued operations.*
2. *The USD amounts are disclosed for information purposes only. There is no assurance that the AUD amounts could be translated at the September 30, 2020 Noon Buying Rate applied in this U.S. Disclosure Document.*
3. *Impaired loans and non-performing commitments and contingencies do not include exposures which are included in collectively assessed Stage 3 ECL, which comprise unsecured retail exposures greater than 90 days past due and defaulted but well secured exposures.*
4. *Restructured items are facilities where 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.*
5. *Includes allowance for expected credit losses for Net loans and advances – at amortized cost, Investment securities – debt securities at amortized cost and Off-balance sheet commitment – undrawn and contingent facilities.*
6. *Consists of loans and advances and capitalized brokerage/mortgage origination fees less unearned income.*
7. *Credit risk weighted assets are calculated using APRA Basel 3 methodology (refer to page 22).*

OVERVIEW

Australia and New Zealand Banking Group Limited ("ANZBGL") and its subsidiaries (together, the "Group"), which began its Australian operations in 1835 and its New Zealand operations in 1840, is one of the four major banking groups headquartered in Australia. ANZBGL is a public company limited by shares incorporated in Australia and was registered in the State of Victoria on July 14, 1977. ANZBGL's registered office is located at Level 9, 833 Collins Street, Docklands, Victoria, 3008, Australia, and the telephone number is +61 3 9683 9999. ANZBGL's Australian Business Number is ABN 11 005 357 522.

The Group provides a broad range of banking and financial products and services to retail, small business, corporate and institutional customers. Geographically, operations span Australia, New Zealand, a number of countries in the Asia Pacific region, the United Kingdom, France, Germany and the United States.

As of September 30, 2020, the Group had total assets of $1,042.3 billion and shareholders' equity excluding non-controlling interests of $61.3 billion. In terms of total assets among banking groups, the Group ranked first in Australia[1] as of September 30, 2020 and first in New Zealand[2] as of September 30, 2020.

ANZBGL's principal ordinary share listing and quotation is on the ASX. Its ordinary shares are also quoted on the New Zealand Stock Exchange (the "NZX"). At the close of trading on September 30, 2020, ANZBGL had a market capitalization of $48.8 billion, which ranked among the top eight largest companies listed on the ASX[3].

1. *Source: Commonwealth Bank of Australia results announcement for the fiscal year ended June 30, 2020; National Australia Bank results announcement for the fiscal year ended September 30, 2020; Westpac Banking Corporation results announcement for the fiscal year ended September 30, 2020.*
2. *Source: Reserve Bank of New Zealand Bank Financial Strength Dashboard (https://bankdashboard.rbnz.govt.nz/summary) for the quarter ending June 30, 2020.*
3. *Source: IRESS.*

BUSINESS MODEL

The Group's business model primarily consists of raising funds through customer deposits and the wholesale debt markets and lending those funds to customers. In addition, the Group operates a Markets business which earns revenue from sales, trading and risk management activities. The Group also provides payments and clearing solutions. Up until the sale completion dates outlined in "Section 1: Key Information – Basis of Preparation – Discontinued Operations", the Group earned revenue from its wealth activities through the provision of insurance, superannuation and funds management services, which are largely classified as discontinued operations.

Our primary lending activities are personal lending covering residential home loans, credit cards and overdrafts, and lending to corporate and institutional customers.

Our income is derived from a number of sources, primarily:

- Net interest income – represents the difference between the interest income the Group earns on its lending activities and the interest paid on customer deposits and wholesale funding;
- Net fee and commission income – represents fee income earned on lending and non-lending related financial products and services. It includes net funds management income;
- Share of associates' profits – represents the Group's share of the profit of an entity over which the Group has significant influence but not control; and
- Other income – includes income earned from the provision of insurance solutions, revenue generated from sales, trading and risk management activities in the Markets business, net foreign exchange earnings and gains and losses from economic and revenue and expense hedges.

STRATEGY

Our strategy is focused on improving the financial wellbeing of our customers; having the right people who listen, learn and adapt; putting the best tools and insights into their hands; and focusing on those few things that we believe really add value to customers and doing them right the first time.

In particular, we want to help customers:

- save for, buy and own a livable home;
- start or buy and grow their business and adopt sustainable business practices; and
- move capital and goods around the region and adopt sustainable business practices.

In doing so, we seek to improve the financial wellbeing of our customers, people and communities by helping them make the most of their money throughout their lives; supporting household, business and financial practices that improve environmental sustainability; and improving the availability of suitable and affordable housing options for all Australians and New Zealanders.

<table>
<tr><td colspan="6">Purpose
Our purpose is to shape a world where people and communities thrive</td></tr>
<tr><th>Strategic Imperatives</th><th colspan="4">Strategy</th><th>Creating value for our stakeholders</th></tr>
<tr><td>Create a simpler, better capitalized, better balanced bank</td><td colspan="4">Improving the financial wellbeing of customers…</td><td>Decent returns for shareholders</td></tr>
<tr><td>Build a superior experience for our people and customers in order to compete in the digital age</td><td>…looking to save for, buy and own a home</td><td colspan="2">…looking to start, buy and grow a business</td><td>…looking to move capital and goods around the region</td><td>Great experience for customers</td></tr>
<tr><td>Focus our efforts where we can carve out a winning position</td><td colspan="2">…with people who listen, learn and adapt</td><td colspan="2">…with the best tools and insights</td><td>Engaged, adaptable & capable employees</td></tr>
<tr><td>Drive a purpose and values led transformation of the Bank</td><td colspan="4">…with flexible, resilient, digital infrastructure that supports great customer experience at lower cost</td><td>Improved financial wellbeing, housing and environmental sustainability outcomes for customers and communities</td></tr>
</table>

PRINCIPAL ACTIVITIES

The Group operates on a divisional structure with five continuing divisions: Australia Retail and Commercial, Institutional, New Zealand, Pacific, and TSO and Group Centre. For key changes impacting the financial information disclosed in this U.S. Disclosure Document, refer to “Section 1: Key Information – Basis of Preparation” for further details.

There have been a number of divestments impacting the divisions of the Group. These are detailed in “Section 3: Operating and Financial Review and Prospects – Operating and Financial Review – Large/notable Items – continuing operations”.

The divisions reported below are consistent with operating segments as defined in AASB 8 *Operating Segments* and with internal reporting provided to the chief operating decision maker, being the Chief Executive Officer.

As of September 30, 2020, the principal activities of the five continuing divisions were:

Australia Retail and Commercial

The Australia Retail and Commercial division comprises the following business units.

- Retail provides products and services to consumer customers in Australia via the branch network, mortgage specialists, contact centers and a variety of self-service channels (internet banking, phone banking, ATMs, website, ANZ share investing and digital banking) and third party brokers in addition to financial planning services provided by salaried financial planners.
- Commercial (previously named Business & Private Banking) provides a full range of banking products and financial services, including asset financing, across the following customer segments: medium to large commercial customers and agribusiness customers across regional Australia, small business owners and high net worth individuals and family groups.

Institutional

The Institutional division services government, global institutional and corporate customers across three product sets: Transaction Banking, Corporate Finance and Markets.

- Transaction Banking provides working capital and liquidity solutions including documentary trade, supply chain financing, commodity financing as well as cash management solutions, deposits, payments and clearing.
- Corporate Finance (previously named Loans & Specialized Finance) provides loan products, loan syndication, specialized loan structuring and execution, project and export finance, debt structuring and acquisition finance and corporate advisory.
- Markets provide risk management services on foreign exchange, interest rates, credit, commodities and debt capital markets in addition to managing the Group's interest rate exposure and liquidity position.

New Zealand

As at September 30, 2020, The New Zealand division comprised of the Retail and Commercial business units.

- Retail provided a full range of banking and wealth management services to consumer, private banking and small business banking customers. We delivered our services via our internet and app-based digital solutions and network of branches, mortgage specialists, relationship managers and contact centers.
- Commercial provided a full range of banking services including traditional relationship banking and sophisticated financial solutions through dedicated managers focused on privately owned medium to large enterprises, the agricultural business segment and government and government-related entities.

In November 2020, the New Zealand division reorganized into the following three major business segments:

- Personal provides a full range of banking services to consumer customers. The ANZ New Zealand Group delivers its services via its internet and app-based digital solutions and network of branches, mortgage specialists and contact centres.
- Business provides a full range of banking services including traditional relationship banking and sophisticated financial solutions through dedicated relationship managers focusing on privately-owned small businesses, medium to large enterprises and the agriculture business segment, government and government-related entities.
- Wealth provides a range of wealth management services to consumers and a full range of banking services to private banking customers through digital channels and private bankers.

Pacific

The Pacific division provides products and services to retail customers, small to medium-sized enterprises, institutional customers and governments located in the Pacific Islands. Products and services include retail products provided to consumers, traditional relationship banking and sophisticated financial solutions provided to business customers through dedicated managers.

TSO and Group Centre

TSO and Group Centre division provides support to the operating divisions, including technology, group operations, shared services, property, risk management, financial management, strategy, marketing, human resources and corporate affairs. The Group Centre includes residual components of Group divestments, Group Treasury, Shareholder Functions and minority investments in Asia.

RECENT DEVELOPMENTS

There have been no significant developments since September 30, 2020 to the date of this U.S. Disclosure Document.

COMPETITION

Australia

The Australian banking system is concentrated and highly competitive. As of September 30, 2020, the four major banking groups in Australia (Australia and New Zealand Banking Group, Commonwealth Bank of Australia, National Australia Bank and Westpac Banking Corporation) held approximately 75%[1] of the total Australian lending assets of ADIs that conduct business in Australia. The operations of the smaller regional banks are typically focused on servicing customers in a particular state or region with an emphasis on retail banking. A number of international banks also provide banking services in Australia and typically focus on specific segments of the retail or institutional markets, holding a minority position in these segments.

The deregulation of the Australian financial system during the early 1980s led to a proliferation of both bank financial institutions and non-bank financial institutions that compete in selected markets with the four major banking groups. Non-bank financial intermediaries, such as building societies and credit unions, compete principally in the areas of accepting deposits and residential mortgage lending. Some large building societies have been granted banking authorizations under the *Banking Act 1959 (Cth)* (the "Banking Act"). Specialist non-bank residential mortgage lenders and direct (non-branch) banking operations have also become more prominent in recent years.

Competition has historically been greater in the housing lending market, which initially resulted from the rise of mortgage originators, and subsequently from growth in the mortgage broker industry. Non-bank originators have become more active in recent years, which has been reflected in the growth rates of non-bank originators and the unregulated market relative to the regulated market, however from a significantly lower market share base. Providers of housing lending, including the major banks compete aggressively in both the new lending and refinance markets by offering significant discounts below the advertised rate.

The retail deposit market in Australia is also competitive, particularly in times of higher credit growth to support funding and increased lending demand. An Australian Government Guarantee for retail customer bank deposits was introduced in 2008 during the global financial crisis, which led to increased deposits with the major Australian banks and a decrease in deposits with other deposit fund providers. The Australian Government Guarantee refers to temporary arrangements announced by the Australian Government to enable the provision of a guarantee for the deposits and wholesale funding of Australian deposit-taking institutions. In addition, changes in the financial services sector have made it possible for non-banks to offer through various distribution channels (physical and online), products and services traditionally provided by banks.

In corporate and commercial banking businesses competition remains intense across the major banks, regional banks and other commercial banking financiers. Business investment remains subdued contributing to less demand for credit, which together with a heightened focus on protecting and deepening customer relationships has continued to place increased pressure on lending margins.

In the institutional market, we believe competitors gain recognition through the quality of their client base, perceived skill sets, structured solutions and pricing, client insights, reputation and brands. In Australian domestic markets, competitors at the large corporate and institutional customer level are generally the major Australian banks, some global investment banks, some Asian banks who are expanding beyond their local markets and the boutique operations of large multi-national banking conglomerates with a focus on niche areas.

The banking industry continues to evolve with new digital products and service solutions to meet customer needs and changing customer preferences. Demand for innovative, digital solutions is contributing to further competition from existing and new entrants to the banking industry, particularly in retail banking.

In addition, the current COVID-19 pandemic and future economic conditions may have the effect of reducing the number of competitors in the markets in which the Group operates over the medium term (for details refer to "Section 2: Information on the Group – Risk factors – Competition in the markets in which the Group operates may adversely affect the Group's Position"). However, this may not lead to any medium-term reduction in the level of competition.

Note

1. *Source: APRA monthly authorized deposit-taking institution statistics September 2020 (released October 31, 2020).*

New Zealand

The New Zealand financial services sector in which the Group operates is very concentrated and highly competitive. ANZ's principal competitors are the three other major banks: ASB Bank Limited, Bank of New Zealand and Westpac Banking Corporation/Westpac New Zealand Limited. Each of these is a subsidiary or branch of a major Australian bank. These banks participate across all customer segments from individuals to large corporates.

Competition also exists in specific business segments from other banks. Kiwibank Limited is active in retail segments, and Rabobank New Zealand Limited is active in retail deposits and agricultural lending markets. International banks such as Citigroup, HSBC and Deutsche Bank participate in a limited manner in the institutional market. Since late 2013, New Zealand has also seen Industrial and Commercial Bank of China, China Construction Bank and Bank of China become registered banks in New Zealand. Their focus appears to be in housing and business lending, however, their market share remains small in these segments.

Competition in the financial services sector can be intense and difficult to predict. The retail deposit market in New Zealand continues to be competitive, with banks attempting to maintain their market share in the current low interest rate environment. Margins on retail term deposits have increased as wholesale rates have shifted lower. As at September 30, 2020, lending to the residential mortgage market accounted for over half of the lending in New Zealand by registered banks and this market is a key area of competitive tension.

While non-bank originators have become more active in New Zealand in recent years, the growth rate in total assets has been lower compared to off-shore markets such as Australia, which we believe may be a result of factors that include the more positive community perception that New Zealand banks have compared to banks in other off-shore markets and limited legislation in New Zealand mandating the disclosure of customer data. The non-banking sector constituted approximately 3% of total financial system assets as of September 30, 2020.

The COVID-19 impact on competition in New Zealand is still unclear but may become more evident in the coming months. To support New Zealanders, the government announced the Mortgage Repayment Deferral Scheme and Business Finance Guarantee Scheme in partnership with all the major banks – including ANZ New Zealand. For further information about the Mortgage Repayment Deferral Scheme and Business Finance Guarantee Scheme, see "Supervision and Regulation-New Zealand-New Zealand Regulatory Developments-Regulatory Response to the COVID-19 Pandemic and Other Developments".

Asia

Banking in Asia is highly competitive. There are a large number of global banks (for example Citibank, HSBC and Standard Chartered) and regional banks (for example DBS Bank, CIMB and Maybank) operating in the region in addition to the local banks in each market. The Group's most active competitors, particularly in the Institutional division, include global investment banks and large Chinese and Japanese banks.

The Group currently operates in multiple countries, focused on institutional banking and delivering financial solutions to customers driven by regional trade and capital flows. We believe the Group's geographic coverage, strength in its domestic markets of Australia and New Zealand, and targeted focus on customers, industries and product specialization (including Markets and Transaction Banking) enables the Group to differentiate itself from its competitors across the region.

Competition remains robust and a large number of banks have shown a willingness to commit portions of their balance sheet in support of growth opportunities in the region. This has contributed to the net interest margin on institutional lending in Asia being generally lower than that of similar lending in Australia and New Zealand. Competition in Asia is expected to continue to grow with relatively stronger economic growth prospects compared with other markets, which we believe will attract continued investments in the region.

While the Group provides a broad suite of financial services to institutional customers, it does not seek to be a bank to the retail or commercial markets in Asia.

SUPERVISION AND REGULATION

As a major banking group, the Group is subject to extensive regulation by regulatory agencies and security exchanges in each of the major markets where it operates. This section provides an overview of the regulatory landscape applicable to the Group, focusing on Australia, New Zealand and the United States.

AUSTRALIA

Overview of APRA's Prudential and Regulatory Supervision

Since July 1, 1998, APRA has been responsible for the prudential and regulatory supervision of Australian ADIs, which include banks (including ANZBGL), credit unions, building societies, insurance companies and superannuation funds. Prior to this, the Australian banking industry was regulated by the RBA. The RBA has retained overall responsibility for monetary policy, financial system stability and payments system regulation. APRA draws authority from the Australian Prudential Regulation Authority Act 1998 of Australia.

APRA requires ADIs to meet certain prudential requirements that are covered in a range of APRA Prudential Standards.

APRA discharges its responsibilities in part by requiring ADIs subject to its supervision to regularly provide it with reports that set forth a broad range of information, including financial and statistical data relating to their financial position and information in respect of prudential and other matters. APRA gives special attention to capital adequacy, liquidity, earnings, credit quality and associated loan loss experience, concentration of risks, maturity profile of assets and liabilities, operational risks, market risks, interest rate risk in the banking book ("IRRBB"), exposures to related entities, outsourcing, funds management, governance, business continuity management, audit and related matters, securitization activities and international banking operations. APRA may also exercise certain investigative powers if an ADI fails to provide information about its financial condition. Where APRA considers that an ADI may become unable to meet its obligations or suspends payment (among other circumstances), APRA can take control of the ADI's business (including by appointment of a Banking Act statutory manager). APRA also has power to direct the ADI not to make payments in respect of its indebtedness. In addition, APRA has powers under the Financial Sector (Transfer and Restructure) Act 1999 of Australia to require the compulsory transfer of some or all of an ADI's assets and liabilities or its shares to another body specified by APRA (which need not in all cases be an ADI). Broadly, APRA may require such a transfer in circumstances including where the relevant Australian Minister declares that the transfer should occur, or APRA is satisfied that there has been a contravention of the Banking Act or regulations or instruments made under it or the ADI has informed APRA that it is likely to become unable to meet its obligations or is about to suspend payment, and certain other criteria are met, including that APRA is satisfied that the transfer is appropriate having regard to the interests of the financial sector as a whole. A counterparty to a contract with an ADI cannot rely solely on the fact that a Banking Act statutory manager is in control of the ADI's business or on the making of a direction or compulsory transfer order as a basis for denying any obligations to the ADI or for accelerating any debt under that contract, closing out any transaction relating to that contract or enforcing any security under that contract.

In carrying out its supervisory role, APRA supplements its analysis of statistical data collected from each ADI with selective "on site" visits and formal meetings with the ADI's senior management and the external auditor. APRA has also formalized a consultative relationship with each ADI's external auditor, with the agreement of the ADIs. The external auditor provides additional assurance to APRA that the information sourced from an ADI's accounting records and included in the ADI's APRA reporting is, in all material respects, reliable and in accordance with the relevant APRA Prudential and Reporting Standards. The external auditor also undertakes targeted reviews of specific risk management areas as selected by APRA. In addition, an ADI's Chief Executive Officer attests to, and its directors endorse, the adequacy and operating effectiveness of the ADI's risk management systems to control exposures and limit risks to prudent levels.

Capital

The common framework for determining the appropriate level of bank regulatory capital is set by the Basel Committee on Banking Supervision ("BCBS") under a framework that is commonly known as "Basel 3".

For calculation of minimum capital requirements under Pillar 1 ("Capital Requirements") of the Basel Accord, the Group has been accredited by APRA to use the Advanced Internal Ratings Based methodology for credit risk weighted assets and Advanced Measurement Approach for the operational risk weighted asset equivalent.

Effective January 1, 2013, APRA has adopted the majority of Basel 3 capital reforms in Australia. APRA views the Basel 3 reforms as a minimum requirement and hence has not incorporated some of the concessions proposed in the Basel 3 rules and has also set higher requirements in other areas. As a result, Australian banks' Basel 3 reported capital ratios are not directly comparable with international peers. The Basel 3 reforms include: increased capital deductions from Common Equity Tier 1 (“CET1”) capital, an increase in capitalization rates (including prescribed minimum capital buffers, fully effective from January 1, 2016), tighter requirements around new Additional Tier 1 (“AT1”) and Tier 2 securities and transitional arrangements for existing AT1 and Tier 2 securities that do not conform to the new regulations. Other changes include capital requirements for counterparty credit risk and an increase in the asset value correlation with respect to exposures to large and unregulated financial institutions as well as changes that have resulted from the Financial System Inquiry (“FSI”) as described below.

For further discussion regarding capital regulatory developments, refer to “Australian Regulatory Developments” below.

Liquidity

ANZBGL's liquidity and funding risks are governed by a detailed policy framework that is approved by ANZBGL's Board Risk Committee. The management of the liquidity and funding positions and risks is overseen by the Group Asset and Liability Committee. ANZBGL's liquidity risk appetite is defined by the ability to meet a range of regulatory requirements and internal liquidity metrics mandated by ANZBGL's Board Risk Committee. The metrics cover a range of scenarios of varying duration and level of severity. This framework helps:

- provide protection against shorter-term but more extreme market dislocations and stresses;
- maintain structural strength in the balance sheet by ensuring that an appropriate amount of longer-term assets are funded with longer-term funding; and
- ensure no undue timing concentrations exist in the Group's funding profile.

A key component of this framework is the Liquidity Coverage Ratio ("LCR") that was implemented in Australia on January 1, 2015. The LCR is a severe short term liquidity stress scenario mandated by banking regulators including APRA. It was introduced as part of the Basel 3 international framework for liquidity risk measurement, standards and monitoring. As part of meeting the LCR requirements, ANZBGL has a Committed Liquidity Facility ("CLF") with the RBA. The CLF has been established as a solution to a High Quality Liquid Asset shortfall in the Australian marketplace and provides an alternative form of RBA-qualifying liquid assets. The total amount of the CLF available to a qualifying ADI is set at least annually by APRA. From January 1, 2020, ANZBGL's CLF is A$35.7 billion (2019 calendar year end: A$48.0 billion).

Additionally, the Group has implemented APRA's Net Stable Funding Ratio ("NSFR") requirement from January 1, 2018 following the release of the NSFR final standards in December 2016. The Group's Level 2 NSFR was 124% as of September 30, 2020. (September 30, 2019: 116%).

ANZBGL seeks to observe strictly its prudential obligations in relation to liquidity and funding risk as required by APRA Prudential Standard APS 210, as well as the prudential requirements of overseas regulators on ANZBGL's offshore operations.

Capital Management and Adequacy and Liquidity within APRA's Regulations

For further details of the Group's capital management and adequacy, liquidity and APRA's regulatory environment, refer to the sections entitled "Liquidity and capital resources – including discontinued operations" set out in Section 3: Operating and Financial Review and Prospects.

Banking Executive Accountability Regime

The Treasury Laws Amendment (Banking Executive Accountability and Related Measures) Act 2018 established the "Banking Executive Accountability Regime" ("BEAR"). ANZBGL's obligations under the BEAR commenced on July 1, 2018.

The BEAR aims to strengthen the responsibility and accountability framework for the most senior and influential directors and executives in ADI groups. Under the BEAR:

- ANZBGL is required to register individuals with APRA before appointing them to certain senior executive or director positions and maintain and provide APRA with a map of the roles and responsibilities of such persons across the ADI group, and to provide APRA with accountability statements for each of these senior executives or directors, detailing that individual's roles and responsibilities;
- where ANZBGL and its registered senior executives and directors do not meet accountability obligations, APRA is empowered to disqualify those individuals as senior executives or directors without a court order (but subject to a right of administrative review in accordance with Part VI of the Banking Act);
- ANZBGL is obliged to set remuneration policies for directors and senior executives consistent with BEAR's requirements, including for the deferral of certain components of that remuneration; and
- ANZBGL may be liable for substantial penalties for failing to comply with its BEAR obligations.

The Australian Government announced in January 2020 that BEAR will be replaced by the Financial Accountability Regime ("FAR"), which proposes to extend the regime to other APRA-regulated entities and directors / senior executives to increase accountability. FAR would be jointly administered by APRA and ASIC and could impose larger civil penalties for any breaches.

Crisis Management

The Financial Sector Legislation Amendment (Crisis Resolution Powers and Other Measures) Act 2018 enhanced APRA's powers to facilitate the orderly resolution of the entities it regulates (and their subsidiaries) in times of distress. Additional powers which could impact the Group include greater oversight, management and directions powers in relation to ANZBGL and other Group entities which were previously not regulated by APRA, increased statutory management powers over regulated entities within the Group and changes which are designed to give statutory recognition to the conversion or write-off of regulatory capital instruments (the "Statutory Conversion and Write-Off Provisions").

The Statutory Conversion and Write-Off Provisions apply in relation to regulatory capital instruments issued by certain financial sector entities (including ADIs, of which ANZBGL is one) that contain provisions for conversion or write-off for the purposes of APRA's prudential standards. Where the Statutory Conversion and Write-Off Provisions apply to an instrument, that instrument may be converted in accordance with its terms. This is so despite any law (other than specified laws, currently those relating to the ability of a person to acquire interests in an Australian corporation or financial sector entity), the constitution of the issuer, any contract to which the issuer is a party, and any listing rules, operating rules or clearing and settlement rules applicable to the instrument. In addition, the Banking Act includes a moratorium on the taking of certain actions on grounds relating to the operation of the Statutory Conversion and Write-Off Provisions.

Other Australian Regulators

In addition to APRA and its prudential and regulatory supervision, ANZBGL and its Australian subsidiaries are supervised and regulated in some respects by other regulators including the Australian Securities and Investments Commission ("ASIC"), the Australian Competition and Consumer Commission ("ACCC"), the Australian Transaction Reports and Analysis Centre ("AUSTRAC"), the Office of the Australia Information Commissioner ("OAIC") and various securities exchanges.

ASIC is Australia's corporate, markets, financial services and consumer credit regulator. It regulates Australian companies, financial markets, financial services organizations and professionals who deal in and advise on investments, superannuation, insurance, deposit-taking and credit. As the consumer credit regulator, ASIC licenses and regulates people and businesses engaging in consumer credit activities (including banks, credit unions, finance companies, and mortgage and finance brokers). ASIC ensures that licensees meet the standards, including those related to responsibilities to consumers that are set out in the Australian National Consumer Credit Protection Act 2009. As the markets regulator, ASIC assesses how effectively authorized financial markets are complying with their legal obligations to operate fair, orderly and transparent markets. Since August 1, 2010, ASIC has had responsibility for the supervision of trading on Australia's domestic licensed equity, derivatives and futures markets. As the financial services regulator, ASIC licenses and monitors financial services businesses to ensure that they operate efficiently, honestly and fairly. These businesses typically deal in superannuation, managed funds, shares and company securities, derivatives and insurance. ANZBGL provides products and participates in markets regulated by ASIC.

The ACCC is an independent Commonwealth statutory authority that promotes competition and fair trading in the Australian marketplace to benefit consumers, businesses and the community. It also regulates national infrastructure services. Its primary responsibility is to ensure that individuals and businesses, including the Group, comply with the Australian competition, fair trading and consumer protection laws.

AUSTRAC is Australia's financial intelligence unit and its anti-money laundering and counter-terrorism financing regulator. The Group is required to comply with certain anti-money laundering and counterterrorism financing legislation and regulations under Australian law, including the Anti-Money Laundering and Counter-Terrorism Financing Act 2006 (Cth) ("AML Act"). The AML Act is administered by AUSTRAC.

The OAIC is an independent agency within the Australian Attorney General's portfolio. Its primary functions are privacy, freedom of information and government information policy, with responsibilities including conducting investigations, reviewing decisions, handling complaints, and providing guidance and advice.

Australian Regulatory Developments

Regulatory Response to COVID-19

Australian regulators and the Australian Government have implemented a broad range of measures in response to the COVID-19 pandemic, many of which affect the Group. These include the following measures:

- In March 2020, AUSTRAC announced that it will constructively work with reporting entities, such as ANZBGL, as they manage their money laundering and terrorism financing risks during the COVID-19 disruptive period. This includes considering such reporting entities' circumstances when applying anti-money laundering and counter-terrorism financing laws. AUSTRAC stated that it has a business continuity plan in place which will allow it to maintain core functions and continue its work with reporting entities, to protect Australians from serious financial crime and terrorism.
- In March 2020, the RBA established a term funding facility ("TFF") for the banking system. ADIs are able to obtain an initial allowance of up to 3% of their outstanding credit (measured as the average of an ADIs total credit in the relevant three month period) and an additional funding allowance if they increase lending to business, especially to small and medium-sized businesses. In September 2020 the RBA announced a supplementary funding allowance available from October 1, 2020 to June 30, 2021 and extended the deadline for drawdowns of the additional funding allowance based on an ADI's lending to businesses from March 31, 2021 to June 30, 2021. The supplementary funding allowance is fixed at 2% of an ADI's outstanding credit (measured as the average of an ADIs total credit in the relevant three month period).

  As at October 1, 2020, ANZBGL had fully drawn $12 billion from its initial TFF allowance and it had not drawn anything from its additional TFF allowance of $4.4 billion. In November 2020 the RBA reported that ADIs had drawn almost $84 billion under the TFF and that the total funding allowance was around $190 billion, compared with $150 billion in August 2020 and $90 billion at inception.

  In November 2020, the RBA announced a reduction in the cash rate target to 0.1%, a reduction in the target for the yield on the 3-year Australian Government bond to around 0.1%, a reduction in the interest rate on new drawings under the TFF to 0.1% and a reduction in the interest rate on banks' settlement balances at the RBA to zero.

  In March 2020, the RBA and the US Federal Reserve established a temporary swap line for the provision of U.S. dollar liquidity. The swap line allows the RBA to access up to US$60 billion in exchange for Australian dollars. The U.S. dollars are made available to financial institutions operating in Australia via repos with the RBA.

  The RBA has been injecting substantial extra liquidity into the Australian financial system.
- In March 2020, APRA announced, among other matters:
  - the suspension of the majority of its planned policy and supervision initiatives in response to the impact of COVID-19, including substantive public consultations and actions to finalize revisions to the prudential framework that were underway or upcoming, including consultations on prudential and reporting standards. In an update on August 10, 2020, APRA announced that apart from a limited number of high-priority policy initiatives, APRA does not plan to recommence consultation on any other matters for the remainder of 2020. APRA's policy program for 2021 will be reviewed in light of the current environment;
  - a temporary change to its expectations with regards to ADIs maintaining bank capital ratios at the "unquestionably strong" benchmark. During the period of the COVID-19 disruption, APRA has stated that it would not be concerned if ADIs are not meeting this benchmark as the current large buffers may be needed to facilitate ongoing lending to the Australian economy;
  - an exemption for banks from having to treat eligible small business loans and home loans, which are subject to a COVID-19 loan repayment deferral, as 'arrears' or 'restructured' for capital purposes. APRA initially provided the capital treatment exemption for a period of up to 6 months from March 2020, but in July 2020, APRA allowed an extension to align with a further period of loan deferrals until the earlier of an aggregate period of deferral totalling ten months or March 31, 2021. The extension of the loan deferral arrangements (and associated capital treatment) is subject to ADIs undertaking an appropriate credit assessment to ascertain if an extension or new deferral is appropriate for the particular borrower given their circumstances.

    For further information, please see "Risk factors - Legal and Regulatory Risk - Regulatory changes or a failure to comply with laws, regulations or policies may adversely affect the Group's Position - Prudential Developments".
  - In March 2020, ASIC announced that it would focus its regulatory efforts on challenges created by the COVID-19 pandemic. Until at least September 30, 2020, the other matters that ASIC planned to afford priority were: where there is the risk of significant consumer harm, serious breaches of the law, risks to market integrity and time-critical matters. ASIC immediately suspended a number of near-term activities which are not time-critical. These included consultation, regulatory reports and reviews including ASIC's close and continuous monitoring program. In May 2020, ASIC announced that it would defer the commencement date of the mortgage broker best interest duty and remuneration reforms and the design and distribution obligations by six months to January 1, 2021 and October 5, 2021 respectively. In August 2020, ASIC released its Corporate Plan for 2020-24 which outlines actions ASIC is taking to address the impact of the COVID-19 pandemic as well as longer term threats and harms in the regulatory environment. ASIC stated that a key consideration in all of its work is the extent to which it is supporting the long term recovery of the Australian economy. ASIC's strategic priorities responding to the COVID-19 pandemic include: (i) protecting consumers from harm at a time of heightened vulnerability; (ii) maintaining financial system resilience and stability; (iii) supporting Australian

businesses to respond to the effects of the COVID-19 pandemic; (iv) continuing to identify, disrupt and take enforcement action against the most harmful conduct; and (v) continuing to build ASIC organisational capacity in challenging times.

- In March 2020, the ACCC announced that, while its 2020 compliance and enforcement priorities remain in place, it will re-focus its efforts to those priorities of most relevance to competition and consumer issues arising from the impact of COVID-19. Further, the ACCC has provided an authorization for the Australian Banking Association and participating member banks (including ANZBGL) to co-operate to provide relief packages for individuals and businesses affected by COVID-19.

For information relating to the regulatory response to the COVID-19 pandemic in New Zealand, please see “Supervision and regulation - New Zealand - New Zealand Regulatory Developments - Regulatory Response to the COVID-19 Pandemic and Other Developments”.

The exact ramifications of the COVID-19 pandemic on the regulation and supervision of, and enforcement against, financial services groups such as the Group continue to be highly uncertain and, as of the date of this U.S. Disclosure Document, are difficult to predict.

The outbreak of COVID-19 has also resulted in the Australian Commonwealth and State Governments enacting many measures to combat the spread of the virus and economic impacts. The Australian and State and Territory Governments have imposed wide ranging restrictions due to COVID-19 on, suspensions and limitations of, or advice against, travel, events, and meetings and many other normal activities and undertaken substantial and costly monetary and fiscal interventions. The Victorian State Government declared a temporary ‘state of disaster’ in August 2020 and imposed extensive restrictions on business, household and other activities (some of which have now been reduced). As an example of economic measures, the Australian Commonwealth Government announced a temporary ‘JobKeeper Payment’ (where eligible businesses significantly impacted by COVID-19 are able to access a subsidy from the Australian Government to continue paying their eligible employees) and a ‘Coronavirus Small and Medium Enterprises (SME) Guarantee Scheme’ (where the Australian Commonwealth Government provides a guarantee of 50% to SME lenders to support up to $40 billion in new loans to SMEs). The Australian Commonwealth and State Governments may in the foreseeable future implement, extend and introduce further measures. As of the date of this U.S. Disclosure Document, it is unclear what the full impact of these measures will be on the Group.

APRA Guidance on Capital Management

In July 2020, APRA provided an update to their guidance on capital management, which replaced prior guidance from April 2020, through which APRA had indicated an expectation that ADIs seriously consider deferring decisions on the appropriate level of dividends until the outlook became clearer. In the updated guidance, APRA acknowledged that the uncertainty in the economic outlook has reduced somewhat since April 2020 and APRA had the opportunity to review ADIs’ financial projections and stress testing results. Taking these and other developments since April 2020 into account, APRA advised ADIs to maintain caution in planning capital distributions, including dividend payments and that for the remainder of the calendar year, ADIs’ boards should:

- seek to retain at least half of their earnings when making decisions on capital distributions (and utilize dividend reinvestment plans and other initiatives to offset the diminution in capital from capital distributions where possible);
- conduct regular stress testing to inform decision-making and demonstrate ongoing lending capacity; and
- make use of capital buffers to absorb the impacts of stress, and continue to lend to support households and businesses.

The Group’s 2020 interim dividend of 25 cents per share (paid to shareholders on September 30, 2020) and proposed 2020 final dividend of 35 cents per share (announced by the Group on October 29, 2020) took into account the updated regulatory guidance above.

ANZBGL Update on RBNZ Capital Requirements

On December 5, 2019, ANZBGL provided an update on the impacts of the release of RBNZ’s final capital requirements.[1] See "Supervision and Regulation - New Zealand – New Zealand Regulatory Developments - RBNZ review of capital requirements" for more information about the RBNZ's final decisions.

The key requirements of the RBNZ’s final capital requirements are:

- Tier 1 capital requirement of 16% of RWA for ANZ New Zealand of which up to 2.5% of this could be in the form of AT1 capital. Tier 2 capital requirement remained at 2% of RWA;
- redeemable preference shares are allowable as AT1 capital. It is anticipated that ANZ New Zealand will be able to refinance existing internal AT1 securities to external counterparties;
- increase RWA outcomes for IRB banks to approximately 90% of what would be calculated under the standardized approach:
    - apply an 85% output floor for credit risk RWA of IRB banks;
    - increase the scalar applied to credit risk RWA of IRB banks from 1.06 to 1.2; and
- seven year transition period, initially commencing from July 2020.

The RBNZ has delayed the commencement date of the increased capital requirements to July 1, 2022 (from July 1, 2020) in response to the uncertainties from the COVID-19 pandemic (with further delays possible). Other aspects of the capital reforms will proceed from July 1, 2021, including the new rules around capital instruments.

The net impact on the Group is an increase in CET1 capital of approximately A$2.1 billion over the seven year transition period (based on the Group’s September 30, 2020 balance sheet). This amount takes into account capital already retained by the ANZ New Zealand Group to meet the final RBNZ requirements. The net impact will be reduced by approximately A$0.5 billion upon conversion of the NZ$500 million of mandatory convertible perpetual subordinated securities (“**Capital Notes**”) into new Group ordinary shares scheduled to occur in May 2022.

See "Supervision and Regulation - New Zealand - New Zealand Regulatory Developments - RBNZ review of capital requirements" for more information.

[1] RBNZ released its consultation paper titled "Capital Review Paper 4: How much capital is enough?" on December 14, 2018.

RBNZ restrictions on distributions and capital instruments

With effect from April 2, 2020, the RBNZ amended ANZ New Zealand's Conditions of Registration to (among other things) not permit ANZ New Zealand to make distributions other than discretionary payments payable to holders of AT1 capital instruments. This restriction applies to all New Zealand-incorporated registered banks, and is intended to support the stability of the financial system during the COVID-19 pandemic. The amendments prevent ANZ New Zealand from paying dividends to ANZBGL.

The RBNZ also informed ANZ New Zealand, and other New Zealand-incorporated registered banks, that they should not redeem capital instruments at this time. Accordingly ANZ New Zealand was not permitted to redeem its NZ$500 million of Capital Notes in May 2020, although ANZ New Zealand can continue making interest payments on those Capital Notes (subject to certain conditions). Further, ANZ New Zealand did not exercise its option to convert the Capital Notes in May 2020.The terms of the Capital Notes provide for their conversion into a variable number of ANZBGL ordinary shares in May 2022 (subject to certain conditions). Conversion would result in an increase in the Group's CET1 capital (approximately 12 basis points) at Level 2.

The RBNZ has stated that the above restrictions will remain in place until March 31, 2021 (or later if required), to continue to support the stability of the financial system.

See "Recent Developments " and "Supervision and Regulation - New Zealand - New Zealand Regulatory Developments - Regulatory Response to the COVID-19 Pandemic and Other Developments" for more information.

Royal Commission

A Royal Commission is a formal public inquiry that can only be instigated by the executive branch of the Australian Government and is directed by terms of reference. The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (the "Royal Commission") was directed to inquire into, and report on, whether any conduct of financial service entities (including ANZBGL) might have amounted to misconduct or conduct falling below community standards and expectations. The Royal Commission was also tasked with considering the causes of that conduct, in particular the role of culture, governance, remuneration and risk management practices, the effectiveness of regulators and making policy recommendations in response.

The final report (the "**Final Report**") of the Royal Commission was released publicly in February 2019. In the Final Report, the Commissioner of the Royal Commission identified conduct by financial service entities, including ANZBGL, that may have amounted to misconduct or that has fallen short of community standards and expectations.

The Final Report contained 76 recommendations across several matters, among them, banking, financial advice, superannuation, insurance, culture, governance and remuneration and regulators.

The Australian Government provided its response to the Royal Commission in February 2019, which included a commitment to take action on all of the Royal Commission's recommendations and additional commitments to address issues raised in the Final Report. In August 2019, the Australian Government released a roadmap to the implementation of its response. APRA, ASIC and the industry have also implemented or begun the implementation process for a number of recommendations directed towards them. In May 2020, the Treasurer of Australia announced a six month deferral to the implementation of certain Royal Commission commitments as a result of COVID-19. The Treasurer also stated that the Government had already implemented 24 commitments and had substantially progressed a further 35 through consultation and the preparation of draft legislation. The Government introduced a bill into the Australian Parliament in November 2020 to address 20 recommendations and one additional commitment.

Some of the more significant changes that we believe are likely to result from the recommendations of the Royal Commission include:

- adjustments to the regime of self-reporting of breaches of financial services laws and the introduction of an equivalent regime for breaches of credit laws;
- giving ASIC the ability to issue directions to prevent or address suspected breaches of financial services and credit laws;
- allowing ASIC to enforce financial services industry codes by attaching civil penalties to breaches of identified provisions of approved industry codes and establishing enforceable mandatory codes of conduct for the financial services industry;
- amendments to the prohibition on hawking (or unsolicited selling) of financial products;
- the introduction of a compensation scheme of last resort;
- the increased focus, and changes to policy, of APRA on governance, culture, remuneration and accountability, which has commenced and includes proposed changes to how banks pay senior executives; and
- the proposed replacement of the BEAR with the Financial Accountability Regime, which will be jointly administered by ASIC and APRA and will impose penalties on individuals and carry higher penalties for entities than BEAR.

Actions taken in connection with the other recommendations of the Royal Commission not highlighted above could also impact the Group's Position.

In February 2019, ANZBGL announced 16 commitments responding to a number of the Royal Commission's recommendations and comments. These commitments are meant to improve the treatment of retail customers, small businesses and farmers in Australia. They include, among other matters, commitments relating to remediation, remuneration, accountability, culture and governance and regulators. As at August 21, 2020, ANZBGL has completed 11 of its 16 commitments. ANZBGL continues to engage with the Australian Government, its regulators and industry as they progress their response to the Royal Commission recommendations.

In addition to the specific recommendations, the Royal Commission's conclusions have led or may lead to regulators commencing investigations into various financial services entities, including the Group, which could subsequently result in administrative or enforcement action being taken. The recommendations and the Government's commitments have also led to the Group's regulators altering their existing policies and practices and legislation being passed to expand regulatory powers.

The Royal Commission has also referred instances of potential misconduct to APRA or ASIC for consideration where they are not already being investigated. Where these matters relate to the Group, it may result in proceedings being brought against Group entities, which could result in the imposition of civil or criminal penalties on the Group.

The Royal Commission is resulting in additional costs and may lead to further exposures, including exposures associated with further regulator activity or potential customer exposures such as class actions, individual claims or customer remediation or compensation activities, and may have an adverse impact on the Group's Position. The outcomes and total costs associated with these possible exposures remain uncertain.

The Royal Commission may also lead to increased political or regulatory scrutiny of the financial industry in New Zealand.

Self-assessment into frameworks and practices

On May 1, 2018, APRA indicated that all regulated financial institutions would benefit from conducting a self-assessment into their frameworks and practices in relation to governance, culture and accountability and that, for large financial institutions such as the Group, APRA will be seeking written assessments that have been reviewed and endorsed by their boards. APRA made these indications in light of the issues that were identified in the final report relating to the prudential inquiry into another major ADI, which was established to examine the frameworks and practices in relation to the governance, culture and accountability within that ADI group. ANZBGL submitted its written self-assessment to APRA on November 30, 2018. On August 22, 2019, ANZBGL released an article from ANZBGL's Chairman detailing the actions (including development of a 'roadmap') being taken by ANZBGL to address the issues raised in its self-assessment report. ANZBGL's roadmap has five focus areas: culture; governance and accountability; management of operational risk; remediation; and simplification. The roadmap is a multi-year program.

Financial System Inquiry

The Australian Government completed a comprehensive inquiry into Australia's financial system in 2014 which included a number of key recommendations that may have an impact on regulatory capital levels. APRA initiatives in support of the FSI are:

- In July 2017, APRA released an information paper outlining its assessment on the additional capital required for the Australian banking sector to be considered 'unquestionably strong' as originally outlined in the FSI final report in December 2014. APRA indicated that "in the case of the four major Australian domestic systemically important banks ("D-SIBs"), this equated to a benchmark CET1 capital ratio, under the current capital adequacy framework, of at least 10.5% from January 1, 2020.
- In February 2018, APRA released a discussion paper that commenced APRA's consultation on:
  - *Revisions to the capital framework that will produce "unquestionably strong" capital ratios.* The discussion paper, along with subsequent announcements in June and September 2019, summarizes APRA's proposal regarding the risk-based capital approach for credit, market, interest rate risk in the banking book and operational risk following finalization of these requirements by the BCBS in December 2017. While the next update to these proposals will only be available in late 2020, the Group expects the implementation of any revisions to the current requirements will result in further changes to the risk weighting framework for certain asset classes and other risk types (such as market and operational risks). APRA has announced that it does not expect that the changes to the risk weights will necessitate further increases in capital for ADIs, although this could vary by ADI depending on the final requirements.
  - *Adjustments to the overall design of the capital framework to improve transparency, international comparability and flexibility of the ADI capital framework.* APRA released a discussion paper in August 2018. The focus of the proposals is on the presentation of the capital ratios to facilitate comparability whilst recognizing the relative capital strength of ADIs and measures to enhance supervisory flexibility in times of financial stress.
  - *Leverage Ratio requirements.* APRA's "Leverage Ratio" compares Tier 1 capital to the "exposure measure" (expressed as a percentage) as defined by APRA Prudential Standard APS 110. It is designed as a 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. APRA released draft prudential standards in November 2018 proposing to set the Leverage Ratio minimum for Internal Ratings-Based ("IRB") ADIs at 3.5%, in addition to other changes to the calculation of the exposure measure. These changes are not expected to have a material impact on the Group.

APRA's consultation for the above is ongoing. However, in response to the challenging economic environment resulting from the COVID-19 disruptions, APRA has:

- announced a temporary change to its expectations with regards to ADIs, such as ANZBGL, maintaining bank capital ratios at the "unquestionably strong" benchmark of 10.5% for CET1. During the period of the COVID-19 disruption, APRA has stated that it would not be concerned if ADIs are not meeting this benchmark as the current large buffers may be needed to facilitate ongoing lending to the Australian economy; and
- deferred its scheduled implementation of changes to ADIs risk-weighting framework and Leverage Ratio requirements by one year. The majority of the capital reforms were initially due for implementation on January 1, 2022, but these have now been revised to January 1, 2023. The deferral also includes APRA proposals on improving transparency, international comparability and flexibility of the ADI capital framework.

Given the number of items that are yet to be finalized by APRA, the final outcome of the FSI including any further changes to APRA's prudential standards or other impacts on the Group remains uncertain.

APRA Total Loss Absorbing Capacity Requirements

In July 2019, APRA announced its decision on loss-absorbing capacity pursuant to which it will require Australian D-SIBs, including ANZBGL, to increase their total capital by 3% of risk weighted assets by January 2024. Based on the Group's capital position as at September 30, 2020, this represents an incremental increase in the total capital requirement of approximately A$7.5 billion, with an equivalent decrease in other senior funding. APRA has stated that it anticipates that Australian D-SIBs would satisfy the requirement predominantly with additional Tier 2 capital. APRA is considering, over the next four years, feasible alternative methods for raising an additional 1% to 2% of risk weighted assets.

Level 3 Conglomerates ("Level 3") framework

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

In August 2016, APRA confirmed the deferral of capital requirements for conglomerate groups, to allow for the final capital requirements arising from FSI recommendations as well as from international initiatives that are in progress. APRA has not proposed any date for implementing any changes.

The non-capital components of the Level 3 framework relating to group governance, risk exposures, intragroup transactions and other risk management and compliance requirements came into effect on July 1, 2017. These requirements have had no material impact on the Group's capital position nor ANZBGL's funding of its subsidiaries. See "*Restrictions on ANZBGL's ability to provide financial support*" below for further discussion on the impact of the

Level 3 framework on ANZBGL's ability to support its related entities, including ANZ New Zealand (together with its subsidiaries, the "ANZ New Zealand Group").

Revisions to Related Entities Framework

In August 2019, APRA announced that it will amend APS222 “Associations with Related Entities” (“APS222”) to reduce the limits for Australian ADIs’ individual entity exposure to related ADIs (or overseas equivalents) from 50% of Level 1 total capital to 25% of Level 1 Tier 1 capital, and aggregate exposures from 150% of Level 1 total capital to 75% of Level 1 Tier 1 capital. As exposures are measured net of capital deductions, the proposed changes to APRA’s capital regulations (contained in APS111 “Capital Adequacy: Measurement of Capital” (“APS111”)) will affect the measurement of ADI exposures. On the basis that the APS111 revisions are implemented as currently proposed, the reduction in the above limits is not expected to have a material impact on the Group. The proposed implementation date of January 1, 2021 has been deferred by APRA to January 1, 2022. Refer to “Restrictions on ANZBGL’s ability to provide financial support” below for more detail.

Revisions to APS111 Capital Adequacy Measurement of Capital

In October 2019, APRA released a discussion paper on draft revisions to APS111 for consultation. The most material change from APRA’s proposal is in relation to the treatment of capital investments into ADIs (or overseas equivalents) and insurance subsidiaries at Level 1, with the tangible component of the investment changing from a 400% risk weighting to:

- 250% risk weighting up to an amount equal to 10% of ANZBGL’s net Level 1 CET1 capital; and
- the remainder of the investment will be treated as a CET1 capital deduction.

ANZBGL is reviewing the implications for its current investments. The net impact on the Group is unclear and will depend upon a number of factors including the capitalization of the affected subsidiaries at the time of implementation, the final form of the prudential standard, as well as the effect of management actions being pursued that have the potential to materially offset the impact of these proposals. Based on ANZBGL’s current investment in its affected subsidiaries and in the absence of any offsetting management actions, the above proposals imply a reduction in ANZBGL’s Level 1 CET1 capital ratio of up to approximately A$2.5 billion (approximately 70 basis points). However, ANZBGL believes that this outcome is unlikely and, post implementation of management actions, the net capital impact could be minimal. There is no impact on the Group’s Level 2 CET1 capital ratio arising from these proposed changes. The proposed implementation date is expected to be delayed until January 2022 (from January 2021).

In November 2020, APRA further announced, that until the new APS111 is finalized and implemented, APRA will require any new or additional equity investments in banking and insurance subsidiaries, where the amount of that new or additional investments takes the aggregate value of the investment above 10% of an ADI’s CET1 capital, to be fully funded by equity capital at the ADI parent company level. This treatment would apply to the proportion of the new or additional investment that is above 10% of an ADI’s CET1 capital.

Restrictions on ANZBGL's ability to provide financial support

Effect of APRA's Prudential Standards

APRA's current or future requirements may have an adverse effect on ANZBGL's business, results of operations, liquidity, capital resources or financial condition.

APS222 sets minimum requirements for ADIs in Australia, including ANZBGL, in relation to the monitoring, management and control of risks which arise from associations with related entities and also includes maximum limits on intra-group financial exposures.

Under APS222, ANZBGL's ability to provide financial support to related entities (including ANZ New Zealand) is subject to the following restrictions:

- ANZBGL should not undertake any third party dealings with the prime purpose of supporting the business of related entities;
- ANZBGL must not hold unlimited exposures (i.e., should be limited as to specified time or amount) to related entities (e.g., not provide a general guarantee covering any of the obligations of related entities) either in aggregate or at an individual entity level;
- ANZBGL must not enter into cross-default clauses whereby a default by a related entity on an obligation (whether financial or otherwise) triggers or is deemed to trigger a default of ANZBGL on its obligations; and
- the level of exposure, net of exposures deducted from capital, of ANZBGL's Level 1 total capital base:
  - (i) to related ADIs or equivalents, such as ANZ New Zealand, should not exceed 50% on an individual exposure basis or 150% in aggregate to all related ADIs or equivalents;
  - (ii) to other related entities:
    - i. in the case of a regulated related entity, should not exceed 25% on an individual exposure basis; or
    - ii. in the case of any other (unregulated) related entity, should not exceed 15% on an individual exposure basis; and
    - iii. should not exceed in aggregate 35% to all non-ADIs or equivalent related entities.

In August 2019, APRA released an update to APS222. Changes that affect the quantum and nature of the financial support that ANZBGL can provide ANZ New Zealand are:

- change the Level 1 capital base used for setting the exposure limits from total capital to Tier 1 capital; and
- reduce the individual ADI exposure limit to 25% of Level 1 Tier 1, and the aggregate to 75% of Level 1 Tier 1 capital base.

The proposed implementation date of January 1, 2021 for APS222 has been deferred by APRA to January 1, 2022. APRA has provided for entity-specific transitional arrangements or flexibility on a case by case basis.

Further, in October 2019, APRA released a discussion paper on draft revisions to APS111, which proposes to change the Level 1 capital treatment for Australian ADIs, such as ANZBGL, investing in ADIs (or overseas equivalents) and insurance subsidiaries, as outlined above in “Revisions to APS111 Capital Adequacy Measurement of Capital”. The proposed implementation date of January 1, 2021 is expected to be delayed to January 2022.

If implemented, these APS111 changes would reduce ANZBGL’s Level 1 Tier 1 capital base and exposure to ANZ New Zealand for the purposes of APS222 reporting. As a result, ANZBGL’s expected exposure to ANZ New Zealand at January 1, 2022 would be compliant with the APS222 limits.

However, if the APS111 changes are not implemented and the APS222 changes become effective, it is still possible that the changes outlined in APRA's announcement in connection with APS222 could adversely impact the ANZ New Zealand Group's business, results of operations, liquidity, capital resources or financial condition, as well as, its credit ratings and its ability to grow its business as ANZBGL's exposure to ANZ New Zealand would be near the limit of 25% of Level 1 Tier 1 capital, although ANZBGL would be able to apply for transition relief.

In addition, APRA has confirmed that, by January 1, 2021, no more than 5% of ANZBGL's Level 1 Tier 1 capital base can comprise non-equity exposures to its New Zealand operations (including its subsidiaries incorporated in New Zealand, such as ANZ New Zealand, and ANZBGL's New Zealand branch) during ordinary times. This limit does not include holdings of capital instruments or eligible secured contingent funding support provided to the ANZ New Zealand Group during times of financial stress.

APRA has also confirmed that contingent funding support by ANZBGL to its ANZ New Zealand operations during times of financial stress must be provided on terms that are acceptable to APRA. At present, only covered bonds meet APRA's criteria for contingent funding. APRA also requires that ANZBGL's total exposures to its New Zealand operations must not exceed 50% of ANZBGL's Level 1 Tier 1 capital base.

Effect of the Level 3 framework

In addition, certain requirements of APRA's Level 3 framework relating to, among other things, group governance and risk exposures became effective on July 1, 2017 (see "*Level 3 Conglomerates ("Level 3") framework*" above). This framework also requires the Group to limit its financial and operational exposures to subsidiaries (including ANZ New Zealand).

In determining the acceptable level of exposure to a subsidiary, ANZBGL’s Board of Directors should have regard to:

- the exposures that would be approved for third parties of broadly equivalent credit status; and
- the potential impact on ANZBGL's capital and liquidity positions and ability to continue operating in the event of a failure by the subsidiary.

These requirements are not expected to place additional restrictions on ANZBGL's ability to provide financial or operational support to its subsidiaries, including ANZ New Zealand.

Residential mortgage lending practices

In recent years APRA has closely monitored residential mortgage lending practices and taken a number of steps aimed at strengthening residential mortgage lending standards across the banking industry. For example:

- in December 2014, APRA outlined additional steps it may take to reinforce sound residential mortgage lending practices of ADIs, indicating that it will pay particular attention to certain areas of concern, including higher risk mortgage lending, growth in lending to property investors (particularly if the growth is materially above an annual benchmark of 10%) and loan affordability tests for new borrowers; and
- in March 2017, APRA outlined that ADIs will be expected, among other things, to:
  - limit the flow of new interest-only lending to 30% of total new residential mortgage lending ("30% Interest-Only Benchmark"). Within this limit, ADIs were expected to place strict internal limits on the volume of interest-only lending at loan-to-valuation ratios ("LVRs") above 80% and ensure there was strong scrutiny and justification of any instances of interest-only lending at LVRs above 90%; and
  - manage lending to investors so as to comfortably remain below the previously advised benchmark of 10% annual growth in lending to property investors ("10% Investor Loan Growth Benchmark").

The Group applied a number of levers to meet the above expectations and manage portfolio risk, including adjustment of lending criteria and implementation of differentiated pricing between owner occupier and investor lending. Within these categories, differentiated pricing applies between customers making interest-only repayments and principal and interest repayments.

In April 2018 and December 2018, APRA outlined that the 10% Investor Loan Growth Benchmark and 30% Interest-Only Benchmark, respectively, will no longer apply to ADIs in certain circumstances. The benchmarks no longer apply to the Group.

APRA has indicated that it will continue to monitor closely conditions in the housing market more generally and despite the removal of the benchmarks, a return to more rapid rates of investor loan growth or re-acceleration in interest-only lending at an industry-wide level would raise systemic concerns and that such an environment could lead APRA to consider the need to apply industry-wide measures.

Changes in classifications for residential mortgage loans

The current classification of ANZBGL's residential mortgage loans, as reported to regulators and the market, is generally determined during the loan origination process (i.e., loan application, processing and funding), based on information provided by the customer or subsequently when a customer requests changes to the loan.

Classification of residential mortgage loans may change due to:

- incorrect classification at origination: to the extent that customers inaccurately advise ANZBGL of their circumstances at origination, there is a risk that loans may be incorrectly classified, and such loans may be reclassified;
- changes in customer circumstances: ongoing appropriateness of a given classification relies on the customer's obligation to advise ANZBGL of any changes in the customer's circumstances and on ANZBGL's ability to independently validate the information provided by its customers. To the extent that customers advise of any changes in their circumstances or when ANZBGL makes such a determination based on its verification processes, a loan may be reclassified;
- regulatory or other changes: the criteria for loan classifications, and their interpretation, may change for one or more reporting purposes, which may affect the classification of certain loans; and
- changes in ANZBGL’s systems and processes.

Incorrect classification or re-classification of loans may affect a customer's ability to meet required repayments, such as when an owner-occupied property loan is re-classified to an investment property loan, which may attract a higher interest rate. The inability of customers to meet repayment obligations on re-classified loans may increase the risk of default on such loans, which may adversely affect the Group's Position.

Other

For further information on regulatory developments, including the risks they pose to the Group, refer to the section entitled "Risk factors – Regulatory changes or a failure to comply with laws, regulations or policies may adversely affect the Group's Position" in "Section 2: Information on the Group".

Sections 102.6 and 102.7 of the Australian Criminal Code

Under Sections 102.6 and 102.7 of the Australian Criminal Code (contained in the Criminal Code Act 1995 of Australia), a person commits a criminal offence if the person intentionally receives funds from, makes funds available to, collects funds for or on behalf of, or provides support or resources to a terrorist organization in circumstances where the person knows, or is reckless as to whether, the organization is a terrorist organization. An organization is a terrorist organization if it is directly or indirectly engaged in, preparing, planning, assisting in or fostering the doing of a terrorist act, or is prescribed as a terrorist organization in regulations under the Criminal Code Act 1995 of Australia.

Under the Autonomous Sanctions Act 2011 of Australia and the Autonomous Sanctions Regulations 2011 of Australia, sanctions are imposed against certain specifically identified persons, entities, assets and vessels associated with particular countries, and certain transactions involving the named persons or entities may only be conducted with specific approval from the Minister of Foreign Affairs. Contravention of these sanctions constitutes a criminal offence.

NEW ZEALAND

The supervisory role of the RBNZ

The Reserve Bank of New Zealand Act 1989 (the "Reserve Bank Act") requires the RBNZ to exercise its powers of registration of banks and prudential supervision of registered banks (including ANZ New Zealand) for the purposes of:

- promoting the maintenance of a sound and efficient financial system; and
- avoiding significant damage to the financial system that could result from the failure of a registered bank.

The RBNZ's policy around the registration of banks aims to ensure that only financial institutions of appropriate standing and repute are able to become registered banks. Subject to this requirement, the RBNZ has stated that it intends to keep to a minimum any impediments to the entry of new registered banks, in order to encourage competition in the banking system.

The RBNZ's supervisory functions are aimed at encouraging the soundness and efficiency of the financial system as a whole, and are not aimed at preventing individual bank failures or at protecting creditors. The RBNZ seeks to achieve this by drawing on and enhancing disciplines that are naturally present in the market.

The RBNZ places considerable emphasis on a requirement that banks regularly disclose information on financial performance and risk positions, and on a requirement that directors regularly attest to certain key matters. These measures are intended to strengthen market disciplines and to ensure that responsibility for the prudent management of banks lies with those who the RBNZ considers are best placed to exercise that responsibility - the directors and management.

The main elements of the RBNZ's supervisory role include:

- requiring all banks to comply with certain minimum prudential requirements, which are applied through conditions of registration. These include constraints on connected exposures, minimum capital adequacy requirements and minimum standards for liquidity risk management, and are set out in more detail below;
- monitoring each registered bank's financial condition and compliance with conditions of registration, principally on the basis of published half-yearly disclosure statements and monthly reporting submitted privately to the RBNZ. This monitoring is intended to ensure that the RBNZ maintains familiarity with the financial condition of each bank and the banking system as a whole, and maintains a state of preparedness to invoke crisis management powers should this be necessary;
- consulting with the senior management of registered banks;
- using crisis management powers available to it under the Reserve Bank Act to intervene where a bank distress or failure situation threatens the soundness of the financial system;
- assessing whether a bank is carrying on business prudently;
- issuing guidelines on overseeing banks' compliance with anti-money laundering and countering financing of terrorism requirements;
- monitoring banks' outsourcing arrangements to determine whether a registered bank's risks associated with outsourcing are appropriately managed;
- issuing guidelines on banks' internal capital adequacy process and liquidity policy;
- issuing guidelines on corporate governance; and
- maintaining close working relationships with parent bank supervisors (such as APRA in Australia) on bank-specific issues, policy issues and general matters relating to the condition of the financial system in New Zealand and in the countries where parent banks are domiciled.

Registered banks are required to issue half-yearly disclosure statements that contain comprehensive details, together with full financial statements at the full-year, and unaudited interim financial statements at the half-year. The financial statements are subject to full external audit at the end of each fiscal year and a limited scope review at the end of each financial half-year. Each bank director is required to sign his or her bank's disclosure statements and to make certain attestations. A bank and its directors may incur criminal and civil penalties if the bank's disclosure statement contains information that is held to be false or misleading.

The RBNZ publishes a quarterly "dashboard" of key information on registered banks on the RBNZ's website. The dashboard aims to improve the ability of the public and market participants to understand and act on information about such banks' financial strength and risk profile. The information is sourced from private reporting that banks provide to the RBNZ. Information relating to the ANZ New Zealand Group published in the dashboard is not incorporated by reference herein and does not form part of this U.S. Disclosure Document. In some cases, information relating to the ANZ New Zealand Group published in the dashboard has been classified and presented differently to the presentation in the ANZ New Zealand consolidated financial statements.

New Zealand-incorporated registered banks are required to comply with the Basel 3 capital adequacy requirements, as modified to reflect New Zealand conditions. The RBNZ also requires most New Zealand-incorporated registered banks, including ANZ New Zealand, to maintain a conservation buffer of 2.5% above the minimum ratios or face restrictions on distributions. The RBNZ also has the discretion to apply a countercyclical buffer of common equity with an indicative range of between 0 and 2.5%, although there is no formal upper limit. There are also counterparty credit risk requirements and additional disclosure requirements to incorporate Basel 3. These capital requirements are expected to change from July 1, 2022 as a result of the RBNZ's capital reforms, see "New Zealand Regulatory Developments - RBNZ review of capital requirements" below for further information.

New Zealand-incorporated registered banks (including ANZ New Zealand) are required to comply with the RBNZ's Liquidity Policy ("BS13"). A requirement of BS13 is that New Zealand-incorporated registered banks meet a minimum core funding ratio of 75%, ensuring that at least a minimum proportion of bank funding is met through customer deposits, term wholesale funding and Tier 1 capital. However, with effect from April 2, 2020, the RBNZ amended ANZ New Zealand's Conditions of Registration to reduce ANZ New Zealand's minimum core funding ratio to 50% in response to the COVID-19 pandemic.

Basel 3 proposes a liquidity policy which the RBNZ considers very similar to the intent of BS13. However, the RBNZ considers that certain aspects of the Basel 3 liquidity standards are not suitable for adoption in New Zealand. The RBNZ is undertaking a thematic review of compliance with BS13 ("BS13 Thematic Review"). Findings from the BS13 Thematic Review are intended to provide input into a forthcoming review of BS13. The RBNZ deferred external-facing work on the BS13 Thematic Review in response to the COVID-19 pandemic. The RBNZ announced its intention to restart the review in October 2020 and to complete it by the end of first quarter 2021.

The RBNZ also requires all registered banks to obtain and maintain a credit rating from an approved organization and publish that rating in the disclosure statements.

In addition, the RBNZ has wide reaching powers to obtain further information, data and forecasts in connection with its supervisory functions, and to require that information, data, and forecasts be audited.

It also possesses a number of crisis management powers. Those powers include recommending that a bank's registration be cancelled, investigating the affairs of a registered bank, requiring that a registered bank consults with the RBNZ, giving directions to a registered bank, removing, replacing or appointing a director of a registered bank or recommending that a registered bank be subject to statutory management.

If a registered bank is declared to be subject to statutory management, no person may, among other things:

- commence or continue any action or other proceedings including proceedings by way of counterclaim against that bank;
- issue any execution, attach any debt, or otherwise enforce or seek to enforce any judgment or order obtained in respect of that bank;
- take any steps to put that bank into liquidation; or
- exercise any right of set off against that bank.

As part of the RBNZ's supervisory powers, a person must obtain the written consent of the RBNZ before giving effect to a transaction resulting in that person acquiring or increasing a "significant influence" over a registered bank. "Significant influence" means the ability to appoint 25% or more of the board of directors of a registered bank or a qualifying interest (e.g., legal or beneficial ownership) in 10% or more of its voting securities.

In assessing applications for consent to acquire a significant influence over a registered bank, the RBNZ has stated that it will have regard to the same matters as are relevant in assessing an application for registration as a registered bank. In giving its consent, the RBNZ may impose such terms and conditions as it thinks fit.

New Zealand Regulatory Developments

Regulatory Response to the COVID-19 Pandemic and Other Developments

The exact ramifications of COVID-19 on the regulation and supervision of financial services groups such as the ANZ New Zealand Group are still uncertain and, as of the date of this U.S. Disclosure Document, difficult to predict.

In response to the COVID-19 pandemic, the RBNZ and the New Zealand Government have implemented a broad range of measures to promote financial stability and ensure foreign exchange, debt and money markets continue operating efficiently and at low cost, many of which affect the ANZ New Zealand Group. As of the date of this U.S. Disclosure Document, it is unclear what the full impact of these measures will be on the ANZ New Zealand Group.

The RBNZ announced in March 2020 that it would defer external-facing work on most of its regulatory initiatives and delayed the start date for implementation of the capital reforms for New Zealand-incorporated banks to July 1, 2021 (with further delays possible). The RBNZ has also extended the transition period for its revised outsourcing policy ("BS11") to October 1, 2023, and there have been delays to the commencement of some upcoming amendments to the Credit Contracts and Consumer Finance Act 2003 ("CCCFA") and upcoming amendments to New Zealand's financial advice framework. The RBNZ has advised banks operating in New Zealand to ensure their non-retail systems and processes are prepared to function in a scenario where the official cash rate is zero or negative by December 1, 2020.

The RBNZ has amended ANZ New Zealand's Conditions of Registration in response to the COVID-19 pandemic, as follows:

- Effective from May 1, 2020, the RBNZ has removed LVR restrictions for residential mortgage lending for a period of 12 months. The previous LVR restrictions required New Zealand registered banks to restrict new non property-investment residential mortgage lending over 80% LVR to no more than 20% of the dollar value of a bank's new "non property-investment residential mortgage lending" (which is a standard residential mortgage loan secured over only owner-occupied residential property), and restrict "property investment residential mortgage" (which is a standard residential mortgage loan that is not a non-property-investment residential mortgage loan) lending over 70% LVR to no more than 5% of the dollar value of a bank's new property investment residential mortgage lending. The RBNZ will monitor lending activity and feedback from retail banks over a 12 month period, and then decide whether to reinstate the restrictions.
- Effective from April 2, 2020, various changes were made, including:
  - restricting ANZ New Zealand from paying dividends or other distributions, other than discretionary payments payable to holders of AT1 capital instruments;
  - the reduction of the minimum requirement for ANZ New Zealand's core funding ratio from 75% to 50%; and
  - updates to refer to the revised version of BS11 dated April 2020 and to reflect the extension of the transition period for existing outsourcing arrangements under BS11 to October 1, 2023.

The RBNZ has stated that the restrictions on dividends will remain in place until March 31, 2021 (or later if required), to continue to support the stability of the financial system.

The RBNZ has also informed New Zealand-incorporated registered banks (including ANZ New Zealand), that they should not redeem capital instruments at this time to further support the stability of the banking financial system. Accordingly, ANZ New Zealand was not permitted to redeem its NZ$500 million of Capital Notes in May 2020, although ANZ New Zealand may continue making interest payments on those Capital Notes (subject to certain conditions). Further, ANZ New Zealand did not exercise its option to convert the Capital Notes into a variable number of ANZBGL ordinary shares in May 2020. The terms of the Capital Notes provide for their conversion into a variable number of ANZBGL ordinary shares in May 2022 (subject to certain conditions).

The RBNZ has announced that in December, it will undertake consultation about re-instating LVR restrictions on high-risk lending with effect from March 1, 2021.

The New Zealand Government and the RBNZ have implemented a financial support package for homeowners (the “Mortgage Repayment Deferral Scheme”) and businesses affected by the economic impacts of COVID-19, in which ANZ New Zealand, along with other New Zealand banks, has agreed to participate. The package includes a Mortgage Repayment Deferral Scheme for residential mortgage, agriculture and small to medium-sized business customers. The Mortgage Repayment Deferral Scheme is available to eligible ANZ New Zealand customers who are impacted by COVID-19. Under the Mortgage Repayment Deferral Scheme, repayments could initially be deferred for any period up to six months, as agreed between the bank and the borrower. The period of a repayment deferral under the Mortgage Repayment Deferral Scheme will not be treated as a period in arrears, and the granting of a repayment deferral will not be treated as a distressed restructuring. ANZ New Zealand follows its usual processes for capitalizing interest on loans under the Mortgage Repayment Deferral Scheme. In August 2020 the RBNZ announced an extension of the Mortgage Repayment Deferral Scheme through to March 31, 2021. The extension is subject to revised guidance that stipulates granting of a new (or extension to existing) loan repayment deferral, can only be offered where a clear need is established and must not be offered as default option, and only after a loan term extension or interest only period have been considered first. Lenders must also assess that the customer has a reasonable prospect of restarting repayments when their deferral ends. Treatment of loan repayment deferrals as ‘performing loans’ ends on March 31, 2021.

The financial support package also included a Wage Subsidy Scheme to help some employers adversely affected by COVID-19 to continue to pay their staff. The subsidy was paid to employers as a lump sum for an initial 12 week period, for which applications closed in June 2020. The Wage Subsidy Scheme was subsequently extended to September 2020 under more restrictive criteria. Following expiry in September 2020, employer assistance is available as a Leave Support Scheme to assist with paying employees who are subject to certain COVID-19 self-isolation criteria.

The New Zealand Government and certain New Zealand banks (including ANZ New Zealand) have implemented the Business Finance Guarantee Scheme (“BFGS’) to assist with the provision of credit to businesses for the purpose of managing liquidity needs as a result of COVID-19 and to help them to position themselves for the subsequent economic recovery. All businesses with annual revenues of up to NZ$200 million and who meet required criteria set by the New Zealand Treasury are eligible. A limit of NZ$5,000,000 per loan applies and the loans have a maximum term of five years. The New Zealand Government takes 80% of the credit risk of each loan, with the other 20% to be retained by the banks. The scheme is open for applications until December 31, 2020.

The New Zealand Government has also implemented a Small Business Cashflow Loan Scheme, under which the New Zealand Inland Revenue Department provides loans of up to NZ$100,000 to assist small businesses impacted by the COVID-19 pandemic. The interest rate is 3% per annum, however, interest will not be charged if the loan is fully paid back within two years. The maximum term of the loans is five years, and businesses are not required to make repayments for the first two years. The scheme applies the same eligibility criteria as the Wage Subsidy Scheme. Businesses also have to declare that they are a viable business and that they will use the money for core business operating costs.

The RBNZ has implemented a Term Lending Facility, a new longer-term funding scheme for the banking system, designed to support bank lending under the BFGS. BFGS participant banks, including ANZ New Zealand, are able to access collateralized funding equivalent to the amount of drawn down loans that those participant banks have extended under the BFGS for a term of up to five years at a fixed rate of the RBNZ official cash rate.

In March 2020, the RBNZ announced a new weekly Corporate Open Market Operation ("Corporate OMO") auction to provide liquidity in exchange for eligible corporate and asset-backed securities. This facility is intended to provide another channel for banks to continue funding corporate clients and to support market functioning. The weekly Corporate OMO is seen as temporary, and the RBNZ will review its operation in March 2021 or sooner if demand diminishes.

The RBNZ also began offering collateralized term funding through a Term Auction Facility (“TAF”) auction from March 2020. The TAF operates daily in a similar manner to the Corporate OMO and is intended to support banking system liquidity. The RBNZ can alter the minimum interest rate, volume and maturity dates offered at its discretion and will review this facility in March 2021 or sooner if demand diminishes.

The RBNZ has implemented an up to NZ$100 billion Large Scale Asset Purchase (“LSAP”) program, under which it will purchase New Zealand Government bonds, New Zealand Government Inflation-Indexed Bonds and Local Government Funding Agency bonds, on the secondary market and inject cash into the banking system. The LSAP program aims to provide further support to the New Zealand economy, build confidence, and keep interest rates low. The LSAP program increases the amount of money circulating in the New Zealand banking system available to banks, including ANZ New Zealand, as deposits. The RBNZ will monitor the effectiveness of the LSAP program and make further adjustments and additions if needed.

The RBNZ announced a Funding for Lending Program (“FLP”) that will commence from December 2020 and will make available to banks direct secured funding equivalent to 4% of the relevant bank’s eligible loans for a term of three years at the prevailing official cash rate over the drawdown period. Additional FLP funding equivalent to a further 2%of eligible loans will be available to banks that meet certain requirements to increase eligible loans. The FLP is intended to provide banks with low cost funding and encourage lower borrowing costs for New Zealand businesses and households.

The RBNZ is considering additional monetary instruments that could be deployed in the future including a negative official cash rate, receiving interest rate swaps and purchasing foreign assets.

The Companies Act 1993 and other legislation have been amended to help businesses facing insolvency due to COVID-19 to remain viable, including by introducing a COVID-19 Business Debt Hibernation ("BDH") regime. Under the regime, eligible entities (including companies, partnerships, incorporated societies, and other bodies) are able to submit a proposal to their creditors for putting their business debts into 'hibernation'. Creditors will have one month from the date the entity notifies the Registrar of Companies of its intention to enter into BDH to vote on the proposal, and the proposal will take effect if 50% of creditors (by number and value) agree. There will be a moratorium on the enforcement of debts during the initial one-month period following notification to the Registrar of Companies, and a further six month moratorium if the proposal is agreed to. The proposal, if agreed to, will be subject to any conditions agreed with creditors. The BDH regime does not limit enforcement action by creditors with security over the whole, or substantially the whole, of an entity’s property, and certain debts (including debts owed to employees) are excluded from the regime entirely.

The New Zealand Government has also made a number of tax reforms to provide relief to businesses. These include a temporary loss carry-back scheme (which will be replaced in time by a permanent scheme), under which businesses expecting to make a loss in either of the 2019-2020 or 2020-2021 income years can offset that loss against income from the preceding income year, and receive a refund of some or all of the tax paid for that preceding year. Several changes have been made to assist medium and smaller businesses, including raising the provisional tax threshold from NZ$2,500 to NZ$5,000, in order to lower compliance costs.

The New Zealand Government announced its Pre-election Economic and Fiscal Update ("PREFU") in September 2020. The PREFU outlined allocated funding from the NZ$50 billion COVID-19 Response and Recovery Fund ("CRRF") that was established to support the economy and kick-start recovery. NZ$35.9 billion of the CRRF had been allocated to initiatives, including the Wage Subsidy Scheme and subsequent extensions, the BFGS, support for the tourism sector, a training package for trades and apprenticeships, an environmental jobs package and a program to build more state housing. The remaining NZ$14.1 billion of CRRF funding was unallocated at the time of the PREFU.

RBNZ review of capital requirements

Between May 2017 and December 2019, the RBNZ conducted a comprehensive review of the capital adequacy framework applying to New Zealand-incorporated registered banks. The RBNZ's final decisions on the capital review are set out below.

- The total capital requirement for New Zealand-incorporated registered banks will increase to 18% of risk weighted assets ("RWA") for Domestic Systemically Important Banks ("D-SIBs") (including ANZ New Zealand), and 16% for other banks.
- The total capital requirement must include Tier 1 capital of at least 16% of RWA for D-SIBs, and 14% for all other banks. Up to 2.5% of Tier 1 capital can be made up of AT1 capital, with the remaining 13.5% made up of CET1 capital. AT1 capital must consist of redeemable perpetual preference shares. It is anticipated that the ANZ New Zealand Group will be able to refinance existing internal AT1 securities (issued to other entities within the Group) to external counterparties.
- The total capital requirement can also include Tier 2 capital of up to 2% of RWA. Tier 2 capital must consist of long-term subordinated debt.
- The Tier 1 capital requirement will include a CET1 Prudential Capital Buffer of 9% of RWA. This will include:
  - a 2% prudential capital buffer for D-SIBs;
  - a 1.5% 'early-set' counter-cyclical capital buffer, which can be temporarily reduced to 0% following a financial crisis, or temporarily increased to prevent asset price bubbles from developing; and
  - a 5.5% conservation buffer.
- Contingent capital instruments will no longer be treated as eligible regulatory capital. As at September 30, 2020, ANZ New Zealand had approximately NZ$2.7 billion of AT1 instruments that will progressively lose their eligible regulatory capital treatment over the transition period.
- RWA outcomes for IRB-approach accredited banks (including ANZ New Zealand) will be increased to approximately 90% of what would be calculated under the Standardized approach. This will be achieved by applying an 85% output floor for banks using the IRB approach, and increasing their scalar from 1.06 to 1.2.
- IRB-approach accredited banks (including ANZ New Zealand) will be required to report RWA (and resulting capital ratios) using both the IRB approach and the Standardized approach.
- All banks will be required to calculate Operational Risk Capital ("ORC") using the Standardized approach.

The new regime is expected to be implemented in stages, with a transition period of seven years before banks are required to fully comply with the new rules. In response to the COVID-19 pandemic, the RBNZ delayed the start date of the transition period for the increased capital requirements to July 1, 2022 in order to support credit availability (with further delays possible). Other aspects of the capital reforms will proceed from July 1, 2021, including the new rules around capital instruments.

The RBNZ's capital reforms will result in substantially higher capital requirements for New Zealand-incorporated registered banks operating under the Standardized approach, and even higher capital requirements for New Zealand-incorporated registered banks using the IRB approach (including ANZ New Zealand). The increased capital requirements may result in changes to affected banks' business objectives and result in changes to competitive behavior across the New Zealand banking industry. For example, there may be increased competition between banks using the IRB approach and banks using the Standardized approach, and between those banks affected by the reforms and offshore banks operating in New Zealand via branches that are not affected by the reforms. The increased capital requirements may also affect the price and volume of bank credit made available to affected banks' customers. This may affect customers' business prospects or creditworthiness, as well as the performance of the New Zealand economy.

The RBNZ's reforms will result in a material increase in the level of capital that the ANZ New Zealand Group is required to hold, although the amount of new capital required to meet the RBNZ's announced capital ratio requirements is currently uncertain. ANZ New Zealand's total capital as at March 31, 2020 was NZ$13,844 million. The reforms could have a material impact on the ANZ New Zealand Group and its business, including on its capital allocation and business planning. Additionally, the changes may require ANZ New Zealand's ultimate parent company, ANZBGL, to review and reconsider its size, nature and operations in New Zealand, including the total capital invested and business structure.

The ANZ New Zealand Group has begun preparing for the changes. Of the ANZ New Zealand Group's NZ$1.8 billion net profit after tax for the year ended September 30, 2019, approximately 80% was retained in response to the proposals. Also, no ordinary dividend was paid or declared during the half year ended March 31, 2020.

See "- Australia - Australian Regulatory Developments - ANZBGL Update on RBNZ Capital Requirements" for more information on the impact of these requirements on ANZBGL.

Non-compliance with Conditions of Registration

Set out below are outstanding and recent instances of non-compliance by the ANZ New Zealand Group with its Conditions of Registration.

Condition of Registration 1B – compliance with BS2B

The report completed under section 95 of the Reserve Bank Act regarding the ANZ New Zealand Group's compliance with the RBNZ's capital adequacy requirements was completed in April 2020. ANZ New Zealand has accepted the findings of this review, and is working with the RBNZ to rectify the issues identified. The RBNZ has stated that it is confident the ANZ New Zealand will resolve this matter without issue, and has emphasised that the ANZ New Zealand Group remains sound and well capitalized.

ANZ New Zealand has not complied with condition of registration 1B in relation to the implementation of changes to rating models and processes that were not approved by RBNZ. Applying the last RBNZ approved methodologies to the affected exposures as at September 30, 2019 would have decreased RWA by NZ$47 million (0.05%) in aggregate, which was not sufficient to affect the reported capital ratios.

Affected models and the initial dates of non-compliance are:

- Commercial Property Model Suite (Single Investment, Multi Investment, Hotel Investment, Special Purpose Asset Investment, Single Residential Development, Commercial Development, Englobo Land Pre Development) – 2011;
- Non-Bank Financial Institutions Model Suite (Life Insurance, Non-life Insurance, Insurance Holding Company, Finance Companies, Financial Services Companies, Real Money Funds) – 2009;
- Project and Structured Finance – 2009; and
- Bank, Country & Sovereigns – 2008.

ANZ New Zealand's model compendium required under section 1.3B of the RBNZ's Capital Adequacy Framework (Internal Models Based Approach) (BS2B) ("BS2B") is non-compliant as it includes these unapproved model changes. Further to the above, in May 2020 ANZ New Zealand identified that its approach to enhancing wholesale risk grades in the presence of a guarantee is not compliant with BS2B. The estimated impact as at March 31, 2020 is an understatement of RWA of NZ$26 million (0.03%), which is not sufficient to affect the reported capital ratios. ANZ New Zealand is working with the RBNZ to resolve this issue.

Condition of Registration 5 - Exposures to connected persons not on more favorable terms (BS8)

From time-to-time, ANZ New Zealand provides a guarantee or standby letter of credit to a third party in respect of an obligation of a customer of the ANZBGL. ANZBGL provides a counter-guarantee or standby letter of credit to ANZ New Zealand, giving ANZ New Zealand recourse directly to ANZBGL if the guarantee or standby letter of credit ANZ New Zealand provides in respect of the customer's obligations is called upon. ANZ New Zealand charges ANZBGL a fee for this service. However, through an internal review, ANZ New Zealand identified that since January 2014 this fee had been lower than the fee charged for this same service provided to unrelated banks and, as a result, ANZ New Zealand has not complied with Condition of Registration 5. ANZ New Zealand has implemented a revised pricing methodology for all new transactions entered into from January 1, 2020. As at December 31, 2019, the value of the exposure under the previous pricing arrangements was NZ$374 million across 232 individual transactions.

Condition of Registration 13 - Liquidity ratios (BS13)

The following matters of non-compliance with BS13 were not sufficient to affect the reported liquidity ratios and processes have been updated with effect from January 31, 2020 to ensure the calculations comply with BS13.

- ANZ New Zealand calculated the next cash inflow on variable-rate housing loans based on a current wholesale rate plus the existing margin rather than using the current interest rate to calculate the inflow. This calculation error had existed since 2010.
- The liquidity ratio calculation system and the system of record for certain bond liabilities and certain swaps calculate future cash flows differently. The difference had been known since 2017.

Condition of Registration 21 – Outsourcing

BS11 requires ANZ New Zealand to have a compendium of information about outsourcing arrangements. BS11 also requires ANZ New Zealand to apply specified risk mitigants against each outsourcing arrangement. ANZ New Zealand identified certain matters with the compendium and its outsourcing arrangements, which have been rectified.

Other matters

ANZ New Zealand has identified one counterparty that had been misclassified as sovereign, inconsistent with the definition in BS2B paragraph 4.5, since December 2017. The estimated impact as at March 31, 2020, was an understatement of RWA of NZ$383 million (0.38%), and an overstatement of the ANZ New Zealand Group's capital ratios of 0.05%. This issue was corrected for the calculation of RWA from April 30, 2020, and did not result in non-compliance with ANZ New Zealand's conditions of registration over the year ended September 30, 2020. However, until December 31, 2018, Condition of Registration 1B required compliance with all aspects of BS2B and, as a result, ANZ New Zealand had not complied with Condition of Registration 1B in respect of this matter between December 2017 and December 31, 2018.

There are several matters under review, including the calculation of the market risk capital requirement (under BS2B) and liquidity ratios (under BS13 and BS13A), where there may be more than one valid interpretation of the respective policy wording or requirement. Where there may be some uncertainty about the interpretation that ANZ New Zealand has applied, where appropriate, it will seek further guidance from the RBNZ on these matters. In ANZ New Zealand's current view, the potential impact of the application of other interpretations is immaterial to reported ratios.

Section 95 Reviews

In July 2019, the RBNZ gave ANZ New Zealand notice under section 95 of the Reserve Bank Act, requiring ANZ New Zealand to engage an external reviewer to provide reports regarding:

- the effectiveness of ANZ New Zealand's director attestation and assurance framework; and
- ANZ New Zealand's compliance with the RBNZ's capital adequacy requirements.

(together, the "Section 95 Reviews").

Review of the director attestation and assurance framework

The report regarding ANZ New Zealand's director attestation and assurance framework was completed in December 2019. It included four case studies covering: non-compliance with Condition of Registration 1B due to ANZ New Zealand not using an approved model for the calculation of its ORC; mischaracterization of the former CEO’s expenses; transactions relating to the 2017 sale of a residential property to the wife of the former CEO (and earlier acquisition in 2010); and non-compliance with Conditions of Registration 1 and 1B relating to the treatment of commitments jointly held with ANZBGL.

The external reviewer's view was that three of the four case studies did not represent systemic failures in ANZ New Zealand's directors’ attestation and assurance framework. The exception was the critical failures that led to the case study about the non-compliance with Condition of Registration 1B due to ANZ New Zealand not using an approved model for the calculation of its ORC. The external reviewer’s view was that ANZ New Zealand's directors’ attestation practices, while functioning adequately, require improvement to become fully effective. The external reviewer made a number of recommendations to improve the ANZ New Zealand’s directors’ attestation and assurance framework, including: (1) addressing the immediate structural weaknesses within the directors’ attestation framework; (2) establishing a strategic program of improvement that is led by ANZ New Zealand’s board of directors; (3) enhancing and completing the accountability matrix; (4) establishing a program to address the identified cultural issues; and (5) strengthening assurance and developing an integrated assurance plan.

ANZ New Zealand has accepted the findings of this review, and is committed to implementing the recommendations identified and addressing the issues raised. In December 2019, the RBNZ issued a further notice under section 95 of the Reserve Bank Act, requiring ANZ New Zealand to obtain an external review of the improvements made to its directors' attestation and assurance framework. Due to the impacts of the COVID-19 pandemic, in May 2020, the RBNZ agreed to extend the time period for addressing the directors’ attestation recommendations, subject to ANZ New Zealand obtaining an external interim review, assessed as at March 2021, with a final review of ANZ New Zealand’s directors’ attestation and assurance framework being assessed as at September 2021.

Review of compliance with capital adequacy requirements

The report regarding ANZ New Zealand's compliance with the RBNZ's capital adequacy requirements was completed in April 2020. This report identified instances of both current and historical non-compliance with capital adequacy requirements. Areas of current non-compliance included the use of credit risk models and an ORC model that had not been approved by the RBNZ. The report also found that ANZ New Zealand failed to maintain its compendium of approved models in accordance with BS2B, and treated a minor portfolio of assets as standardized without RBNZ approval.

ANZ New Zealand has accepted the findings of this review, and is working with the RBNZ to rectify the issues identified. The RBNZ has stated that it is confident that ANZ New Zealand will resolve this matter without issue. A detailed remediation plan which includes key dates on model submissions was submitted to the RBNZ in May 2020. The RBNZ has since expressed its support to ANZ New Zealand’s approach. ANZ New Zealand submitted the first tranche of model documentation to RBNZ in August 2020, a key milestone in the section 95 models remediation. In October 2020, the RBNZ notified ANZ New Zealand that they will require ANZ New Zealand to obtain an external interim review of certain remediation activities relating to the report on capital adequacy requirements, assessed as at March 2021, with a final review of those activities being assessed as at September 2021.

The Financial Markets Authority (“**FMA**”) and the RBNZ, following their review of ANZ New Zealand's conduct and culture plan, informed ANZ New Zealand that the outcomes of the Section 95 Reviews may result in ANZ New Zealand needing to amend its conduct and culture plan. ANZ New Zealand has reviewed its conduct and culture plan in light of the findings of the first and second Section 95 Reviews.

See "New Zealand Regulatory Developments - FMA and RBNZ conduct and culture review" below for further information.

Loan calculator remediation

In June 2017, ANZ New Zealand self-reported a problem with a loan calculator to the New Zealand Commerce Commission ("Commerce Commission"). The problem affected some of ANZ New Zealand customers’ loans that were varied between May 2015 and May 2016. The loan calculator was used to calculate customer repayments and loan terms when customers asked for changes to their home, personal and business loans. The problem resulted in some customers paying less than they should have on affected loans. ANZ New Zealand fixed the calculator in May 2016. ANZ New Zealand has previously credited approximately NZ$8.4 million to affected customers to put the affected loans back into the position they would have been in had the error not occurred. In March 2020, the Commerce Commission announced it had agreed with ANZ New Zealand that ANZ New Zealand would pay some customers affected by the issue a further NZ$29.4 million. These payments are nearing completion.

RBNZ's revised outsourcing policy

BS11 requires large New Zealand-incorporated banks, such as ANZ New Zealand, to have the legal and practical ability to control and execute outsourced functions. BS11 applies to all new outsourcing arrangements entered into from October 1, 2017. The RBNZ has issued revised Conditions of Registration to ANZ New Zealand effective from April 2, 2020, which include an extension of the transition period to full compliance for existing outsourcing arrangements under BS11 from October 1, 2022 to October 1, 2023.

Conditions of Registration

The BS11 requirements form part of ANZ New Zealand’s Conditions of Registration. If ANZ New Zealand does not comply with its Condition of Registration in relation to outsourcing, the RBNZ could take enforcement action, such as putting further restrictions on ANZ New Zealand’s use of outsourcing.

A formal program has been established and is responsible for delivering ANZ New Zealand's compliance with BS11, as outlined in its Path-to-Compliance Plan. In order to be compliant with BS11, ANZ New Zealand must be able to meet the policy outcomes on a stand-alone basis without reliance on any other Group entity. The policy outcomes are defined as ANZ New Zealand being able to:

- continue to meet daily clearing, settlement, and other time-critical obligations;
- monitor and manage financial positions, including credit, liquidity and market risk positions;
- make available the systems and financial data necessary for the statutory manager and the RBNZ to have options available for managing the failed bank; and
- provide basic banking services to existing customers, including liquidity (both access to deposits and to credit lines as defined in basic banking services) and account activity reporting.

Compliance obligations

BS11 imposes a number of ongoing compliance requirements on ANZ New Zealand. In particular:

- ANZ New Zealand must have a compendium of outsourcing arrangements;
- all contracts to which BS11 applies must include prescribed contractual terms allowing the RBNZ access to details of the contract and service, and not allowing the vendor to terminate if ANZ New Zealand is under statutory management;
- the RBNZ must provide its non-objection for all new outsourcing arrangements (including with other Group entities), unless an exemption applies;
- ANZ New Zealand must have a separation plan that describes how it will operate services or functions that are outsourced to a related party in the event of the appointment of a statutory manager to ANZ New Zealand, or separation from ANZBGL. A final separation plan, fully compliant with BS11, must be in place by October 1, 2023 and will be subject to annual testing; and
- ANZ New Zealand must obtain an independent, external review of progress against its Path-to-Compliance Plan and compliance of new arrangements on an annual basis during the transition period and at least every three years thereafter.

Financial Markets (Derivatives Margin and Benchmarking) Reform Amendment Act 2019 ("FMRA Act")

The FMRA Act was enacted in August 2019, following industry consultation by the RBNZ and the New Zealand Ministry of Business, Innovation and Employment, in co-ordination with the New Zealand Treasury, as well as engagement with overseas regulators.

Although New Zealand has no legislative margin requirements for over-the-counter ("OTC") derivatives, the OTC activities of several registered banks (including ANZ New Zealand) are impacted by margin rules being implemented in foreign jurisdictions. The FMRA Act addresses aspects of New Zealand law that impede the ability of certain New Zealand entities (including registered banks such as ANZ New Zealand) to comply with foreign derivative margin requirements (in particular, statutory moratoria on creditors' claims under insolvency or restructuring regimes, and the ranking of creditors in certain circumstances). These legislative impediments had resulted in a reduction of the number of counterparties with which ANZ New Zealand was able to enter into uncleared OTC derivative transactions.

The amendments made under the FMRA Act allow derivative counterparties, which enter into derivatives with these New Zealand entities, to enforce their security interest over margin without undue delay, and ahead of other creditors, in the event of the other party to the derivative defaulting (provided that, prior to enforcement, the margin is in the possession or under the control of the enforcing counterparty or its agent). More specifically, the amendments:

- allow these derivative counterparties to enforce against the margin notwithstanding the general moratoria on claims that ordinarily apply in statutory management and voluntary administration; and
- ensure that when these derivatives counterparties enforce their security interest over margin, their claim ranks ahead of other potential claims under the New Zealand Companies Act 1993 and the New Zealand Personal Property Securities Act 1999.

The FMRA Act will also amend the Financial Markets Conduct Act 2013 ("FMCA") to establish a new licensing regime for administrators of financial benchmarks. These amendments aim to ensure that New Zealand's regulatory regime for financial benchmarks (including the New Zealand Bank Bill Benchmark Rate) meets the equivalence requirements for the purposes of the Benchmarks Regulation. The amendments in relation to financial benchmarks will come into force no later than August 30, 2021.

Replacement of the Financial Advisers Act 2008

New Zealand's financial advice regime is being modified. The Financial Advisers Act 2008, which is the primary legislation governing the provision of financial advice in New Zealand, will be repealed by the Financial Services Legislation Amendment Act 2019 ("FSLAA"). The FSLAA will insert the provisions of the new financial advice regime into the FMCA and amend the Financial Service Providers (Registration and Dispute Resolution) Act 2008. The key changes to the regime include:

- requiring financial advice providers to be licensed;
- removing the requirement that only a natural person can give financial advice (enabling robo-advice);
- expanding the minimum standards of competence, knowledge, and skill to all categories of people giving regulated financial advice to retail clients;
- requiring all people who give regulated financial advice to retail clients to comply with standards of ethical behavior, conduct, and client care;
- adding a requirement that anyone who gives financial advice must give priority to the interests of the client, ensure the client understands the nature and scope of advice and disclose prescribed information;
- limiting who can give regulated financial advice;
- simplifying the regime and its terminology, for example by simplifying financial adviser types and services they can provide; and
- amending the requirements to be registered on the New Zealand Financial Service Providers Register to prevent its misuse.

Financial advice providers will be required to hold a transitional license when the new regime comes into force and a full license will be required within a two year transitional period. The new regime was expected to come into force in June 2020, but the New Zealand Government has deferred its commencement to March 2021 due to the impacts of the COVID-19 pandemic. The ANZ New Zealand Group is undertaking a program of work in relation to its current financial advice processes and the upcoming FSLAA reforms.

Review of the Reserve Bank Act

The New Zealand Government is in the process of reviewing the Reserve Bank Act. The goal of the review is to modernize New Zealand's monetary and financial stability policy frameworks and the RBNZ's governance and accountability settings.

Phase one of the review was completed in 2018, and resulted in the enactment of the Reserve Bank of New Zealand (Monetary Policy) Amendment Act 2018, which made several changes to New Zealand’s monetary policy framework

Phase two primarily involves a comprehensive review of the financial policy provisions of the Reserve Bank Act, including provisions that provide the legislative basis for the RBNZ’s prudential regulation and supervision functions and its crisis management framework. This phase also considers institutional matters such as the RBNZ's legislative objectives, broader governance arrangements and its funding model. Phase two includes three rounds of public consultation.

The New Zealand Government has announced in-principle decisions relating to the regulation of deposit takers, including:

- introducing a formal depositor insurance scheme that will protect depositors' savings up to an insured limit of NZ$50,000 per depositor, per institution;
- making Non-Bank Deposit Takers ("NBDTs") and banks subject to a single prudential regulatory regime;
- strengthening accountability requirements on directors of companies that are deposit takers;
- strengthening the RBNZ's supervision and enforcement tools, including with powers to undertake on-site inspections as part of its supervision activities; and
- clarifying and strengthening the RBNZ's crisis resolution framework, including providing the RBNZ with the ability to "bail-in" (that is, write-down or convert to equity) certain unsecured liabilities as a new mechanism for recapitalizing a failing bank.

The New Zealand Government intends to replace the Reserve Bank Act with two separate pieces of legislation – the "Reserve Bank of New Zealand Act" and the "Deposit Takers Act" – which will implement the decisions from this review. The Reserve Bank of New Zealand Act will set out the overall governance and accountability framework for the RBNZ across all its functions. It will also provide for the RBNZ's central banking functions, including the framework for monetary policy. The Deposit Takers Act will integrate the two different legislative frameworks for deposit taking institutions (banks and NBDTs) and establish the deposit insurance scheme.

The Reserve Bank of New Zealand Bill ("**RBNZ Bill**") was introduced into the New Zealand Parliament in July 2020. The RBNZ Bill provides for the objectives and functions of the RBNZ and its governance, accountability, transparency, and funding arrangements. The RBNZ Bill also increases coordination between public agencies responsible for the financial system and provides the new RBNZ board with a financial policy remit. The RBNZ Bill repeals and replaces parts of the Reserve Bank Act. The remainder of the Reserve Bank Act remains in force but is renamed the Banking (Prudential Supervision) Act 1989.

The Government plans to make final policy decisions on the Deposit Takers Act and deposit insurance scheme in late-2020, and to progress legislation after that.

RBNZ review of mortgage bond collateral standards

The RBNZ has undertaken consultation on the terms under which the RBNZ would be prepared to accept mortgage bonds (such as residential mortgage-backed securities or covered bonds) as collateral for the RBNZ's lending operations in the future, and is proposing a new Residential Mortgage Obligations ("RMO") standard. The RBNZ is proposing to gradually phase in RMO to replace internal residential mortgage backed securities over a five-year transition period.

In March 2020, the RBNZ announced that it would defer external-facing work on this initiative for an initial period of six months in response to the COVID-19 pandemic.

FMA and RBNZ conduct and culture review

Following the establishment of the Australian Royal Commission, the FMA and the RBNZ conducted a joint review of conduct and culture in the New Zealand banking sector in 2018 and 2019. The FMA and RBNZ's industry report concluded that conduct and culture issues did not appear to be widespread in New Zealand banks. There were a small number of issues related to poor conduct by bank staff across the industry. Issues relating to system or process weaknesses were more commonplace. The industry report noted that the FMA and the RBNZ were concerned about the identification and remediation of conduct issues and risks in the banks' businesses, and potential weaknesses in the governance and management of conduct risks.

The FMA and RBNZ have continued to engage with banks that took part in the review, including ANZ New Zealand. In July 2019, the FMA and the RBNZ provided ANZ New Zealand with their specific feedback letter. In their letter, the FMA and the RBNZ noted that ANZ New Zealand's conduct and culture plan appeared to address the relevant issues identified in the feedback letters and published reports. In addition, the FMA and the RBNZ informed ANZ New Zealand that the outcomes of the Section 95 Reviews may result in ANZ New Zealand needing to amend its conduct and culture plan. See "—Section 95 Reviews" for further information.

ANZ New Zealand is continuing to provide regular progress updates on its conduct and culture plan to the FMA and the RBNZ.

RBNZ's approach to supervision of financial institutions

In June 2019, the RBNZ announced that it would intensify its supervision of financial institutions (including ANZ New Zealand). The RBNZ indicated that financial institutions could expect more intrusive supervision, including more reviews, a deeper scrutiny of boards and management, and enforcement action in cases of non-compliance.

RBNZ breach disclosure and reporting regime

A new framework for the reporting and publishing of regulatory breaches by banks was announced by the RBNZ in September 2019. The new policy will require a bank to report promptly to the RBNZ when there is a breach or possible breach of a regulatory requirement in a material manner, and report all minor breaches every six months. Actual material breaches will then be published on the RBNZ's website. The policy is planned to take effect from January 1, 2021.

FMA review of sales incentives structures in the New Zealand banking industry

In November 2018, the FMA released its findings from its review of incentive structures in the New Zealand banking industry. The industry review found that the incentives of salespeople across the New Zealand banking industry are highly sales focused and that there is a high risk of inappropriate sales practices occurring. The industry review also found that significant changes are being made to incentive schemes across the New Zealand banking industry.

From October 1, 2019, ANZ New Zealand removed sales incentives for all frontline staff and made changes to its remuneration structure to reduce the emphasis on variable remuneration and individual performance. Frontline Retail and Business Banking staff do not have incentives paid based on individual performance (including payments based on sales measures). Instead staff are eligible for a payment based on overall ANZ Group performance. Some staff will be eligible for variable remuneration which will include a component based on overall ANZ Group performance and a component based on individual performance. For any roles with an individual performance component, ANZ New Zealand is committed to ensuring that there are no incentives linked to sales measures.

In July 2019, the FMA and the RBNZ, in their feedback letter to ANZ New Zealand on its conduct and culture plan, noted the requirement for ANZ New Zealand to notify the FMA, in writing, if ANZ New Zealand intends to materially change its approach to incentives outlined in ANZ New Zealand's conduct and culture plan.

Proposed conduct regulations for financial institutions

The Financial Markets (Conduct of Institutions) Amendment Bill ("FMCIA Bill") was introduced to the New Zealand Parliament in December 2019. If enacted in its current form, the FMCIA Bill would require financial institutions (including registered banks, licensed insurers and NBDTs) that are in the business of providing relevant services to:

- obtain a license under Part 6 of the FMCA;
- comply with a fair conduct principle (requiring them to treat consumers fairly, including by paying due regard to their interests);
- establish, implement, maintain and comply with an effective fair conduct program to operationalize the fair conduct principle; and
- comply with regulations that regulate incentives.

Financial institutions and intermediaries would be subject to the FMCA's compliance and enforcement tools such as civil pecuniary penalties for contraventions of various obligations, and licensed financial institutions would be subject to licensing actions such as censure and the imposition of action plans.

These proposals are intended to form the basis of a broad conduct regime that could be expanded over time with further obligations on regulated entities.

Amendments to the Credit Contracts and Consumer Finance Act 2003

In December 2019, the Credit Contracts Legislation Amendment Act 2019 ("CCLA Act") was enacted. The CCLA Act makes a number of significant changes to the CCCFA, including:

- introducing a new duty on directors and senior managers of creditors under consumer credit contracts to exercise due diligence to ensure that the creditor complies with its duties and obligations under the CCCFA. Proposed remedies for failure to comply with this duty include compliance orders, civil pecuniary penalties, statutory damages and payment of compensation;
- strengthening enforcement provisions, including by providing civil pecuniary penalties and statutory damages for breaches of lender responsibility principles;
- requiring lenders to keep records of their inquiries in relation to their compliance with the responsible lending principles and how they calculate credit and default fees;
- amending the provisions relating to how disclosure is made, including in relation to electronic disclosure; and
- requiring debt collectors to disclose key information to the debtor at the commencement of debt collection action.

Certain amendments contained in the CCLA Act (including changes to electronic disclosure rules and the introduction of civil pecuniary penalties) have already come into effect. As a result of the COVID-19 pandemic, the commencement of Part 5A of the CCLA Act, relating to fit and proper person certification, was delayed and will now come into force on June 1, 2021, and the commencement of the remaining provisions of the CCLA Act and new regulations will now occur on October 1, 2021. The ANZ New Zealand Group is undertaking a program of work in relation to its current CCCFA processes and the upcoming CCLA Act reforms.

Thematic review of registered banks' compliance with the RBNZ Liquidity Policy

The RBNZ is undertaking a thematic review of compliance with BS13. The BS13 Thematic Review is expected to deliver an assessment of the compliance of registered banks in New Zealand with the quantitative and qualitative requirements of BS13 as well as provide useful insights into the banking industry's current liquidity management practices. The findings from the BS13 Thematic Review are also intended to provide input into a forthcoming review of BS13. The RBNZ deferred external-facing work on the BS13 Thematic Review in response to the COVID-19 pandemic but has announced its intention to restart the review in October 2020 and to complete it by the end of first quarter 2021. ANZ New Zealand is continuing to work with the RBNZ on the BS13 Thematic Review.

Cyber resilience guidance and information sharing consultation

In October 2020, the RBNZ released draft guidance on cyber security. The guidance has been designed to set out the RBNZ's expectations for its regulated entities (including ANZ New Zealand) regarding cyber resilience. The guidance aims to raise awareness of, and ultimately promote, the cyber resilience of the financial sector, especially at the board and senior management level. This guidance draws upon leading international and national cybersecurity standards and guidelines and is intended to provide high-level principle-based recommendations for entities. The RBNZ intends to release the final guidance in early 2021.

The RBNZ also announced its plans to promote information sharing with other relevant government agencies including the National Cyber Security Centre, the Computer Emergent Response Team NZ and the FMA. Details of the RBNZ's information gathering and sharing plan are under development and expected to be published for public consultation in mid-2021.

UNITED STATES

ANZBGL has elected to be treated as a Financial Holding Company (a "FHC") by the Board of Governors of the Federal Reserve System (the "FRB"). A FHC is allowed to engage, or acquire companies engaged, in the U.S. in activities that are determined by the FRB and the Secretary of the Treasury to be financial in nature or incidental thereto, and activities that are determined by the FRB to be complementary to financial activities.

Under the Bank Holding Company Act of 1956 (the "BHC Act"), the activities of a FHC are subject to restrictions if it is determined that the FHC (in the case of ANZBGL, at the Group level or at the level of its U.S. bank subsidiary in Guam and American Samoa) ceases to be "well managed" or "well capitalized" or is the subject of an enforcement action requiring it to maintain a specific level of capital. The FRB is the "umbrella" supervisor with jurisdiction over FHCs, including ANZBGL.

ANZBGL is subject to U.S. federal laws and regulations, including the International Banking Act of 1978 (the "IBA"). Under the IBA, all branches and agencies of foreign banks in the United States are subject to reporting and examination requirements similar to those imposed on domestic banks that are owned or controlled by U.S. bank holding companies. As a federally-licensed branch regulated primarily by the Office of the Comptroller of the Currency in the United States (the "OCC"), ANZBGL's New York branch ("New York Branch") can engage in activities permissible for national banks, with the exception that the New York Branch may not accept retail deposits. The New York Branch does not accept retail deposits (only institutional and corporate deposits) and thus is not subject to the supervision of the Federal Deposit Insurance Corporation ("FDIC"). The U.S. bank subsidiary operating in Guam and American Samoa does accept retail deposits and is subject to supervision by the FDIC.

Most U.S. branches and agencies of foreign banks, including the New York Branch, are subject to reserve requirements on deposits pursuant to regulations of the FRB, The New York Branch must maintain its accounts and records separate from those of the Group generally and must comply with such additional requirements as may be prescribed by the OCC. The IBA and the BHC Act also affect the Group's ability to engage in non-banking activities in the United States.

Under the IBA, a federal branch of a non-U.S. bank is subject to receivership by the OCC to the same extent as a national bank. The Comptroller may take possession of the business and property of a federal branch. The Comptroller has at its disposal a wide range of supervisory and enforcement tools for addressing violations of laws and regulations, and breaches of safety and soundness, which can be imposed upon federal branches. The Comptroller may remove federal branch management and assess civil money penalties. In certain circumstances, the Comptroller may also terminate a federal branch license at its own initiative or at the recommendation of the FRB.

The Group is subject to certain provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 ("Dodd-Frank"). Dodd-Frank regulates many aspects of the business of banking in the United States and internationally. At this time, a number of rules and regulations implementing Dodd-Frank are under review by U.S. regulators. This review may result in a modified compliance framework. The following summary discusses the key regulatory requirements that are expected to remain relevant to ANZBGL.

The "Volcker Rule" adopted under Dodd-Frank, among other things, prohibits banks and their affiliates from engaging in certain "proprietary trading" (but allows certain activities such as underwriting, market making-related and risk-mitigating hedging activities) and limits the sponsorship of, and investment in, private equity funds and hedge funds, subject to certain important exceptions and exemptions. Between August and October 2019, the agencies responsible for the Volcker Rule approved final rules (the "Final Rules") amending the Volcker Rule to provide clarification, simplification and tailoring to certain of their requirements relating to proprietary trading and compliance programs. The effective date for the Final Rules was January 1, 2020, with a compliance date of January 1, 2021. Banking entities such as ANZBGL were required to continue to comply with the existing (2013) Volcker Rule until the effective date. Compliance with the Final Rules between the effective date and the compliance date is permitted but not required. On June 25, 2020, the agencies responsible for implementing the Volcker Rule adopted a final rule modifying certain aspects of the Volcker Rule. The changes, which took effect on October 1, 2020, principally relate to covered funds.

Other Dodd-Frank regulations impose minimum margin requirements on uncleared swaps, require the central execution and clearing of standardized OTC derivatives on regulated trading platforms and clearing houses and provide for heightened supervision of OTC derivatives dealers and major market participants. ANZBGL is a provisionally registered swap dealer under the Commodity Exchange Act and Commodity Futures Trading Commission ("CFTC") regulations. In addition, other affiliated entities within the Group could become subject to registration, depending on the level of their swap dealing activities with counterparties that are U.S. persons. Even if not required to be registered with the CFTC, such entities are potentially subject to certain of the CFTC's regulatory requirements, in connection with transactions that they enter into with counterparties that are U.S. persons. The CFTC has recently adopted rules regarding cross-border transactions, which became effective on November 13, 2020, and which, among other things, permit "substituted compliance" by swap dealers located in non-U.S. jurisdictions with regulatory schemes determined by the CFTC to be comparable to its own. The CFTC has previously made such a determination with respect to certain aspects of Australian law and regulation pursuant to guidance issued by the CFTC prior to its adoption of the cross-border rules, and that determination remains in effect under the new rules. Pursuant to that determination, ANZBGL is able to rely on substituted compliance with respect to certain aspects of CFTC rules in connection with transactions outside the U.S. with non-U.S. counterparties. U.S. prudential regulators and the CFTC have implemented rules imposing initial and variation margin requirements on transactions in uncleared swaps and security-based swaps. As ANZBGL is supervised by the FRB and operates the New York Branch that is regulated by the OCC, it needs to comply with the uncleared swap margin rules promulgated by the FRB, Farm Credit Administration, FDIC, Federal Housing Financial Agency and the OCC. These rules impose requirements to collect and post initial and variation margin in respect of in-scope trading with in-scope counterparties. The rules of the prudential regulators and the CFTC also allow non-U.S. swap dealers, such as ANZBGL, to comply with the applicable laws of non-U.S. jurisdictions in lieu of compliance with their margin rules, or otherwise not to comply with U.S. margin rules, with respect to certain categories of transactions and counterparties.

Dodd-Frank also requires ANZBGL to submit U.S. resolution plans to the FRB and the FDIC. ANZBGL submitted its most recent U.S. resolution plan in December 2018. ANZBGL also is subject to "enhanced prudential regulations" under Reg. YY, Subpart N, which was adopted pursuant to Dodd-Frank

Section 165, and which requires quarterly and annual certification of compliance with the financial and risk oversight requirements thereof. In October 2019, the FRB and the FDIC issued final rules that would apply tailored requirements on resolution planning and a modification of the enhanced prudential standards applicable to foreign banking organizations, depending on the size of their U.S. operations and their risk profile. Under the final rules, ANZBGL is next required to submit a reduced resolution plan by July 1, 2022 because it continued to be a triennial reduced filer on October 1, 2020.

The U.S. Foreign Account Tax Compliance Act ("FATCA"), requires financial institutions to undertake specific customer due diligence and provide information on account holders who are U.S. citizens or tax residents to the United States Federal tax authority, the Internal Revenue Service, either directly or via local tax authorities. If the required customer due diligence and provision of account holder information is not undertaken and provided in a manner and form meeting the applicable requirements, the Group and/or persons owning assets in accounts with Group members may be subjected to a 30% withholding tax on certain amounts. While such withholding tax may currently apply only to certain payments derived from sources within the United States, no such withholding tax will be imposed on any payments derived from sources outside the United States that are made prior to the date that is two years after the date on which final U.S. regulations defining the term "foreign passthru payment" are enacted. There is currently no proposed or final definition of “foreign passthru payment” and it is therefore impossible to know whether certain payments could possibly be treated as foreign passthru payments.

The discussion above reflects proposed U.S. regulations that eliminate withholding on certain gross proceeds payments and delay the effective date for withholding on payments from sources outside the United States. The U.S. Treasury Department has indicated that taxpayers may rely on the proposed regulations. The discussion assumes that the regulations will be finalized in their current form and will be effective retroactively.

In addition to FATCA, the U.S. may require the Group in certain circumstances to provide certain information to U.S. payers (withholding agents, custodians, etc.), and the Group and/or its customers may face withholding tax if the Group does not provide such information in compliance with the applicable rules and regulations. Moreover, even if the Group does provide the required information, withholding may still be applicable to certain U.S. source payments.

In the event that any country in which ANZBGL operates does not finalize and enforce an Intergovernmental Agreement with the United States, and that country has local law impediments preventing compliance with FATCA, the Group may also be subject to broader compliance issues, significant withholding exposure and other operational impacts.

A major focus of U.S. governmental policies affecting financial institutions has been combating money laundering and terrorist financing. The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "PATRIOT Act") substantially broadened the scope of U.S. anti-money laundering laws by imposing significant compliance and due diligence obligations, identifying crimes and stipulating penalties and expanding the extra-territorial jurisdiction of the U.S. The U.S. Treasury Department has issued a number of regulations implementing various requirements of the PATRIOT Act that apply to U.S. financial institutions, including subsidiaries and branches of foreign banks such as ANZBGL's U.S. broker-dealer subsidiary, the New York Branch and ANZBGL’s bank subsidiary that operates in Guam and American Samoa.

Those regulations require financial institutions operating in the United States to maintain appropriate policies, procedures and controls to detect, prevent, and report money laundering and terrorist financing and to verify the identity of their customers. In addition, the U.S. bank regulatory agencies have imposed heightened standards and U.S. law enforcement authorities have been taking a more active role, resulting in intensified enforcement of such matters. Failure of a financial institution to maintain and implement adequate policies and procedures to combat money laundering and terrorist financing could have serious legal and reputational consequences for the financial institution, as well as result in the imposition of civil, monetary and criminal penalties.

OTHER REGULATORS

The Group has ordinary shares listed on the ASX and the NZX and has other equity securities and debt securities listed on these and certain other overseas securities exchanges. As a result, the Group must comply with a range of listing and corporate governance requirements in Australia, New Zealand and overseas.

In addition to the prudential capital oversight that APRA conducts over ANZBGL and its branch operations and the supervision and regulation described above, local banking operations in all of the ANZBGL offshore branches and banking subsidiaries are subject to host country supervision by their respective regulators, such as the RBNZ, the OCC, the FRB, the UK Prudential Regulatory Authority, the Monetary Authority of Singapore, the Hong Kong Monetary Authority, the China Banking and Insurance Regulatory Commission and other financial regulatory bodies in those countries and in other relevant countries. These regulators, among other things, may impose minimum capitalization requirements on those operations in their respective jurisdictions.

The Group is also required to comply with certain anti-money laundering and counterterrorism financing legislation and regulations under the local laws of all the countries in which it operates.

RISK FACTORS

Introduction

The Group's activities are subject to risks, including risks arising from the coronavirus pandemic (COVID-19), that can adversely impact its business, operations, results of operations, reputation, prospects, liquidity, capital resources, financial performance and financial condition (together, the "Group's Position"). The risks and uncertainties described below are not the only ones that the Group may face. Additional risks and uncertainties that the Group is unaware of, or that the Group currently deems to be immaterial, may also become important factors that affect it. If any of the specified or unspecified risks actually occur, the Group's Position may be materially and adversely affected, with the result that the trading price of the Group's equity or debt securities could decline, and investors could lose all or part of their investment. These risk factors below should be considered together with "Forward Looking Statements" in "Section 1: Key Information".

Risks related to the Issuer's business activities and industry

1. The COVID-19 pandemic has, and future outbreaks of other communicable diseases or pandemics may, materially and adversely affect the Group's Position

The outbreak of the novel strain of coronavirus in late 2019, specifically identified as SARS-CoV-2, with the disease referred to as "COVID-19", has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. Due to COVID-19, governments worldwide, including those in Australia and New Zealand, have imposed wide ranging restrictions on, suspensions of, or advice against, travel, events, and meetings and many other normal activities and undertaken substantial and costly monetary and fiscal interventions designed to stabilize sovereign nations and financial markets. Governments may in the foreseeable future implement and introduce further measures to contain the pandemic. The full extent of the duration and impact of the COVID-19 outbreak are unknown at this time, as is the efficacy of the government and central bank interventions.

Major disruptions to community health and economic activity are having wide ranging negative effects across most business sectors in Australia, New Zealand and globally, which in turn has impacted demand for the Group's products and services and resulted in a deterioration of the quality of the Group's credit portfolio. Additionally, many of the Group's borrowers have been negatively impacted by the COVID-19 pandemic and the Group is exposed to an increased risk of credit loss from borrowers, particularly in the following sectors: transportation (including airlines, shipping, road and rail); ports, tourism and travel (including accommodation, food and beverage); healthcare; agriculture; education; retail (including e-commerce due to a reduction in logistics activity); property (particularly shopping malls and hotels); construction and contractors. See Notes 1 and 13 of the 2020 Financial Report (attached as part of Annex A to this U.S. Disclosure Document).

In response to the COVID-19 pandemic, the Group has established a range of accommodations and measures designed to assist its personal and business customers but there can be no assurance that these accommodations and measures will be sufficient to prevent or mitigate further hardship, or ensure the delivery of the Group's products and services, and there is a risk that the Group's Position may be materially and adversely affected. These accommodations and measures, while supporting the Group's customers, may in turn have a negative impact on the Group's Position, may negatively impact the Group's net interest margin, and may result in the Group assuming a greater level of risk than it would have under ordinary circumstances and the Group's Position may be materially and adversely affected as a result.

Significant requests for assistance from retail and small business customers have been received by the Group's customer service team. These requests are anticipated to grow if the crisis deepens and the Group is addressing additional resourcing and process changes to enable it to support its customers. It is uncertain, at this stage, what percentage of its lending portfolio will be impacted. In the longer term, asset values may start to deteriorate if a large quantity of retail and business customers liquidate their investments, either during, or immediately after, the crisis or due to a decrease in demand for these assets. In both scenarios loan-to-value ratios are expected to be impacted.

Substantially reduced global economic activity has already caused substantial volatility in the financial markets and such volatility may continue to emerge. A deterioration of public finances of sovereigns in response to COVID-19 may lead to further increased volatility and widening credit spreads. COVID-19 has also affected, and can be expected to continue to impact, the Group's ability to continue its operations without interruption or delays due to closure of and restricted access to premises, contagion management and travel restrictions. Any related illness or quarantine of the Group's employees or contractors or suspension of the Group's business operations at its branches, stores or offices could affect the Group's Position.

The ongoing ramifications of COVID-19 are highly uncertain and, as of the date of this document, it is difficult to predict the further spread or duration of the pandemic, including whether there will be further outbreaks. All or any of the negative conditions related to the COVID-19 pandemic described above may cause a further reduction in demand for the Group's products and services and/or an increase in loan and other credit defaults, bad debts, and impairments and/or an increase in the cost of the Group's operations. Should these occur, it is likely that they will result in a material adverse effect on the Group's Position.

Actions taken by regulators in response to the COVID-19 pandemic have impacted, and may continue to impact, the Group. As an example, regulators in some overseas jurisdictions have exercised their powers to prevent banks from declaring dividends or undertaking share buy- backs.

In New Zealand, the RBNZ has frozen the distribution of dividends on ordinary shares by New Zealand incorporated registered banks until March 31, 2021 (or later if required) to support the stability of the financial system. This has prevented, and continues to prevent, the Group's subsidiary, ANZ New Zealand, from paying dividends and has had, and is expected to continue to have, a negative impact on the Group's Level 1 CET1 capital ratio.

In Australia, in July 2020, APRA updated their guidance on capital management, including capital distributions and indicated that for the remainder of the calendar year ADI's boards should:

- seek to retain at least half of their earnings when making decisions on capital distributions (and utilize dividend reinvestment plans and other initiatives to offset the diminution in capital from capital distributions where possible);
- conduct regular stress testing to inform decision-making and demonstrate ongoing lending capacity; and
- make use of capital buffers to absorb the impacts of stress, and continue to lend to support households and businesses.

To the extent the COVID-19 pandemic continues to adversely affect the Group's Position, it may also have the effect of heightening many of the other risks described in this "Risk Factors" section.

2. Changes in political and general business and economic conditions, including disruption in regional or global credit and capital markets, may adversely affect the Group's Position

The Group's financial performance is primarily influenced by the political and economic conditions and the level of business activity in the major countries and regions in which the Group or its customers or counterparties operate, trade or raise funding including, without limitation, Australia, New Zealand, the Asia Pacific, United Kingdom , Europe and the U.S. (the "**Relevant Jurisdictions**").

The political, economic and business conditions that prevail in the Group's operating and trading markets are affected by, among other things, domestic and international economic events, developments in global financial markets, political perspectives, opinions and related events and natural disasters.

The COVID-19 pandemic is having, and is expected to continue to have, a significant impact on the global economy and global markets, as well as on Australia and New Zealand. The imposition of travel restrictions, border controls, social distancing, quarantine protocols and other containment measures has contributed, and may continue to contribute to a continuing slowdown in economic conditions across the world and suppress demand for commodities, interrupt the supply chain for many industries globally, dampen consumer confidence and suppress business earnings and growth prospects, all of which could contribute to ongoing volatility in global financial markets. See risk factor "The COVID-19 pandemic has, and future outbreaks of other communicable diseases or pandemics may, materially and adversely affect the Group's Position."

A deep global recession has occurred and is continuing. Many countries have experienced large declines in GDP as they restrict activities to manage the spread of the virus, with sharp increases in unemployment rates. These declines in GDP could be exacerbated by further outbreaks of the virus, such as those occurring in Europe, the U.S. and parts of Asia. Governments have responded and continue to respond with enormous fiscal stimulus packages/measures as well as traditional and unconventional monetary easing and regulatory forbearance that is designed to offset at least some of the worst effects of the pandemic. Nevertheless, such stimulus measures have not prevented the drop in economic activity stemming from the widespread restrictions aimed at stalling the spread of virus.

The impact of this shock on credit losses and asset values continues to be very uncertain. Many of the policies that have been put in place are designed to 'hibernate' parts of the economy, at different times, so that activity can resume when the pandemic subsides. However, there is considerable uncertainty about the length of these periods of hibernation, the most appropriate economic structure once the crisis has passed and the overall impact on confidence to invest in the future. While the impact of the economic disruption caused by COVID-19, and the governmental responses to it, remain uncertain, the Group may be materially adversely affected by a protracted downturn in economic conditions globally and, in particular, in Australia and New Zealand.

The Australian bushfires in late 2019 and early 2020 also impacted a small portion of the Group's customers who are suppliers to the agricultural sector as well as those who reside in and operate businesses within regional and fire impacted communities. If further bushfires were to transpire during the upcoming bushfire season in late 2020 and early 2021, that could have further and potentially worse impacts on the Group's customers.

Even before the Australian bushfires and COVID-19, the impact of the global financial crisis in 2007 and its aftermath continued to affect regional and global economic activity, confidence and capital markets. Prudential authorities implemented increased regulations in an attempt to mitigate the risk of such events recurring, although there can be no assurance that such regulations will be effective. The Group believes that the global financial crisis has also had a lasting effect on consumer and business behavior in advanced economies, including the major countries and regions in which the Group or its customers or counterparties operate. Consumers in recent years have reduced their savings rates in the face of weak income growth, while businesses have been reluctant to invest and inflation has remained low. The potential for escalation in geopolitical risks has also contributed to vulnerability in consumer and business behavior. Monetary authorities responded to the global financial crisis by introducing close to zero or below zero interest rates across most countries, and the major central banks took unconventional steps to support growth and raise inflation.

This policy history has been an important precedent for the policy response to COVID-19. The changed behavior of consumers and businesses, higher debt levels and reduced monetary policy buffers also leave economies more vulnerable to disruptions that might develop from natural disasters such as bushfires or the transmission of new diseases.

Global political conditions that impact the global economy have led to, and may continue to result in extended periods of increased political and economic uncertainty and volatility in the global financial markets, which could adversely affect the Group's Position. Recent examples of events that have affected global political conditions include the United Kingdom's vote to leave the European Union ("**EU**") in a referendum (commonly referred to as "Brexit") in 2016, the terms of which remain subject to ongoing negotiations, and global trade developments relating to, among other things, the imposition or threatened imposition of trade tariffs and levies by major countries, including by those that are Australia's significant trading partners. Domestic U.S. politics have also become more polarized in recent years, and hence a potential source of additional instability. Such global political conditions have contributed to economic uncertainty and volatility in the global financial markets and have negatively impacted and could continue to negatively impact consumer and business activity within the markets in which the Group or its customers or counterparties operate, or result in the introduction of new and/or divergent regulatory frameworks that the Group will need to adhere to.

Trade, and broader geopolitical, relationships between the United States and some of its trading partners, such as China, remain volatile. The implementation of further protectionist policies by Australia's key trading partners and allies may adversely impact the demand for Australian exports and may lead to declines in global growth.

In anticipation of Brexit, the Group made changes to the structure of its business operations in Europe, however the financial, trade and legal implications of Brexit remain uncertain and its impact may be more severe than expected given that the terms of the United Kingdom's future trading relationship with the EU are still not known and given the lack of comparable precedent. As a result, there can be no assurance that the changes the Group has made to the structure of its business operations in Europe will be sufficient to address the financial, trade and legal implications of Brexit, and the Group is subject to the risk that further changes may be required as a result of the final terms of Brexit.

Political and economic uncertainty has in the past led to declines in market liquidity and activity levels, volatile market conditions, a contraction of available credit, lower or negative interest rates, weaker economic growth and reduced business confidence, each of which may adversely affect the Group's Position. These conditions may also adversely affect the Group's ability to raise medium or long-term funding in the international capital markets.

Geopolitical instability, including potential or actual conflict, occurring around the world, such as the ongoing unrest and conflicts in Ukraine, the Democratic People's Republic of Korea ("North Korea"), Hong Kong, Syria, Egypt, Afghanistan, Iraq, Iran, Nicaragua, Belarus and elsewhere, as well as the current high threat of terrorist activities, may also adversely affect global financial markets, general business and economic conditions and consequently, the Group's ability to continue operating or trading in an affected country or region which in turn may adversely affect the Group's Position.

Should difficult economic conditions in markets in which the Group or its customers or counterparties operate develop or persist, asset values in the housing, commercial or rural property markets could decline, unemployment could rise and corporate and personal incomes could suffer. Deterioration in global markets, including equity, property, currency and other asset markets, may impact the Group's customers and the security the Group holds against loans and other credit exposures, which may impact the Group's ability to recover loans and other credit exposures.

The Group's financial performance may also be adversely affected if the Group is unable to adapt cost structures, products, pricing or activities in response to a drop in demand or lower than expected revenues. Similarly, higher than expected costs (including credit and funding costs) could be incurred because of adverse changes in the economy, general business conditions or the operating environment in the countries or regions in which the Group or its customers or counterparties operate.

All or any of the negative political, business or economic conditions described above may cause a reduction in demand for the Group's products and services and/or an increase in loan and other credit defaults and bad debts, which may adversely affect the Group's Position.

3. Competition in the markets in which the Group operates may adversely affect the Group's Position

The markets in which the Group operates are highly competitive and could become even more so.

Examples of factors that may affect competition and negatively impact the Group's Position include:

- entities that the Group competes with, including those outside of Australia and New Zealand, could be subject to different levels of regulation and regulatory activity. This could allow them to offer more competitive products and services, including because those different levels give them a lower cost base and/or the ability to attract employees that the Group would otherwise seek to employ;
- digital technologies and business models are changing customer behavior and the competitive environment and emerging competitors are increasingly utilizing new technologies and seeking to disrupt existing business models in the financial services sector;
- existing companies from outside of the traditional financial services sector may seek to directly compete with the Group by offering products and services traditionally provided by banks, including by obtaining banking licenses and/or by partnering with existing providers;
- consumers and businesses may choose to transact using, or to invest in, new forms of currency (such as cryptocurrencies) in relation to which the Group may choose not to provide financial services; and
- Open Banking (as described below) may lead to increased competition (see risk factor "Regulatory changes or a failure to comply with laws, regulations or policies may adversely affect the Group's Position").

The impact on the Group of an increase in competitive market conditions or a technological change that puts the Group's business platforms at a competitive disadvantage, especially in the Group's main markets and products, could lead to a material reduction in the Group's market share, customers and margins and adversely affect the Group's Position.

Increased competition for deposits may increase the Group's cost of funding. If the Group is not able to successfully compete for deposits, the Group would be forced to rely more heavily on other, less stable or more expensive forms of funding, or to reduce lending. This may adversely affect the Group's Position.

The COVID-19 pandemic and future economic disruptions could have a significant impact on competition in the financial services sector over the medium-term due to funding cost and provision increases, structurally low interest rates, insufficient liquidity, implementation of business continuity plans, changes to business strategies and temporary regulatory safe harbors. The low-growth environment will likely lead to heightened competitive intensity and margin compression.

Further, the Australian Government and its agencies have sought to lower lending and funding costs for both banks and non-banks. These actions may support providers that compete with the Group

Given the importance of a functioning and competitive banking sector, and the Australian Government's ongoing desire to pursue a pro-growth agenda in response to the economic disruption caused by the COVID-19 pandemic, it is anticipated that over the longer-term the level of competition in financial services will remain a focus area for the Australian Government. Policy reform in this area may result in increased competitive pressure in the Group's key markets which may adversely affect the Group's Position.

4. Weakening of the real estate markets in Australia, New Zealand or other markets where the Group does business may adversely affect the Group's Position

Residential and commercial property lending, together with real estate development and investment property finance, constitute important businesses of the Group. Major sub-segments within the Group's lending portfolio include:

- residential housing loans (owner occupier and investment); and
- commercial real estate loans.

Since 2009, the world's major central banks have embarked upon unprecedented monetary policy stimulus. The resulting weight of funds searching for yield continues to be a significant driver underlying property markets in the Group's core property jurisdictions (Australia, New Zealand, Singapore and Hong Kong). However, although values for completed tenanted properties and residential house prices, particularly in metro east coast Australian and New Zealand markets, rose steadily until 2018, the fall in Australian house prices in 2018 was the largest since the global financial crisis. In the latter part of 2019 and early 2020, property prices across Australia had started to increase, although this trend has been disrupted by COVID-19 (see risk factor "The COVID-19 pandemic has, and future outbreaks of other communicable diseases or pandemics may, materially and adversely affect the Group's Position"). The social and economic impacts of the spread of the COVID-19 pandemic and the related measures in place to control it have the potential to drive a material decline in residential property prices due to, among other things, increased unemployment in Australia and New Zealand which, along with a number of other potential factors in the medium term, may result in reductions in house prices.

A continued weakening, potentially compounded by the negative impacts of the COVID-19 pandemic, together with the potential for removal of Government economic stimulus which has deferred the economic impacts, of real estate markets in Australia, New Zealand, and other markets where the Group does business could impact the Group in a number of ways. These include:

- commercial assets could be impacted by weakening tenancy credit profiles and increasingly volatile property cash flows from lease renewals at lower rates, rental abatements, increased incentives and tenancy defaults impacting serviceability and increasing refinance risk;
- declining asset prices could impact customers, counterparties and the value of security (including residential and commercial property) the Group holds against these loans, impacting the Group's ability to recover amounts owed if customers or counterparties were to default. A decline in valuations will also contribute to increasing refinance risk. Valuations will be impacted by the combined effect of reduction in rental income and softening in yields (risk adjusted returns and implicit rental growth), notwithstanding the low interest rate environment;
- liquidity concerns arising from an emerging capital gap as existing loans are refinanced or new loans are financed within existing senior lending risk appetite parameters but against lower valuations, creating a need for additional equity contributions from owners or developers or alternative sources of funding. This creates an additional cash flow risk for borrowers and the potential for non-bank financiers to disintermediate;
- declining demand for the Group's residential lending products due to buyer concerns about decreases in values that may make the Group's lending products less attractive to potential homeowners and investors; and
- a material decline in residential housing prices may also cause losses in the Group's residential development portfolio if customers who are pre-committed to purchase these dwellings are unable or unwilling to complete their contracts and the Group is forced to re-sell these dwellings at a loss.

The Group's portfolio of commercial property loans may be particularly susceptible to asset price deflation, tenancy risk (comprising of underlying income generation from tenancy mix and vacancy levels), delivery risk and settlement risk, which may result in higher credit losses, refinance risk and deteriorating security values. A significant decrease in commercial property valuations or a significant slowdown in the commercial real estate markets in the Relevant Jurisdictions, or specific sectors, could result in a decrease in new lending opportunities or lower recovery rates. Furthermore, while there has yet to be a significant downturn of the real estate markets evidenced in the Group's core property jurisdictions (which comprises Australia and New Zealand) due to the impact of COVID-19, it is expected over time that this downturn will occur. So far, commercial property assets have not been forced to market under distressed circumstances because liquidity support has been provided. However, continued liquidity support is not guaranteed, and the marketing of such assets under distress may result in a material adverse shift in valuations.

The market has now shifted mindset from the consequences of a relatively short-term disruption from COVID-19 to the longer term consequences of a deep recession across market segments. At this point, it is unclear as to timing and magnitude of this downturn. It is expected however that the longer the pandemic continues the greater the longer term economic impact will be. The impacts to both the residential and commercial property portfolios described above may cause a reduction in demand for the Group's products and services and/or increased costs through higher credit losses that may in turn materially and adversely impact the Group's Position.

5. Sovereign risk events may destabilize global financial markets and may adversely affect the Group's Position

Sovereign risk is the risk that governments will default on their debt obligations, be unable to refinance their debts as and when they fall due or nationalize parts of their economy.

Sovereign risk exists in many economies, including the United States, the United Kingdom, China, Europe, Australia and New Zealand. Should one sovereign default, there could be a cascading effect to other markets and countries, the consequences of which, while difficult to predict, may be similar to or worse than those experienced during the global financial crisis and subsequent sovereign debt crises. Significant uncertainties exist relating to the COVID-19 crisis that is currently unfolding globally. These COVID-19 related uncertainties, combined with pre-existing sovereign risk have been significantly destabilizing global financial markets, and may continue to do so, which in turn could adversely affect the Group's Position. For more information on risks relating to the COVID-19 pandemic see risk factor "The COVID-19 pandemic has, and future outbreaks of other communicable diseases or pandemics may, materially and adversely affect the Group's Position".

6. Market risk events may adversely affect the Group's Position

Market risk is the risk of loss arising from adverse changes in interest rates, currency exchange rates, credit spreads, or from fluctuations in bond, commodity or equity prices. For purposes of financial risk management, the Group differentiates between traded and non-traded market risks. Traded market risks principally arise from the Group's trading operations in interest rates, foreign exchange, commodities and securities. The non-traded market risk is predominantly interest rate risk in the banking book. Other non-traded market risks include transactional and structural foreign exchange risk arising from capital investments in offshore operations and non-traded equity risk. Losses arising from the occurrence of such market risk events may adversely affect the Group's Position.

As a result of COVID-19, in March 2020 there was a substantial impact to market liquidity across most asset classes as market volatility significantly increased. Over the past six months, market conditions have stabilized but the future impact of COVID-19 on financial markets remains uncertain, particularly as many countries in Europe and parts of Asia, as well as in the United States, are experiencing further outbreaks (see risk factor "The COVID-19 pandemic has, and future outbreaks of other communicable diseases or pandemics may, materially and adversely affect the Group's Position").

7. Changes in exchange rates may adversely affect the Group's Position

As the Group conducts business in several different currencies, its businesses may be affected by a change in currency exchange rates. Additionally, as the Group's annual and interim reports are prepared and stated in Australian dollars, any appreciation in the Australian dollar against other currencies in which the Group earns revenues (particularly the New Zealand dollar and U.S. dollar) may adversely affect the Group's reported earnings.

While the Group has put in place hedges to partially mitigate the impact of currency changes, there can be no assurance that the Group's hedges will be sufficient or effective, and any further appreciation may have an adverse impact upon the Group's Position.

8. The regulation, reform and replacement of benchmark rates could have adverse consequences on the Group's securities issuances and its capital markets and investment activities

Interest rate, equity, foreign exchange rate and other types of indices which are deemed to be "benchmarks" including those in widespread and long-standing use (such as the London inter-bank offered rate ("LIBOR")), have been the subject of ongoing international regulatory scrutiny, and initiatives and proposals for reform. Some of these reforms are already in effect while others are still to be implemented. These reforms may cause benchmarks to perform differently than in the past, or to disappear entirely, or have other consequences which cannot be fully anticipated.

Any of the benchmark reforms which have been proposed or implemented, or the general increased regulatory scrutiny of benchmarks, could also increase the costs and risks of administering or otherwise participating in the setting of benchmarks and complying with regulations or requirements relating to benchmarks. Such factors may have the effect of discouraging market participants from continuing to administer or contribute to certain benchmarks, trigger changes in the rules or methodologies used in certain benchmarks or lead to the disappearance of certain benchmarks. Any of these developments, and any future initiatives to regulate, reform or change the administration of benchmarks, could result in adverse consequences to the return on, value of and market for loans, mortgages, securities, derivatives and other financial instruments whose returns are linked to any such benchmark, including those issued, funded or held by the Group.

Various regulators, industry bodies and other market participants globally are engaged in initiatives to develop, introduce and encourage the use of alternative rates to replace certain benchmarks. There is no assurance that these new rates will be accepted or widely used by market participants, or that the characteristics of any of these new rates will be similar to, or produce the economic equivalent of, the benchmarks that they seek to replace. If a particular benchmark were to be discontinued and an alternative rate is not successfully introduced to replace that benchmark, this could result in widespread dislocation in the financial markets, engender volatility in the pricing of securities, derivatives and other instruments, and suppress capital markets activities, all of which could have adverse effects on the Group's Position. In addition, the transition of a particular benchmark to a replacement rate could affect hedge accounting relationships between financial instruments linked to that benchmark and any related derivatives, which could adversely affect the Group's Position.

In July 2017, the Financial Conduct Authority (the "FCA"), which regulates LIBOR, announced that it will no longer persuade or compel banks to submit rates for the calculation of LIBOR after 2021. There is no certainty as to whether, or on what basis, LIBOR will be calculated and published up to or after 2021. In a subsequent announcement in July 2018, the FCA emphasized the need for market participants to transition away from LIBOR before the end of 2021. Such announcements indicate that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. It is not possible to predict whether, and to what extent, panel banks will continue to provide LIBOR submissions to the administrator of LIBOR going forward. This may cause LIBOR to perform differently than it did in the past and may have other consequences which cannot be predicted.

Vast amounts of loans, mortgages, securities, derivatives and other financial instruments are linked to the LIBOR benchmark, and any failure by market participants and regulators to successfully introduce benchmark rates to replace LIBOR and implement effective transitional arrangements to address the discontinuation of LIBOR could result in disruption in the financial markets, suppress capital markets activities and give rise to litigation claims, all of which could have a negative impact on the Group's Position and on the value of LIBOR-linked securities or other instruments which are issued, funded or held by the Group.

A large number of loans, securities, derivatives and other financial instruments to which the Group is a party and which reference discontinuing benchmark rates without robust provisions for their replacement will need to be transitioned to reference replacement rates and/or include robust contractual fallback provisions in line with emerging market standards. The process of transitioning of this large volume of contracts prior to the end of 2021 involves operational risks for the Group.

9. Acquisitions and/or divestments may adversely affect the Group's Position

The Group regularly examines a range of corporate opportunities, including acquisitions and divestments, with a view to determining whether those opportunities will enhance the Group's strategic position and financial performance.

Integration (or separation) of an acquired (or divested) business can be complex and costly, sometimes including combining (or separating) relevant accounting and data processing systems, and management controls, as well as managing relevant relationships with employees, customers, regulators, counterparties, suppliers and other business partners.

Integration (or separation) efforts could create inconsistencies in standards, controls, procedures and policies, as well as diverting management attention and resources. There is also the risk of counterparties making claims in respect of completed or uncompleted transactions against the Group that could adversely affect the Group's Position. There can also be no assurance that any acquisition (or divestment) would have the anticipated positive results around cost or cost savings, time to integrate and overall performance. All or any of these factors could adversely affect the Group's ability to conduct its business successfully and impact the Group's operations or results. Additionally, there can be no assurance that employees, customers, counterparties, suppliers and other business partners of newly acquired (or retained) businesses will remain post-acquisition (or post-divestment). Further, there is a risk that completion of an agreed transaction may not occur whether in the form originally agreed between the parties or at all, including due to failure of the counterparty to satisfy its completion conditions or because other completion conditions such as obtaining relevant regulatory or other approvals are not satisfied. Should any of these integration or separation risks occur, this could adversely affect the Group's Position.

Risks related to the Issuer's financial situation

10. Credit risk may adversely affect the Group's Position

As a financial institution, the Group is exposed to the risks associated with extending credit to other parties, including incurring credit-related losses that can occur as a result of a counterparty being unable or unwilling to honor its contractual obligations. Credit losses can and have resulted in financial services organizations realizing significant losses and in some cases failing altogether.

The risk of credit-related losses may be increased by a number of factors, including deterioration in the financial condition of the economies in which the Group or its customers or counterparties operate, a sustained high level of unemployment in the markets in which the Group or its customers or counterparties operate, more expensive imports into Australia and New Zealand due to the reduced strength of the Australian and New Zealand dollars relative to other currencies, a deterioration of the financial condition of the Group's customers or counterparties, a reduction in the value of assets the Group holds as collateral, and a reduction in the market value of the counterparty instruments and obligations it holds.

Less favorable business or economic conditions, whether generally or in a specific industry sector or geographic region, as well as the occurrence of events such as natural disasters or pandemics, could cause customers or counterparties to fail to meet their obligations in accordance with agreed terms.

Some of the Group's customers and counterparties in or with exposures to the below mentioned sectors are increasingly vulnerable:

- industries impacted by the COVID-19 pandemic and adverse weather conditions (e.g. bushfires and drought), particularly: transportation (including airlines, shipping, road and rail); ports, tourism and travel (including accommodation, food and beverage); healthcare; agriculture; education; retail (including e-commerce due to a reduction in logistics activity); property (particularly shopping malls and hotels); construction and contractors;
- industries at risk of sanctions, geopolitical tensions or trade disputes (e.g. technology, agriculture and communications) and/or declining global growth, disruption to global supply chains and actions on climate change (e.g. commodity and energy prices);
- the Australian natural resources sector, which is particularly exposed to any prolonged slowdown in the Chinese economy and could be materially and adversely impacted by a decline in natural resource prices;
- industries reliant on consumer discretionary spend in the markets in which the Group operates are exposed to a slowdown in spending levels, rising unemployment and a combination of a slowing housing market, low wage growth and high household debt or a potential loss in consumer confidence including in the tourism, specialty retail, travel, leisure and the automotive sectors; and
- industries exposed to the recent volatility of the United States Dollar as well as the Australian Dollar and New Zealand Dollar.

The decision by the Group to provide customers impacted by the COVID-19 pandemic the option of suspending or deferring certain mortgage or loan repayments may lead to an increase in the level of credit risk related losses. There can be no guarantee that at the conclusion of this period, customers will be able to recommence their loan repayment obligations, leading to a potential increase in credit risk related losses, which could have a material adverse effect on the Group's Position. See Notes 1 and 13 of the 2020 Financial Report (attached as part of Annex A to this U.S. Disclosure Document).

The Group is also subject to the risk that its rights against third parties may not be enforceable in certain circumstances, which may result in credit losses. Should material credit losses occur to the Group's credit exposures, this may adversely affect the Group's Position.

Credit risk may also arise from certain derivative, clearing and settlement contracts that the Group enters into, and from the Group's dealings with, and holdings of, debt securities issued by other banks, financial institutions, companies, governments and government bodies where the financial conditions of such entities are affected by economic conditions in global financial markets.

In addition, in assessing whether to extend credit or enter into other transactions with customers and/or counterparties, the Group relies on information provided by or on behalf of customers and/or counterparties, including financial statements and other financial information. The Group may also rely on representations of customers and independent consultants as to the accuracy and completeness of that information. The Group's financial performance could be negatively impacted to the extent that it relies on information that is inaccurate or materially misleading.

The Group holds provisions for credit impairment that are determined based on current information and subjective and complex judgments of the impairment within the Group's lending portfolio. If the information upon which the assessment is made proves to be inaccurate or if the Group fails to analyze the information correctly, the provisions made for credit impairment may be insufficient, which may adversely affect the Group's Position.

11. Challenges in managing the Group's capital base could give rise to greater volatility in capital ratios, which may adversely affect the Group's Position

The Group's capital base is critical to the management of its businesses and access to funding. Prudential regulators of the Group include, but are not limited to, APRA, the RBNZ and various regulators in the U.S., the United Kingdom and the countries in the Asia Pacific region. The Group is required by its primary regulator, APRA, and the RBNZ (for the ANZ New Zealand Group) to maintain adequate regulatory capital.

Under current regulatory requirements, risk-weighted assets and expected loan losses increase as counterparty's risk grade worsens. These regulatory capital requirements are likely to compound the impact of any reduction in capital resulting from lower profits in times of stress. As a result, greater volatility in capital ratios may arise and may require the Group to raise additional capital. There can be no certainty that any additional capital required would be available or could be raised on reasonable terms.

The Group's capital ratios may be affected by a number of factors, such as (i) lower earnings (including lower dividends from its deconsolidated subsidiaries such as those in the insurance business as well as from its investment in associates), (ii) increased asset growth, (iii) changes in the value of the Australian dollar against other currencies in which the Group operates (particularly the New Zealand dollar and U.S. dollar) that impact risk weighted assets or the foreign currency translation reserve, (iv) changes in business strategy (including acquisitions, divestments and investments or an increase in capital intensive businesses), and (v) changes in regulatory requirements.

APRA and the RBNZ have implemented prudential standards to accommodate Basel 3. Certain other regulators have either implemented or are in the process of implementing regulations, including Basel 3, that seek to strengthen, among other things, the liquidity and capital requirements of banks, funds management entities and insurance entities, though there can be no assurance that these regulations have had or will have their intended effect. These regulations, together with risks arising from any regulatory changes (including those arising from APRA's response to the remaining Financial System Inquiry ("**FSI**") recommendations, further changes from APRA's "unquestionably strong" requirements, the requirements of the BCBS, the RBNZ's review of capital requirements and the RBNZ's amendments to ANZ New Zealand's Conditions of Registration in response to the COVID-19 pandemic, to (among other things) not permit ANZ New Zealand to make distributions other than discretionary payments payable to holders of AT1 capital instruments), are described in risk factor "Regulatory changes or a failure to comply with laws, regulations or policies may adversely affect the Group's Position". Any inability of the Group to maintain its regulatory capital may have a material adverse effect on the Group's Position.

12. The Group's credit ratings could change and adversely affect the Group's ability to raise capital and wholesale funding and constrain the volume of new lending, which may adversely affect the Group's Position

The Group's credit ratings have a significant impact on both its access to, and cost of, capital and wholesale funding. They may also be important to customers or counterparties when evaluating the Group's products and services. Credit ratings and rating outlooks may be withdrawn, qualified, revised or suspended by credit rating agencies at any time. The methodologies used by ratings agencies to determine credit ratings and rating outlooks may be revised in response to legal or regulatory changes, market developments or for any other reason.

The Group's credit ratings or rating outlooks could be negatively affected by a change in the credit ratings or rating outlooks of the Commonwealth of Australia or New Zealand, the occurrence of one or more of the other risks identified in this document, a change in ratings methodologies or by other events. As a result, downgrades in the Group's credit ratings or rating outlooks could occur that do not reflect changes in the general economic conditions or the Group's financial condition. In addition, the ratings of individual securities (including, but not limited to, certain Tier 1 capital and Tier 2 capital securities and covered bonds) issued by the Group (and other banks globally) could be impacted from time to time by changes in the regulatory requirements for those instruments as well as the ratings methodologies used by rating agencies.

In light of the COVID-19 pandemic, Fitch Ratings ("**Fitch**") and S&P Global Ratings ("**S&P**") have revised the Group's ratings and/or outlook as described below.

On April 8, 2020, ANZBGL confirmed that Fitch changed its ratings of the Australian major banks and their New Zealand bank subsidiaries, including the Group, resulting in the Group's Long-Term Issuer Default Rating ("**IDR**") decreasing one-notch to A+ from AA-. The Outlook on the Group's Long-Term IDR remains Negative. The Group's Short-Term IDR was also downgraded to F1 from F1+. The Group's subordinated debt was also downgraded to A-.

On April 9, 2020, ANZBGL confirmed that S&P revised the outlook on the long-term issuer credit rating for the Commonwealth of Australia to negative from stable. As a result of the sovereign action, S&P has also revised the credit rating outlook of the Australian major banks and their New Zealand bank subsidiaries, including the Group, to negative from stable. S&P reaffirmed the Group's 'AA-' long-term and 'A-1+' short term issuer credit ratings. S&P also reaffirmed all the ratings on debt issued by the Group, including senior and subordinated debt and hybrid Tier 1 capital instruments.

Any future downgrade or potential downgrade to the Group's credit ratings or rating outlooks may reduce access to capital and wholesale debt markets and could lead to an increase in funding costs, which could constrain the volume of new lending and affect the willingness of counterparties to transact with the Group which may adversely affect the Group's Position.

Credit ratings are not a recommendation by the relevant rating agency to invest in securities offered by the Group.

13. Liquidity and funding risk events may adversely affect the Group's Position

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. Liquidity and funding risk is inherent in all banking operations due to the timing mismatch between cash inflows and cash outflows.

Reduced liquidity could lead to an increase in the cost of the Group's borrowings and constrain the volume of new lending which may adversely affect the Group's Position.

Deterioration and volatility in market conditions, including as experienced in March and April 2020 as COVID-19 began to unfold globally and otherwise as a result of COVID-19, and/or declines in investor confidence in the Group may materially impact the Group's ability to replace maturing liabilities and access funding (in a timely and cost effective manner), which may adversely impact the Group's Position.

The Group raises funding from a variety of sources, including customer deposits and wholesale funding in domestic and in offshore markets to meet its funding requirements and to maintain or grow its business generally. Developments in major markets can adversely affect liquidity in global capital markets. For example, in times of liquidity stress, if there is damage to market confidence in the Group or if funding inside or outside of domestic markets is not available or constrained, the Group's ability to access sources of funding and liquidity may be constrained and it will be exposed to liquidity and funding risk.

In response to the economic impacts of COVID-19, major central banks including in Australia and New Zealand have implemented or expanded the use of alternative monetary policy tools including quantitative easing and certain other facilities that directly provide funding to banks in their relevant jurisdiction, including the Group. If these tools were to be withdrawn or significantly reduced unexpectedly the Group may be required to seek alternative funding.

The availability of alternative funding, and the terms on which it may be available, will depend on a variety of factors, including prevailing market conditions and the Group's credit ratings at that time (which are strongly influenced by Australia's and New Zealand's sovereign credit rating). Even if available, the cost of these funding alternatives may be more expensive or on unfavorable terms that may adversely affect the Group's Position.

14. Changes in the valuation of some of the Group's assets and liabilities may adversely affect the Group's earnings and/or equity, and therefore the Group's Position

The Group applies accounting standards that require that various financial instruments, including derivative instruments, assets and liabilities classified as fair value through other comprehensive income, and certain other assets and liabilities (as per Note 17 of the 2020 Financial Report (attached as part of Annex A to this U.S. Disclosure Document)) are measured at fair value with changes in fair value recognized in earnings or equity.

Generally, in order to establish the fair value of these instruments, the Group relies on quoted market prices or, where the market for a financial instrument is not sufficiently active, fair values are based on present value estimates or other valuation techniques that incorporate the impact of factors that would influence the fair value as determined by a market participant. The fair value of these instruments is impacted by changes in market prices or valuation inputs that may have a material adverse effect on the Group's earnings and/or equity.

In addition, the Group may be exposed to a reduction in the value of non-lending related assets as a result of impairments that are recognized in earnings. The Group is required to test the recoverability of goodwill balances and intangible assets with indefinite useful lives or not yet available for use at least annually and other non-lending related assets including premises and equipment, investment in associates, capitalized software and other intangible assets where there are indicators of impairment.

For the purpose of assessing the recoverability of the goodwill balances, the Group uses a multiple of earnings calculation. Changes in the assumptions upon which the calculation is based, together with changes in earnings, may materially impact this assessment, resulting in the potential write-off of a part or all of the goodwill balances.

In respect of other non-lending related assets, in the event that an asset is no longer in use, or that the cash flows generated by the asset do not support the carrying value, impairment charges may be recorded. This, in conjunction with the other potential changes above, could impact the Group's Position.

In making these assessments, the Group considers relevant internal and external information available. This includes assessing the ongoing impact of COVID-19, and related responses of governments, regulators and businesses, on the carrying values of the Group's assets. There is a high degree of uncertainty associated with the duration and impact of COVID-19 which may affect the recoverability of Group assets in future periods.

15. Changes to accounting policies may adversely affect the Group's Position

The accounting policies that the Group applies are fundamental to how it records and reports its financial position and results of operations. Management must exercise judgment in selecting and applying many of these accounting policies so that they not only comply with the applicable accounting standards or interpretations but that they also reflect the most appropriate manner in which to record and report on the Group's financial position and results of operations. However, these accounting policies may be applied inaccurately, resulting in a misstatement of the Group's financial position. In addition, the application of new or revised accounting standards or interpretations may adversely affect the Group's Position.

The impact of new accounting standards effective for the first time in the Group's 2020 fiscal year is outlined in Note 1 of the 2020 Financial Report (attached as part of Annex A to this U.S. Disclosure Document).

In some cases, management must select an accounting policy from two or more alternatives, any of which would comply with the relevant accounting standard or interpretation and be reasonable under the circumstances, yet might result in reporting materially different outcomes than would have been reported under the alternative.

Legal and regulatory risk

16. Regulatory changes or a failure to comply with laws, regulations or policies may adversely affect the Group's Position

The Group's businesses and operations are highly regulated. The Group is subject to a substantial and increasing number of laws, regulations and policies, including industry self-regulation, in the Relevant Jurisdictions in which it carries on business or obtains funding and is supervised by a number of different authorities in each of these jurisdictions. The volume of changes, and resources allocated to the regulation and supervision of financial services groups, such as the Group, and the enforcement of laws against them, has increased substantially in recent years, including in response to community concern regarding the conduct of financial services groups in Australia and New Zealand. As a result, the regulation and supervision of, and enforcement against, financial services groups, including the Group has become increasingly extensive, complex and costly across the Relevant Jurisdictions. Such regulation, supervision and enforcement continue to evolve.

The exact ramifications of COVID-19 on the regulation and supervision of, and enforcement against, financial services groups such as the Group remain highly uncertain and, as of the date of this document, difficult to predict. There have been actual and proposed delays to the implementation of regulatory reforms in Australia and New Zealand and a re-ranking of priorities, including enforcement priorities. Governments worldwide have imposed wide ranging restrictions on, suspensions of, or advice against, travel, events, and meetings and many other normal activities and undertaken substantial and costly interventions to stabilize sovereign nations and financial markets. Governments already have and may continue to implement and introduce further measures to contain the pandemic.

The ongoing COVID-19 pandemic also has the potential to complicate the Group's dealings with its regulators in a number of ways. In particular, disruptions to the Group's business, operations, third party contractors and suppliers resulting from the COVID-19 outbreak may increase the risk that the Group will not be able to satisfy its regulatory obligations or processes and/or address outstanding issues, potentially increasing the prospect of a regulator taking adverse action against the Group. Although there is continuing engagement with regulators with respect to banking industry wide loan repayment deferrals and assistance to customers to get back to making their repayments, the Group remains susceptible to regulatory action where it fails to satisfy its regulatory obligations.

In Australia:

Prudential Developments

Developments in prudential regulation continue to impact the Group in a material way. Given the number of items that are currently open for consultation with APRA and the RBNZ, the potential impacts on the Group remain uncertain. Further changes to APRA's or the RBNZ's prudential standards could increase the level of regulatory capital that the Group is required to maintain, restrict the Group's flexibility, require it to incur substantial costs and/or impact the profitability of one or more business lines any of which may adversely affect the Group's Position. Particular points include:

- APRA is impacted by the evolving situation surrounding COVID-19. Certain engagements are being cancelled, deferred or restructured to limit direct contact. APRA has limited members of its supervision team from attending its office. Primary areas of interest include the impact on funding and liquidity, markets, operational resilience and payments.
- In October 2019, APRA released a discussion paper on draft revisions to the prudential standard APS111 "Capital Adequacy: Measurement of Capital" ("APS111") for consultation. The most material change from APRA's proposal is in relation to the treatment of capital investments for each banking and insurance subsidiary at Level 1, with the tangible component of the investment changing from a 400% risk weighting to:
    - 250% risk weighting up to an amount equal to 10% of ANZBGL's net Level 1 CET1 capital; and
    - the remainder of the investment will be treated as a CET1 capital deduction.

  ANZBGL continues to review the implications for its current investments. The net impact on the Group is unclear and will depend upon a number of factors including the capitalization of the affected subsidiaries at the time of implementation, the final form of the prudential standard, as well as the effect of management actions being pursued that have the potential to materially offset the impact of these proposals. Based on ANZBGL's current investment as at September 30, 2020 in its affected subsidiaries and in the absence of any offsetting management actions, the above proposals imply a reduction in ANZBGL's Level 1 CET1 capital ratio of up to approximately A$2.5 billion (approximately 70 basis points). There would be no impact on the Group's Level 2 CET1 capital ratio arising from these proposed changes. The proposed implementation date of January 1, 2021 for these changes is currently under review by APRA and is expected to be delayed to January 1, 2022.

- In August 2019, APRA announced that it will amend APS222 "Associations with Related Entities" to reduce the limits for Australian ADIs' individual entity exposure to related ADIs (or overseas equivalents) from 50% of Level 1 total capital to 25% of Level 1 Tier 1 capital, and aggregate exposures from 150% of Level 1 total capital to 75% of Level 1 Tier 1 capital. As exposures are measured net of capital deductions, the proposed changes to APRA's capital regulations (contained in APS111) will affect the measurement of ADI exposures. The implementation date for these changes has been deferred by APRA to January 1, 2022 (12 month deferral from initial implementation date of January 1, 2021).
- In July 2019, APRA announced its decision on loss-absorbing capacity pursuant to which it will require Australian domestic systemically important banks ("D- SIBs"), including ANZBGL, to increase their total capital by 3% of risk-weighted assets by January 2024. Based on the Group's capital position as at September 30, 2020, this represents an incremental increase in the total capital requirement of approximately A$7.5 billion, with an equivalent decrease in other senior funding. APRA has stated that it anticipates that D-SIBs would satisfy the requirement predominantly with Additional Tier 2 capital. APRA is considering, over the next four years, feasible alternative methods for raising an additional 1% to 2% of risk weighted assets.
- Implementation of APRA's revisions to the capital framework for ADIs, resulting from the BCBS Basel 3 capital reforms and the recommendations of the FSI, will continue over the coming years. However in response to the challenging economic environment resulting from disruption caused by COVID-19, APRA announced a temporary change to its expectations with regards to ADIs maintaining bank capital ratios at the "unquestionably strong" benchmark of 10.5% for CET1. APRA advised all banks that during this period of disruption resulting from the COVID-19 pandemic, APRA would not be concerned if banks are not meeting this benchmark as the current large buffers may be needed to facilitate ongoing lending to the Australian economy, provided that they continue to meet their other minimum capital requirements.
- Additionally, as further support for ADIs in dedicating time and resources to maintain their operations and support customers, APRA has also deferred its scheduled implementation of changes to ADIs risk-weighting framework and other capital requirements (capital reforms) by one year. The majority of the capital reforms were initially due for implementation on January 1, 2022, but these have now been revised to January 1, 2023. APRA has announced that it does not expect that the changes to the risk weights, when implemented, will necessitate further increases in capital for ADIs, although this could vary by ADI depending on the final requirements. On August 10, 2020, APRA announced it will recommence public consultations on select policy reforms (including ADI capital reforms incorporating APRA's unquestionably strong framework, Basel III and measures to improve transparency, comparability and flexibility) and begin a phased resumption of the issuing of new licenses.
- As a result of the COVID-19 disruption, on April 7, 2020, APRA wrote to ADIs and indicated that during the period of the disruption (and at least in the next two months from the date of the guidance), APRA expects ADIs to seriously consider deferring decisions on the appropriate level of dividends until the outlook is clearer. In line with APRA's guidance, ANZBGL's Board of Directors deferred its decision on the 2020 interim dividend until there is greater clarity regarding the economic impact of COVID-19. In July 2020, APRA provided an update which replaces the above guidance from April 2020. In the updated guidance, APRA acknowledged that the uncertainty in the economic outlook has reduced somewhat since April 2020 and APRA had the opportunity to review ADIs' financial projections and stress testing results. Taking these and other developments since April 2020 into account, APRA advised ADIs to maintain caution in planning capital distributions, including dividend payments and that for the remainder of the calendar year, the ADIs' Board should:
  - seek to retain at least half of their earnings when making decisions on capital distributions (and utilize dividend reinvestment plans and other initiatives to offset the diminution in capital from capital distributions where possible);
  - conduct regular stress testing to inform decision-making and demonstrate ongoing lending capacity; and
  - make use of capital buffers to absorb the impacts of stress, and continue to lend to support households and businesses.
- The Group's 2020 interim dividend of 25 cents per share (paid to shareholders on September 30, 2020) and proposed 2020 final dividend of 35 cents per share (announced by the Group on October 29, 2020) took into account the updated regulatory guidance above.
- In March 2020, APRA confirmed that loans that have been granted repayment deferrals, as part of COVID-19 support measures, would not be treated as restructured for regulatory capital treatment purposes, to the extent that the borrower has otherwise been meeting their repayment obligations. The above treatment was announced for an initial period of up to 6 months, but in July 2020, APRA has advised the extension of this approach to cover a maximum period of the earlier of 10 months from the start of a repayment deferral and March 31, 2021.
- The RBNZ has completed a comprehensive review of the capital adequacy framework for registered banks in New Zealand, and released its final decisions on key components of the capital review in December 2019. The net impact on the Group is an increase in CET1 capital of approximately A$2.1 billion over the seven year transition period. The RBNZ has delayed the commencement date of the increased capital requirements to July 1, 2022 in response to the uncertainties from the COVID-19 pandemic (with further delays possible). The net impact will be reduced by approximately A$0.5 billion upon conversion of the NZ$500 million Capital Notes into new Group ordinary shares scheduled to occur in May 2022.
- With effect from April 2, 2020, the RBNZ amended ANZ New Zealand's Conditions of Registration to (among other things) not permit ANZ New Zealand to make distributions other than discretionary payments payable to holders of AT1 capital instruments. This restriction applies to all New Zealand-incorporated registered banks, and is intended to support the stability of the financial system during the COVID-19 pandemic. The RBNZ also informed ANZ New Zealand, and other New Zealand-incorporated registered banks, that they should not redeem capital instruments at this time. Accordingly ANZ New Zealand was not permitted to redeem its Capital Notes in May 2020, although ANZ New Zealand can continue making interest payments on those Capital Notes (subject to certain conditions). Further, ANZ New Zealand announced that it would not exercise its option to convert the Capital Notes in May 2020. The terms of the Capital Notes provide for their conversion into a variable number of ANZBGL ordinary shares in May 2022 (subject to certain conditions). Conversion would result in an increase in the Group's CET1 capital (approximately 10 basis points) at Level 2.

Recalibration of ASIC's Regulatory Priorities

ASIC announced on March 23, 2020 that it will focus its regulatory efforts on challenges created by COVID-19. Since then, ASIC has afforded priority to matters where there is the risk of significant consumer harm, serious breaches of the law, risks to market integrity and time-critical matters. This included a focus on loan deferral programs and customers dealing with hardship. ASIC immediately suspended a number of near-term activities which are not time-critical. These included consultation, regulatory reports and reviews including ASIC's close and continuous monitoring program. In April 2020, ASIC announced further details of changes to its regulatory work and priorities in light of COVID-19, including that it has stepped up markets supervision work and that enforcement action will continue. However, ASIC stated that there may be changes to the timing and process of investigations it is conducting to take in account the impact of COVID-19. In May 2020, ASIC announced that it would defer the commencement date of the mortgage broker best interest duty and remuneration reforms and the design and distribution obligations by six months to January 1, 2021 and October 5, 2021 respectively. In August 2020, ASIC released its Corporate Plan for 2020 through 2024 which outlines actions ASIC are taking to address the impact of the COVID-19 pandemic as well as longer term threats and harms in the regulatory environment. A key stated consideration of ASIC is to support the long term recovery of the Australian economy. Strategic priorities responding to the COVID-19 pandemic include: (i) protecting consumers from harm at a time of heightened vulnerability; (ii) maintaining financial system resilience and stability; (iii) supporting Australian businesses to respond to the effects of the COVID-19 pandemic; (iv) continuing to identify, disrupt and take enforcement action against the most harmful conduct; and (v) continuing to build ASIC organizational capacity in challenging times.

Royal Commission

The Royal Commission made 76 recommendations concerning law reform, self-regulatory standards and the operations of ASIC and APRA, some of which have already been implemented. The Australian Government Treasury stated that most of the remaining recommendations are proposed to be implemented between 2020 and 2022, subject to certain six-month deferrals announced by the Treasury on May 8, 2020. In addition, the Royal Commission has led or may lead to regulators commencing investigations into various financial services entities, including the Group. The recommendations could result in additional costs and may lead to further exposures, including exposures associated with further regulator activity or potential customer exposures such as class actions, individual claims or customer remediation or compensation activities. The recommendations may also lead to adjustments in the competitive environment of the Group. The outcomes and total costs associated with these possible exposures and changes remain uncertain and their impact may adversely affect the Group's Position.

Competition Laws, Regulations and Inquiries

There is a strong focus on the regulation of competition in the financial services sector. In October 2019, the Australian Government directed the ACCC to immediately commence an inquiry into home loan pricing of the major Australian banks, which includes the Group. The ACCC released its interim report with respect to the inquiry on April 27, 2020 and reviewed factors influencing interest rate setting decisions and the pricing of mortgages, however the interim report did not contain recommendations. The final report is expected to examine the impediments consumers face when switching lenders and will provide recommendations focused on driving further competition in the home loan market. In light of the COVID-19 pandemic, the timeframe of the inquiry's final report has been extended to November 30, 2020. In July 2019, the ACCC released its final report of its Digital Platforms Inquiry. This report recommended reforms to privacy and certain consumer protections. The Australian Government in December 2019 committed to adopting the key recommendations from the inquiry, with reforms that will focus on promoting competition and enhancing consumer protections. A final report from the ACCC on customer loyalty schemes was released in December 2019. Legislative, regulatory or supervisory changes in response to each of these reports could adversely affect the Group's Position.

Product Laws, Regulations and Inquiries

There remains a strong focus on the suitability of products offered by financial services providers, including the Group. Regulatory policy development and monitoring of responsible consumer lending has increased significantly, and continues to drive the review of, and changes to, business practices. If any additional changes in law, regulation or policy are implemented, as a result of the development and monitoring of responsible consumer lending, such changes may impact the manner in which the Group provides consumer lending services in the future that may in some respects adversely affect the Group's operations in this area and consequently, the Group's Position. ASIC published updated regulatory guidance on responsible lending laws in December 2019. In September 2020, the Government announced proposed changes to Australia's credit framework, including changes to the responsible lending obligations for ADIs, where APRA will continue to regulate ADIs in relation to existing standards, while ASIC will regulate non ADIs in relation to new standards. Stricter anti-hawking laws are proposed in relation to financial products and a deferred sales model for add on insurance. The design and distribution obligation legislation will introduce requirements on product issuers and distributors to, among other things, identify appropriate target markets for financial and credit products and distribute those products so that they likely reach the relevant target market. There are significant penalties for non-compliance and such legislation could impact the Group's ability to issue and market financial products in the future. Increased compliance costs resulting from financial product distribution requirements may adversely impact the Group's Position.

Increasing Regulatory Powers, Corporate Penalties and Funding for Regulators

There are increased penalties for breaches of laws in Australia, as well as increased powers to regulators and funding for regulators to prosecute breaches. Increasing regulatory powers include ASIC's product intervention power and proposed expansions of ASIC directions powers and breach reporting laws. The Australian Consumer Law was amended to increase penalties for breaches of consumer law from September 2018. The increased penalties relate to unconscionable conduct, false or misleading representations about goods or services, unfair practices, the safety of consumer goods and product-related services and information standards. The Australian Government announced in March 2019 that ASIC would be provided with more than A$400 million and APRA with more than A$150 million in additional funding to support enforcement, regulation and supervision. The Treasury Laws Amendment (Strengthening Corporate and Financial Sector Penalties) Act 2019 significantly increased the sanctions applicable to the contravention of a range of corporate and financial sector obligations. The imposition of such penalties on the Group may adversely affect the Group's Position.

Senior Executive Accountability Laws and Regulations

There are increasing penalties and specialized rules applicable to senior executives in the banking sector. The Banking Executive Accountability Regime ("BEAR") was introduced as a new responsibility and accountability framework for the directors and most senior executives in ADI groups. The Australian Government announced in January 2020 that BEAR will be replaced by FAR, which proposes to extend the regime to other APRA-regulated entities. FAR would be jointly administered by APRA and ASIC and could impose larger civil penalties for any breaches, including for individuals. Potential risks to the Group from the BEAR legislation and FAR include the risk of penalties and the risk to the Group's ability to attract and retain high-quality directors and senior executives.

Other Government or regulatory interventions in the financial sector

There remain ongoing Australian Government and regulator led inquiries and interventions into Australia's banks. These inquiries are wide ranging and could lead to legislative or regulatory changes or measures that may adversely affect the Group's Position, including through taxes and levies. Scrutiny of banks also increased substantially following the commencement by the AUSTRAC of civil penalty proceedings in 2017 and 2019 against two major Australian banks relating to alleged past and ongoing contraventions of the Anti- Money Laundering and Counter-Terrorism Financing Act 2006 (Commonwealth). See also "18. Significant fines and sanctions in the event of breaches of law or regulation relating to anti-money laundering, counter-terrorism financing and sanctions may adversely affect the Group's Position" below.

Industry self-regulation

There is continued focus on industry best practice guidance and standards impacting retail and small business banking. Changes to self-regulatory instruments, including industry codes and practice guidelines, is requiring considerable Group resources to implement and monitor compliance. A new Australian Banking Code came into effect from July 2019, with further changes to certain retail and small business products and processes introduced in March 2020. Industry guidance on working with vulnerable customers is also evolving. Such changes may impact the products that the Group is able to offer to its customers and the operational costs associated with delivery, which may adversely impact the Group's Position. Draft legislation implementing key recommendations of the Financial Services Royal Commission includes legislation under which certain industry code provisions (including the Banking Code of Practice) can be deemed as 'enforceable code provisions', the breach of which would attract civil penalties.

Open Banking Laws

Open Banking is part of a new consumer data right in Australia that was made law in August 2019. The consumer data right it establishes seeks to improve consumers' ability to compare and switch between products and services. From July 1, 2020, individual customers can request their bank share their data for deposit and transaction accounts and credit and debit cards. Additional data availability is scheduled over the coming months. It is expected to reduce the barriers to new entrants into the banking industry in Australia. Open Banking may lead to increased competition that may adversely affect the Group's Position.

<u>Outside of Australia:</u>

New Zealand Developments

The New Zealand Government and regulatory authorities have proposed significant legislative and regulatory changes for New Zealand financial institutions. These changes include, among other things: the RBNZ's reform of capital requirements, the RBNZ's BS11, ANZ New Zealand's revised conditions of registration, the enactment of the FSLAA and replacement of the Financial Advisers Act 2008, proposed conduct regulations for financial institutions under the FMCIA Bill, the review and proposed replacement of the Reserve Bank of New Zealand Act 1989 and the enactment of the CCLA Act. Such changes may adversely affect the ANZ New Zealand Group, potentially impacting its corporate structures, businesses, strategies, capital, liquidity, funding and profitability, cost structures, and the cost and access to credit for its customers and the wider economy. This in turn may adversely affect the Group's Position. In response to COVID-19, the RBNZ deferred external-facing work on most of its regulatory initiatives, and delayed the start date for the increased capital requirements for New Zealand banks to July 1, 2022 (with further delays possible). The RBNZ has also extended the transition period for BS11 to October 1, 2023, and there have been delays to the commencement of the CCLA Act and the FSLAA.

Other Offshore Developments

Other offshore regulatory developments include changes to financial regulations in the United States (including legislative changes to the Dodd-Frank Act and revision to its Volcker Rule), changes to senior executive accountability in Singapore, Hong Kong, and the United Kingdom, changes to English and European law in connection with Brexit, introduction of greater data protection regulations in Europe, implementation of further phases of the initial margin requirements for uncleared OTC derivatives in a number of the Relevant Jurisdictions and the requirement that banks prepare for the reform of the Euro Interbank Offered Rate and the Singapore inter-bank offered rate ("SIBOR"), and the discontinuation of LIBOR and other such interbank offered rates by transitioning to risk free rates.

A failure by the Group to comply with laws, regulations or policies in any of the Relevant Jurisdictions could result in regulatory investigations, legal or regulatory sanctions, financial or reputational loss, litigation, fines, penalties, restrictions on the Group's ability to do business, revocation, suspension or variation of conditions of relevant regulatory licenses or other enforcement or administrative action or agreements (such as enforceable undertakings) that may adversely affect the Group's Position.

The impact of the COVID-19 pandemic on the Group's operations may result in delays to the implementation of regulatory changes or steps required to address commitments made to regulators or publicly. Any delays will be dependent on how regulators choose to adjust the prioritization, timing and deployment of their supervisory mandate or legislative change.

Such failures may also result in the Group being exposed to the risk of litigation brought by third parties (including through class action proceedings). The outcome of any litigation (including class action proceedings) may result in the payment of compensation to third parties and/or further remediation activities. For information in relation to the Group's litigation and contingent liabilities, see risk factor "Litigation and contingent liabilities may adversely affect the Group's Position" and Note 33 of the 2020 Financial Report (attached as part of Annex A to this U.S. Disclosure Document).

17. Litigation and contingent liabilities may adversely affect the Group's Position

From time to time, the Group may be subject to material litigation, regulatory actions, legal or arbitration proceedings and other contingent liabilities that may adversely affect the Group's Position.

The Group had contingent liabilities as at September 30, 2020 in respect of the matters outlined in Note 33 of the 2020 Financial Report (attached as part of Annex A to this U.S. Disclosure Document).

Note 33 includes, among other things, descriptions of:

- regulatory and customer exposures;
- benchmark/rate actions;
- capital raising actions;
- consumer credit insurance litigation;

- Esanda dealer car loan litigation;
- the Royal Commission;
- security recovery actions; and
- warranties and indemnities.

In recent years there has been an increase in the number of matters on which the Group engages with its regulators. There have also been significant increases in the nature and scale of regulatory investigations, surveillance and reviews, civil and criminal enforcement actions (whether by court action or otherwise), formal and informal inquiries, regulatory supervisory activities and the quantum of fines issued by regulators, particularly against financial institutions both in Australia and globally. The Group has received various notices and requests for information from its regulators as part of both industry-wide and Group-specific reviews and has also made disclosures to its regulators at its own instigation. The nature of these interactions can be wide ranging and, for example, currently include a range of matters including responsible lending practices, regulated lending requirements, product suitability and distribution, interest and fees and the entitlement to charge them, customer remediation, wealth advice, insurance distribution, pricing, competition, conduct in financial markets and financial transactions, capital market transactions, anti-money laundering and counter-terrorism financing obligations, reporting and disclosure obligations and product disclosure documentation. There may be exposures to customers which are additional to any regulatory exposures. These could include class actions, individual claims or customer remediation or compensation activities. The outcomes and total costs associated with such reviews and possible exposures remain uncertain.

There is a risk that contingent liabilities may be larger than anticipated or that additional litigation, regulatory actions, legal or arbitration proceedings or other contingent liabilities may arise.

18. Significant fines and sanctions in the event of breaches of law or regulation relating to anti-money laundering, counter-terrorism financing and sanctions may adversely affect the Group's Position

Anti-money laundering ("**AML**"), counter-terrorism financing ("**CTF**") and sanctions compliance have been the subject of significant regulatory change and enforcement in recent years. The increasingly complicated environment in which the Group operates has heightened these operational and compliance risks. Furthermore, the increased transparency of the outcomes of compliance breaches by financial institutions both domestically and globally and the related fines and settlement sums mean that these risks continue to be an area of focus for the Group.

In recent years, there has been an increase in action taken by key AML/CTF regulators against "reporting entities" (in Australia, a "reporting entity" constitutes a legal entity that provides at least one "designate service" to a customer, such as opening a bank account or providing a loan). AUSTRAC continues to publically communicate its view that many reporting entities in Australia have underinvested in systems and controls required to identify, mitigate and manage their AML/CTF risks.

In late 2019, AUSTRAC commenced civil penalty proceedings against a major Australian bank relating to alleged past reporting contraventions of the Australian Anti-Money Laundering and Counter-Terrorism Financing Act 2006. This matter is nearing legal completion with agreed outcomes published and has resulted in the largest financial penalty to a financial institution in Australia's history (A$1.3 billion, almost twice the amount of the previous largest AUSTRAC financial penalty) confirming AUSTRAC's continued efforts to penalize significant non-compliance with the AML/CTF regime. Additionally, since 2018 AUSTRAC has had the power to issue infringement notices pursuant to which it can impose significant penalties. It has used this approach twice issuing infringement notices to reporting entities despite the number of breaches in each case being relatively small (less than 100). Further, AUSTRAC and other regulators have exhibited a willingness to promptly exercise their enforcement powers by instituting civil penalty proceedings.

Similarly, the RBNZ has stated that its appetite for taking formal enforcement action for breaches of the New Zealand Anti-Money Laundering and Countering Financing of Terrorism Act 2009 has increased, and the propensity for other regulators (including in Asia and the Pacific) to take action for non-compliance with their local AML/CTF laws has increased.

While the COVID-19 pandemic continues to evolve at different paces in many of the jurisdictions in which the Group operates, close monitoring of the levels and types of financial crimes continues across the Group. To date, the most notable impact has been the changing types of scams with criminals targeting vulnerable customers using COVID-19 as a cover, as well as identity theft and false applications for Government support. There is a continuing risk that the management of alerts for potential money laundering or terrorism financing activities may be slowed due to both resource availability and/or changed working arrangements. This, and possible challenges in accessing customers for information and identification, may warrant discussion with the regulators within the different jurisdictions within which the Group operates, to garner their support for temporary changes to rules or guidance. It is not expected that this will increase the risk of fines or penalties, however the Group will need to ensure adequate arrangements to remain compliant with AML/CTF laws.

The risk of non-compliance with AML/CTF and sanction laws remains high given the scale and complexity of the Group and the lack of clarity around some mandatory reporting requirements. Emerging technologies, such as virtual currency issuers/exchangers and wallet providers as well as increasingly complex remittance arrangements via fintechs and other disruptors, may limit the Group's ability to track the movement of funds, develop relevant transaction monitoring, and meet reporting obligations. Additionally, the complexity of the Group's technology, and the increasing frequency of changes to systems that play a role in AML/CTF and sanctions compliance puts the Group at risk of inadvertently failing to identify an impact on the systems and controls in place. A failure to operate a robust program to report the movement of funds, combat money laundering, terrorism financing, and other serious crimes may have serious financial, legal and reputational consequences for the Group and its employees.

Consequences can include fines, criminal and civil penalties, civil claims, reputational harm and limitations on doing business in certain jurisdictions. These consequences, individually or collectively may adversely affect the Group's Position. The Group's foreign operations may place the Group under increased scrutiny by regulatory authorities, and subject the Group to increased compliance costs.

19. Changes in monetary policies may adversely affect the Group's Position

Central monetary authorities (including the RBA, the RBNZ, the United States Federal Reserve, the Bank of England and the monetary authorities in the Asian jurisdictions in which the Group operates) set official interest rates or take other measures to affect the demand for money and credit in their relevant jurisdictions. In addition, in some jurisdictions, currency policy is also used to influence general business conditions and the demand for money and credit. These measures and policies can significantly affect the Group's cost of funds for lending and investing and the return that the Group will earn on those loans and investments. These factors impact the Group's net interest margin and can affect the value of financial instruments it holds, such as debt securities and hedging instruments. The measures and policies of the central monetary authorities can also affect the Group's borrowers, potentially increasing the risk that they may fail to repay loans.

Many central monetary authorities have actively reduced official interest rates in jurisdictions in which the Group operates and are currently considering, implementing or expanding the use of unconventional monetary policies. Central banks worldwide, including the RBA, the U.S. Federal Reserve and the RBNZ cut interest rates during 2019 in response to slowing economic growth and again in 2020 in response to emerging risks to growth from COVID-19. On November 3, 2020, the RBA cut the cash rate to the Australian historic low rate of 0.1%, in response to the ongoing effect of the COVID-19 outbreak on the Australian economy. The RBNZ also cut the New Zealand official cash rate to a record low of 0.25% in March 2020. The RBNZ has stated they will hold the official cash rate at that level until at least March 2021 and negative interest rates remain a possibility in the future. Low or negative interest rates would likely put pressure on the Group's interest margins and adversely affect the Group's Position.

Changes in interest rates and monetary policy are difficult to predict and may adversely affect the Group's Position.

20. Increasing compliance costs, the risk of heightened penalties and ongoing regulatory scrutiny with respect to the significant obligations imposed by global tax reporting regimes (which are still evolving) may adversely affect the Group's Position

There have been mandatory and substantial changes to, and increasing regulatory focus on, compliance by all global Financial Institutions ("FIs"), including the Group, with global tax transparency reporting regimes, including the FATCA, the OECD's Common Reporting Standard ("CRS") and similar anti-tax avoidance regimes. This includes enforcement and implementation of detailed global tax reporting rules and frameworks to close down global tax reporting regime circumventions and deter, detect and penalize non-compliance.

As an FI, the Group operates in a high volume and globally interlinked operating environment. In this context, the highly complex and rigid nature of the obligations under the various global tax reporting regimes present heightened operational and compliance risks for the Group. This may be coupled with the current increased regulatory scrutiny of FIs (including the Group), the increasing trend in compliance breaches by FIs and related fines for non-compliance in general. Accordingly, compliance with global tax reporting regimes will continue to be a key area of focus for the Group.

Increasing OECD Government level peer reviews and other regulatory financial institution compliance review requirements are increasing scrutiny on financial institutions, resulting in further tightening of existing obligations and focus on CRS compliance. Each country of adoption is being pushed to ensure its penalty regime is sufficient to deter and penalize non-compliance.

Under FATCA and other U.S. Treasury Regulations, the Group could be subject to:

- a 30% withholding tax on certain amounts (including amounts payable to customers), and be required to provide certain information to upstream payers, as well as other adverse consequences, if the ongoing detailed obligations are not adequately met; and
- broader compliance issues, significant withholding exposure, competitive disadvantage and other operational impacts if the FATCA Intergovernmental Agreements between the United States and the applicable jurisdictions in which the Group operates cease to be in effect.

Under the CRS, the Group:

- faces challenges in developing countries where the Group has operations, such as the Pacific region. The local regulators in these countries are generally assisted by a 'partner' country which may introduce standards that can be challenging to implement;
- must deal with considerable country specific variations in local law and regulatory implementation, with significant local regulatory penalties for non-collection or failed reporting in respect of prescribed customer information; and
- along with other FIs, is under increasingly stringent regulatory scrutiny and measures as regulators turn their focus from the initial establishment of the CRS to its effective implementation. This tightening of the regulatory focus can lead to significant negative experience for affected customers (including unilateral account blocking and closure), may adversely affect the Group's Position and if not similarly implemented by other FIs, may present a significant competitive disadvantage.

The scale and complexity of the Group, like other FIs, means that the risk of inadvertent non-compliance with the FATCA, CRS and other tax reporting regimes is high. A failure to successfully operate the implemented processes could lead to legal, financial and reputational consequences for the Group and its employees. Consequences include fines, criminal and civil penalties, civil claims, reputational harm, competitive disadvantage, loss of business and constraints on doing business.

On a global scale, COVID-19 challenges have resulted in limited staff access to systems, tools and information, and have impacted on the delivery of regulatory obligations to requisite timeframes, including mandatory FATCA and CRS regulatory reporting, customer follow-up strategies, resolution and action of regulatory recommendations, as well as continuous improvement activities (required to achieve the zero rate of error expected by regulators. The Group's global taxation obligations in relation to the enterprise's own tax lodgments and payments may similarly be impacted. While some level of leniency from global regulators is anticipated, there is an increasing risk of additional regulatory scrutiny, associated penalties and reputational ramifications resulting from any deficiencies or delays in meeting regulatory obligations to the level of quality and within the timeframes required.

These consequences, individually or collectively, may adversely affect the Group's Position.

21. Unexpected changes to the Group's license to operate in any jurisdiction may adversely affect the Group's Position

The Group is licensed to operate in various countries, states and territories. Unexpected changes in the conditions of the licenses to operate by governments, administrations or regulatory agencies that prohibit or restrict the Group from trading in a manner that was previously permitted may adversely impact the Group's Position.

Internal control, operations and reputational risk

22. Operational risk events may adversely affect the Group's Position

Operational risk is the risk of loss and/or non-compliance with laws resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, and the risk of reputational loss or damage arising from inadequate or failed internal processes, people, and/or systems, but excludes strategic risk.

Operational risk events include:

- internal fraud (for example, involving employees or contractors);
- external fraud (for example, fraudulent loan applications or ATM skimming);
- employment practices, loss of key staff, inadequate workplace safety and failure to effectively implement employment policies;
- impacts on clients, products and business practices (for example, misuse of customer data or anti-competitive behavior);
- business disruption (including systems failures);
- damage to physical assets; and
- execution, delivery and process management (for example, processing errors or data management failures).

Loss from operational risk events may adversely affect the Group's Position. Such losses can include fines, penalties, loss or theft of funds or assets, legal costs, customer compensation, loss of shareholder value, reputation loss, loss of life or injury to people, and loss of property and/or information.

On a global scale, COVID-19 challenges have resulted in a number of changes in terms of how the Group is undertaking its operations. For the majority of the organization the Group's focus was to enable a work from home capability to allow all functions to continue to operate normally. However, no assurance can be given that the steps being taken will be adequate, nor can the Group predict the level of disruption which may occur. The decision to move the majority of staff globally to work from home required some updates to existing systems to support a significantly higher volume of users than had previously been planned. The number of staff working from home continues to vary in line with changing circumstances and associated government restrictions. As at October 29, 2020, excluding branch staff, the Group had approximately 92% of staff working from home.

Other challenges that the Group may face include:

- limited staff access to systems, tools and information, and/or impact on the delivery of customer services and regulatory obligations to requisite timeframes, including the day to day operations of the institution, financial reporting, management and oversight of internal controls, and resolution and action of regulatory recommendations; and
- ensuring ongoing availability of staff to undertake their requisite activities that may result from loss of physical access to branches or offices or due to health related issues.

All or any of the impacts described above may cause a reduction in productivity or delays in completing important activities or increased regulatory scrutiny, which could subsequently result in customer remediation activities, or fines, all of which may adversely affect the Group's Position.

23. Reputational risk events as well as operational failures and regulatory compliance failures may give rise to reputational risk, which may adversely affect the Group's Position

Reputational risk may arise as a result of an external event or the Group's actual or perceived actions and practices, which include operational and regulatory compliance failures. The occurrence of such events may adversely affect perceptions about the Group held by the public (including the Group's customers), shareholders, investors, regulators or rating agencies. The impact of a risk event on the Group's reputation may exceed any direct cost of the risk event itself and may adversely impact the Group's Position.

The Group may incur reputational damage where one of its practices fails to meet community expectations. As these expectations may exceed the standard required in order to comply with applicable law, the Group may incur reputational damage even where it has met its legal obligations. A divergence between community expectations and the Group's practices could arise in a number of ways, including in relation to its product and services disclosure practices, pricing policies and use of data. Further, the Group's reputation may also be adversely affected by community perception of the broader financial services industry.

While the extent of the ongoing impacts of COVID-19 are yet to be fully realized, it is possible there may be unintended consequences from the Group's actions which may give rise to negative perceptions about the Group.

Additionally, certain operational and regulatory compliance failures or perceived failures, may give rise to reputational risk. Such operational and regulatory compliance failures include, but are not limited to:

- failures related to fulfilment of identification obligations;
- failures related to new product development;
- failures related to ongoing product monitoring activities;
- failures related to suitability requirements when products are sold outside of the target market;
- market manipulation or anti-competitive behavior;
- failure to comply with disclosure obligations;
- inappropriate crisis management/response to a crisis event;
- inappropriate handling of customer complaints;
- inappropriate third party arrangements;
- privacy breaches; and
- unexpected risks (e.g. credit, market, operational or compliance).

Damage to the Group's reputation may have wide-ranging impacts, including adverse effects on the Group's profitability, capacity and cost of funding, increased regulatory scrutiny, regulatory enforcement actions, additional legal risks and availability of new business opportunities. The Group's ability to attract and retain customers could also be adversely affected if the Group's reputation is damaged, which may adversely affect the Group's Position.

24. Conduct-related risk events or behaviors may adversely affect the Group's Position

The Group defines conduct-related risk as the risk of loss or damage arising from the failure of the Group, its employees or agents to appropriately consider the interests of consumers, the integrity of the financial markets, and the expectations of the community in conducting the Group's business activities.

Conduct-related risks can result from:

- the provision of unsuitable or inappropriate advice to customers;
- the representation of, or disclosure about, a product or service which is inaccurate, or does not provide adequate information about risks and benefits to customers;
- a failure to deliver product features and benefits in accordance with terms, disclosures, recommendations and/or advice;
- a failure to appropriately avoid or manage conflicts of interest;
- sales and/or promotion processes (including incentives and remuneration for staff engaged in promotion, sales and/or the provision of advice);
- the provision of credit, outside of the Group's policies and standards; and
- trading activities in financial markets, outside of the Group's policies and standards.

There has been an increasing regulatory and community focus on conduct-related risk globally and in particular, in Australia and New Zealand. For example, the Group is currently undertaking a variety of customer remediation programs, of which some relate to conduct issues that have been identified from reviews to date and these reviews remain on-going. Conduct-related risk events may expose the Group to regulatory actions, restrictions or conditions on banking licenses and/or reputational consequences that may adversely affect the Group's Position. Remediation programs may not be implemented appropriately or may lead to further remediation work being required, resulting in litigation, regulatory action and/or increasing cost to the Group, all of which may adversely affect the Group's Position.

The COVID-19 pandemic has led to rapid changes to employees working remotely which may impact employee behavior and / or Group systems and processes, which in turn may result in customer detriment, impact market integrity, or cause the Group to fail to live up to community expectations.

For further discussion of the increasing regulatory focus on conduct-related risk, see risk factor "Regulatory changes or a failure to comply with laws, regulations or policies may adversely affect the Group's Position" and risk factor "Litigation and contingent liabilities may adversely affect the Group's Position".

25. Disruption of information technology systems or failure to successfully implement new technology systems could significantly interrupt the Group's business, which may adversely affect the Group's Position

The Group's day-to-day activities and its service offerings (including digital banking) are highly dependent on information technology ("IT") systems. Therefore, there is a risk that disruption of IT systems, or the services the Group uses or is dependent upon, will result in the Group failing to meet customers' banking requirements and/its compliance obligations.

Threats to IT systems are continuously evolving and cyber threats and the risk of attacks are increasing. The attacks against organizations can range from simple attacks up to state owned attacks, which are generally much more sophisticated. The Group may not be able to anticipate or implement effective measures to prevent or minimize disruptions caused by cyber threats due to the techniques used being highly sophisticated and those perpetuating the attacks being well-resourced.

The Group has an ongoing obligation to maintain its IT systems and to identify, assess and respond to risk exposures caused by the use of technology including IT asset lifecycle, IT asset project delivery, technology resilience, technology security, use of third parties, data retention/restoration or business rules and automation. Inadequate responses to these risk exposures could lead to unstable or insecure systems or a decrease in the Group's ability to service its customers, increased costs, and non-compliance with regulatory requirements, which may adversely affect the Group's Position. As an example, in response to the COVID-19 pandemic, more of the Group's staff and third party contractors are required to work remotely or from alternative work sites, which has put additional stress on the Group's productivity and remote access to systems.

The Group has disaster recovery and business continuity measures in place to ensure that critical IT systems will continue to operate during both short-lived and prolonged disruption events. The COVID-19 pandemic event has highlighted that these arrangements must cater for vast and improbable events, like a global pandemic, and ensure critical information systems can be supported and accessed by a large number of multi-jurisdictional technology and business users for an extended period. If such measures cannot be effectively implemented, then this may adversely affect the Group's Position.

In addition, ANZ New Zealand relies on the Group to provide a number of IT systems. A failure of the Group's systems may affect ANZ New Zealand, which may in turn, adversely affect the Group's Position.

26. Risks associated with information security including cyber-attacks, may adversely affect the Group's Position

The primary focus of information security is to protect information and technology systems from disruptions to confidentiality, integrity or availability. As a bank, the Group handles a considerable amount of personal and confidential information about its customers and its own internal operations, from across multiple geographies that the Group operates. This information is processed and stored on both internal and third party hosted environments. Any failure of security controls operated by the Group or its third parties could adversely affect the Group's business.

The risks to systems and information are inherently higher in certain countries where, for example, political threats or targeted cyber-attacks by terrorist or criminal organizations are greater.

The Group is conscious that cyber threats, such as advanced persistent threats, distributed denial of service, malware and ransomware, are continuously evolving, becoming more sophisticated and increasing in volume. The COVID-19 pandemic has increased the number of staff working offsite for an extended period, which may increase information security risks to the Group. Cyber criminals may attempt to take advantage through pursuing exploits in end point security, spreading malware, and increasing phishing attempts.

Any failure in the Group's cybersecurity policies, procedures or controls, may result in major business or operational disruptions, damage to the Group's technology infrastructure, an inability to deliver customer services, or loss of data or other sensitive information (including as a result of an outage) and may cause associated reputational damage. Any of these events could result in significant financial losses (including costs relating to notification of, or compensation for customers), regulatory investigations or sanctions or may affect the Group's ability to retain and attract customers, and thus may adversely affect the Group's Position.

Environmental, social and governance risks

27. Impact of future climate events, geological events, plant, animal and human diseases, and other extrinsic events may adversely affect the Group's Position

The Group and its customers are exposed to climate-related events. These events include severe storms, drought, fires, cyclones, hurricanes, floods and rising sea levels. The Group and its customers may also be exposed to other events such as geological events (including volcanic seismic activity or tsunamis), plant, animal and human diseases or a pandemic such as COVID-19, which is causing significant impacts on the Group's operations and its customers. The COVID-19 pandemic has resulted in a widespread health crisis that could continue to adversely affect the economies and financial markets of many countries, including Australia and New Zealand, resulting in an economic downturn that could affect the Group and its customers. See risk factor "The COVID-19 pandemic has, and future outbreaks of other communicable diseases or pandemics may, materially and adversely affect the Group's Position" for further details regarding the different impacts from COVID-19.

Depending on their severity, these extrinsic events may continue to interrupt or restrict the provision of some local services such as the Group branch or business centers or Group services, and may also adversely affect the Group's financial condition or collateral position in relation to credit facilities extended to customers, which in turn may adversely affect the Group's Position.

28. The Group's risk management framework may fail to manage all existing risks appropriately or detect new and emerging risks fast enough, which could adversely affect the Group's Position

Risk management is an integral part of all of the Group's activities and includes the identification and monitoring of the Group's risk appetite and reporting on the Group's risk exposure and effectiveness of identified controls. However, there can be no assurance that the Group's risk management framework will be effective in all instances including in respect of existing risks, or new and emerging risks that the Group has not anticipated or identified, and for which its controls may not be effective. Failure to manage risks effectively could adversely impact the Group's reputation or compliance with regulatory obligations.

The effectiveness of the Group's risk management framework is also connected to the establishment and maintenance of a sound risk management culture, which is supported by appropriate remuneration structures. If the remuneration structures are not designed or implemented effectively, then this could have an adverse impact on the Group's risk culture and effectiveness of the Group's risk management frameworks.

The Group seeks to continuously improve its risk management framework. It has implemented, and regularly reviews, its risk management policies and allocates additional resources across the Group to manage and mitigate risks (including conduct risk). However, such efforts may not insulate the Group from future instances of misconduct and no assurance can be given that the Group's risk management framework will be effective. A failure in the Group's risk management processes or governance could result in the Group suffering unexpected losses and reputation damage, and failing to comply with regulatory obligations, which could adversely affect the Group's Position.

While these principles still continue to underpin the Group's risk management framework, the ongoing COVID-19 pandemic requires the Group to continue to maintain good practices and a robust risk management framework as its operational activities continue to evolve to manage the impacts of the pandemic both to its workforce and customers. In these circumstances, a failure in the Group's risk management processes or governance could adversely affect the Group's Position.

29. Risks associated with lending to customers that could be directly or indirectly impacted by climate risk may adversely affect the Group's Position

The risks associated with climate change are subject to increasing regulatory, political and societal focus. Embedding climate change risk into the Group's risk management framework in line with expectations, and adapting the Group's operation and business strategy to address both the risks and opportunities posed by climate change and the transition to a low carbon economy could have a significant impact on the Group.

The Group's most material climate-related risks result from its lending to business and retail customers, including credit-related losses incurred as a result of a customer being unable or unwilling to repay debt, or impacting the value and liquidity of collateral.

The risk to the Group through credit-related issues with the Group's customers could result directly from climate-related events, and indirectly from changes to laws, regulations, or other policies such as carbon pricing and climate risk adaptation or mitigation policies, which may impact the customer's supply chain. This may result in credit-related losses as a result of the customer being unable or unwilling to repay debt, which may adversely affect the Group's Position.

CURRENCY OF PRESENTATION AND EXCHANGE RATES

Currency of presentation

ANZ publishes consolidated financial statements in Australian Dollars. In this U.S. Disclosure Document, unless otherwise stated or the context otherwise requires, references to "US$", "USD" and "U.S. dollars" are to U.S. Dollars and references to "$", "AUD" and "A$" are to Australian Dollars. For the convenience of the reader, this U.S. Disclosure Document contains translations of certain Australian Dollar amounts into U.S. Dollars at specified rates. These translations should not be construed as representations that the Australian Dollar amounts actually represent such U.S. Dollar amounts or could be converted into U.S. Dollars at the rate indicated. Unless otherwise stated, the translations of Australian Dollars into U.S. Dollars have been made at the rate of US$0.7160 = A$1.00, the Noon Buying Rate in New York City for cable transfers in Australian Dollars as certified for customs purposes by the Federal Reserve Bank of New York (the "Noon Buying Rate") on September 30, 2020.

Major Exchange Rates

The major exchange rates used by the Group to translate the results of foreign subsidiaries, branches, investments in associates and issued debt to Australian Dollars were as follows:

	Balance Sheet			Profit & Loss Average		
	As of September 30			Year ended September 30		
	2020	**2019**	**2018**	**2020**	**2019**	**2018**
Chinese Renminbi	**4.8453**	4.8126	4.9679	**4.7462**	4.8360	4.9691
Euro	**0.6061**	0.6175	0.6205	**0.6052**	0.6235	0.6387
Pound Sterling	**0.5539**	0.5491	0.5520	**0.5314**	0.5512	0.5651
Indian Rupee	**52.473**	47.737	52.363	**49.729**	49.651	50.552
Indonesian Rupiah	**10,595**	9,578	10,743	**9,803**	10,071	10,577
Japanese Yen	**75.059**	72.816	81.863	**73.018**	77.343	83.949
Malaysian Ringgit	**2.9593**	2.8277	2.9858	**2.8563**	2.9153	3.0631
New Taiwan Dollar	**20.591**	20.960	22.013	**20.290**	21.803	22.773
New Zealand Dollar	**1.0802**	1.0794	1.0918	**1.0600**	1.0572	1.0882
Papua New Guinean Kina	**2.4858**	2.2971	2.4052	**2.3258**	2.3758	2.4744
United States Dollar	**0.7110**	0.6754	0.7216	**0.6773**	0.7034	0.7599

For the 2020 fiscal year, 33% of ANZ's operating income was derived from the New Zealand and Asia Pacific, Europe & America ("APEA") geographic regions (2019 fiscal year: 35%; 2018 fiscal year: 34%; 2017 fiscal year: 33%; 2016 fiscal year: 35%). Refer to Note 7 of the 2020 Financial Report (attached as part of Annex A to this U.S. Disclosure Document) for a breakdown of total operating income by geographical location.

Operating income from the APEA and New Zealand geographic regions is denominated principally in the currencies outlined in the table below. Movements in foreign currencies against the Australian Dollar can therefore affect ANZ's earnings through the translation of overseas profits to Australian Dollars. Movements in the major exchange rates used by the Group to translate the results of foreign subsidiaries, investments in associates and issued debt to Australian Dollars were as follows:

Australian Dollar movement against foreign currencies[1]

Year ended September 30	2020	2019	2018	2017	2016
Chinese Yuan	-2%	-3%	-4%	8%	-2%
Euro	-3%	-2%	-7%	4%	-3%
Pound Sterling	-4%	-2%	-6%	17%	2%
Indian Rupee	0%	-2%	1%	2%	-1%
Indonesian Rupiah	-3%	-5%	4%	2%	-3%
Japanese Yen	-6%	-8%	-1%	3%	-12%
Malaysian Ringgit	-2%	-5%	-7%	9%	6%
New Taiwan Dollar	-7%	-4%	-3%	-2%	-3%
New Zealand Dollar	0%	-3%	2%	-1%	0%
Papua New Guinean Kina	-2%	-4%	2%	7%	8%
United States Dollar	-4%	-7%	0%	3%	-6%

1. *Movement is based on comparison of the fiscal year average exchange rate to the immediately preceding fiscal year average exchange rate.*

ANZ monitors its exposure to revenues, expenses and invested capital denominated in currencies other than Australian Dollars as these expose the Group to the risk of changes in foreign exchange rates. Variation in the value of these foreign operations arising as a result of exchange differences are reflected in the foreign currency translation reserve in equity. These currency exposures are managed in accordance with established risk management policies.

Where it is considered appropriate, the Group takes out economic hedges against larger foreign exchange denominated revenue streams (primarily New Zealand Dollar, U.S. Dollar and U.S. Dollar correlated). The primary objective of hedging is to ensure that, if practical, the consolidated capital ratios are neutral to the effects of changes in exchange rates.

OPERATING AND FINANCIAL REVIEW

The following discussion of statutory profit is based on the 2020 Financial Report (attached as part of Annex A to this U.S. Disclosure Document) prepared under AASs (refer to "Section 1: Key Information – Basis of Preparation" for a description of AASs).

ANZ's results for the past two fiscal years are summarized below and are also discussed under the headings of "Analysis of major income and expense items" and "Results by division", which follow.

As a result of the sale transactions outlined in "Section 1: Key Information – Basis of Preparation – Discontinued Operations", the financial results of the Wealth Australia businesses being divested and associated Group reclassification and consolidation impacts are treated as discontinued operations from a financial reporting perspective.

The presentation of divisional results has been impacted by the adoption of AASB 16 and AASB 2019-3, as described in "Section 1: Key Information – Basis of Preparation".

Large/notable items – continuing operations

Large/notable items included in the Group's statutory profit after tax are described below.

Large/notable items: Divestment impacts - continuing operations

During the 2019 and 2020 fiscal years, the Group completed a number of divestments. As these divestments did not qualify as discontinued operations under accounting standards they form part of continuing operations. The financial impacts from these divestments are summarized below including the business results for those divestments that have completed:

	Gain/(Loss) on sale from divestments		Completed divestment business results[1]	
	Full Year		Full Year	
Statutory Profit Impact	2020 $M	2019 $M	2020 $M	2019 $M
Paymark	-	37	-	4
Cambodia JV	-	10	-	31
OPL NZ	-	89	-	21
UDC	(7)	-	79	-
PNG Retail, Commercial and SME	-	1	-	9
Profit/(Loss) before income tax	(7)	137	79	65
Income tax benefit/(expense) and non-controlling interests	-	(13)	(7)	(29)
Profit/(loss) from continuing operations	(7)	124	72	36

1. *For business results that relate to completed divestments, comparative information has been restated for items included in the 2020 fiscal year.*

- **Paymark Limited ("Paymark")**

  In January 2018, the Group entered into an agreement to sell its 25% shareholding in Paymark to Ingenico Group. The transaction was completed on January 11, 2019. The Group recognized a gain on sale of $37 million (before and after tax) during the 2019 fiscal year.

- **ANZ Royal Bank (Cambodia) Ltd ("Cambodia JV")**

  In May 2018, the Group announced it had reached an agreement to sell its 55% stake in Cambodia JV to J Trust Co., Ltd., a Japanese diversified financial holding company listed on the Tokyo Stock Exchange. The transaction was completed on August 19, 2019 and the Group recognized a $10 million net gain on sale after tax, comprising a $30 million release from foreign currency translation reserve, partially offset by a $17 million dividend withholding tax associated with the sale completion and $3 million of asset write-offs in the 2019 fiscal year.

- **OnePath Life (NZ) Limited ("OPL NZ")**

  In May 2018, the Group announced that it had agreed to sell OPL NZ to Cigna Corporation. The transaction completed on November 30, 2018 and the Group recognized a $76 million gain after tax on sale in the 2019 fiscal year, comprising a $56 million gain on sale, and a $26 million release from foreign currency translation reserve, a provision release of $7 million and a $13 million income tax expense.

- **Papua New Guinea Retail, Commercial and Small-Medium Sized Enterprise businesses ("PNG Retail, Commercial and SME")**

  In June 2018, the Group announced it had entered into an agreement to sell PNG Retail, Commercial and SME to Kina Bank. The transaction completed on September 23, 2019 and the Group recognized a gain of $1 million after tax net of costs associated with the sale.

- **UDC Finance ("UDC")**

  On June 2, 2020, the Group announced that it had entered into a conditional agreement to sell UDC to Shinsei Bank Limited (Shinsei Bank) following a strategic review of the Group investment in UDC Finance. Following regulatory approval, the sale was completed on September 1, 2020. The Group recognized a loss of $7 million (before and after tax) in the 2020 fiscal year comprising a loss on disposal of $29 million partially offset by a $22 million release from the foreign currency translation reserve.

Other large/notable items - continuing operations

- **Customer remediation**

Customer remediation includes provisions for expected refunds to customers, remediation project costs and related customer and regulatory claims, penalties and litigation outcomes. The impact of customer remediation is shown in the table below:

	Year ended September 30	
	2020	**2019**
Cash Profit Impact	**$M**	**$M**
Operating income	**(174)**	(212)
Operating expenses	**(209)**	(373)
Profit/(Loss) before income tax	**(383)**	(585)
Income tax benefit/(expense) and non-controlling interests	**104**	110
Cash profit/(loss) from continuing operations	**(279)**	(475)

- **Royal Commission legal costs**

External legal costs associated with responding to the Royal Commission, which was completed in February 2019, were zero for the 2020 fiscal year (2019 fiscal year: $10 million after tax). For further discussion regarding the Royal Commission, refer to the paragraph headed "Royal Commission" in "Section 2: Information on the Group - Supervision and Regulation – Australia – Australian Regulatory Developments" of this U.S. Disclosure Document.

- **Restructuring**

The Group recognized restructuring expenses of $115 million after tax in the 2020 fiscal year (2019 fiscal year: $77 million) largely relating to business and property changes in the Australia Retail and Commercial division.

- **Lease-related items**

In the 2020 fiscal year, the Group recognized $72 million after tax of additional charges associated with the adoption of the new lease accounting standard AASB 16 *Leases* on October 1, 2019. Comparative information has not been restated for the adoption of the new lease accounting standard.

- **Asian associate impairments**

During the 2020 fiscal year, the Group recognized an $815 million impairment after tax in respect of two of the Group's equity accounted investments to adjust their carrying values in line with their value-in-use calculations (refer Note 26 of the 2020 Financial Report attached as part of Annex A to this U.S. Disclosure Document). AmBank was impaired by $595 million and PT Panin was impaired by $220 million. This had no impact to CET1 capital since it results in an equivalent reduction in capital deductions.

- **Asian associate AASB 9 adjustment**

When the Group adopted AASB 9 Financial Instruments on October 1, 2018, an estimate of PT Panin's transition adjustment was recognized through opening retained earnings to align accounting policies. PT Panin adopted AASB 9 during the current fiscal year recognizing a transition adjustment in retained earnings. The $66 million after tax represents the Group's equity accounted share of the transition adjustment net of amounts adjusted by the Group in October 1, 2018 to align accounting policies. This had no impact to CET1 capital since it results in an equivalent reduction in capital deductions.

- **Accelerated software amortization**

During the 2020 fiscal year, the Group amended the application of its software amortization policy to reflect the shorter useful life of various types of software, including regulatory and compliance focused assets and purchased assets. These changes reflect the Group's rapidly changing technology and business needs and ongoing reinvestments in purchased and internally developed software to ensure asset remains fit for purpose. As a result of these changes, the Group recognized accelerated amortization of $138 million after tax during the 2020 fiscal year (refer Note 20 of the 2020 Financial Report attached as part of Annex A to this U.S. Disclosure Document). This had no impact to CET1 capital since it results in an equivalent reduction in capital deductions.

- **Goodwill write-off**

During the 2020 fiscal year the Group wrote off $77 million after tax of goodwill previously held in the Pacific and New Zealand Divisions(refer Note 20 of the 2020 Financial Report attached as part of Annex A to this U.S. Disclosure Document):

- Pacific Division - The impact of COVID-19 on the economies of the Pacific Division has been significant and conditions are expected to take some time to recover. As a result, goodwill of $50 million after tax for the Pacific Division was impaired in the 2020 fiscal year. No further impairments were required for the carrying values of other assets in the Pacific.
- New Zealand Division - As a result of changes in the economic environment and outlook, the Group has announced its intention to begin winding up the Bonus Bonds business ("Bonus Bonds", a managed investment product) in New Zealand no later than October 31, 2020. As a result, the Group wrote off the associated goodwill of $27 million after tax in the 2020 fiscal year.

This had no impact to CET1 capital since it results in an equivalent reduction in capital deductions.

GROUP INCOME STATEMENT

	Years ended September 30		
	2020 $M	**2019 $M**	**2018 $M**
Net interest income	**14,049**	14,339	14,514
Other operating income	**3,588**	4,446	5,470
Operating income	**17,637**	18,785	19,984
Operating expenses	**(9,383)**	(9,071)	(9,401)
Profit before credit impairment and income tax	**8,254**	9,714	10,583
Credit impairment charge	**(2,738)**	(794)	(688)
Profit before income tax	**5,516**	8,920	9,895
Income tax expense	**(1,840)**	(2,609)	(2,784)
Non-controlling interests	**(1)**	(15)	(16)
Profit after income tax from continuing operations	**3,675**	6,296	7,095
Profit/(Loss) after income tax from discontinued operations	**(98)**	(343)	(695)
Profit after income tax	**3,577**	5,953	6,400

Group results – continuing operations

Comparison of 2020 with 2019

Profit after income tax from continuing operations decreased $2,376 million (-40%) compared with the 2019 fiscal year mainly due to:

- Net interest income decreased $290 million (-2%) largely due to lower interest rates and competitive pressures resulting in a 13 basis point decrease in the net interest margin, partially offset by 6% growth in average interest earning assets. The lower net interest margin reflects lower earnings on capital, customers switching to principal and interest home loans in Australia and from variable to fixed loans in both Australia and New Zealand, a higher proportionate growth in the lower margin Institutional business and the impacts of growth in liquid assets due to increased system liquidity, partially offset by favorable short-term funding costs and growth in at-call deposits. The increase in average interest earning assets reflects the impact of foreign currency translation movements and the growth in the Institutional banking portfolio, increases in average trading and investment securities and increases in average cash and other liquid assets. Refer to "Analysis of Major Income and Expense Items" on pages 63 and 64 for further details on key movements.
- Other operating income decreased $858 million (-19%) primarily due to a $815 million of impairment of AmBank and PT Panin, a $171 million decrease reflecting the net impact from divestments, a $278 million decrease in net fee and commission income, a $107 million decrease in share of associates' profit and a $79 million decrease due to widening credit spread impacts on loans measured at fair value in the Institutional division. This was partially offset by higher Markets other operating income of $598 million and $25 million increase in unrealized mark-to-market movement on revenue and expense hedges. Refer to "Analysis of Major Income and Expense Items" on pages 65 and 66 for further details on key movements.
- Operating expenses increased $312 million (+3%) primarily due to accelerated amortization of $197 million due to a change in application of the software amortization policy, a change in accounting treatment associated with the new leasing standard (AASB 16; comparatives not restated), higher restructuring charges of $84 million, goodwill write-off of $77 million in Pacific and New Zealand, higher personnel expenses driven by higher regulatory compliance spend in the New Zealand and Australia Retail and Commercial divisions, wage inflation and higher investment spend offset by lower customer remediation charges of $164 million within operating expenses and productivity benefits. Refer to "Analysis of Major Income and Expense Items" on pages 67 for further details on key movements.
- Credit impairment charges increased $1,944 million due to higher collectively assessed credit impairment charges of $1,701 million, primarily as a result of the forward-looking assessments of the impacts of the COVID-19 pandemic driven by the deterioration in the economic outlook as well as management adjustments to recognize the risk of credit quality deterioration expected to emerge as COVID-19 stimulus and support programs ease, and higher individually assessed credit impairment charges of $243 million, primarily due to a small number of new single named impairments. Refer to "Analysis of Major Income and Expense Items" on pages 68 and 69 for further details on key movements.

Comparison of 2019 with 2018

Profit after income tax from continuing operations decreased $799 million (-11%) compared with the 2018 fiscal year mainly due to:

- Net interest income decreased $175 million (-1%) largely due to lower interest rates and competitive pressures resulting in a 11 basis point decrease in the net interest margin, partially offset by 5% growth in average interest earning assets. The lower net interest margin reflects growth in lower margin Markets Balance Sheet activities, higher proportionate growth in the lower margin Institutional business, customer switching to principal and interest in Australia home loans, deposit margin compression and lower earnings on capital, partially offset by the impact of home loans repricing. The increase in average interest earning assets reflects growth in Institutional banking portfolios and home loan growth in the New Zealand division. Refer to "Analysis of Major Income and Expense Items" on pages 63 and 64 for further details on key movements.
- Other operating income decreased $1,024 million (-19%) primarily due to a $499 million decrease in economic and revenue and expense hedge movements, a $554 million decrease reflecting the net impact from divestments, a $120 million decrease in net fee and commission income, and a $140 million decrease in other income attributable to realized losses on economic hedges against foreign currency denominated revenue streams (which offset favorable foreign currency translations elsewhere in the Group). This was partially offset by higher Markets other operating income of $154 million, a $79 million increase in share of associates' profit and a $52 million decrease in customer remediation within other operating income. Refer to "Analysis of Major Income and Expense Items" on pages 65 and 66 for further details on key movements.
- Operating expenses decreased $330 million (-4%) primarily due an accelerated software amortization charge in the 2018 fiscal year of $251 million, lower restructuring expenses of $150 million, a reduction in expenses following the sale of OPL NZ and Asia Retail and Wealth businesses of $60 million, lower Royal Commission legal costs of $40 million and lower FTE. This was partially offset by higher customer remediation of $182 million within operating expenses, inflation, the impact of foreign currency translation and higher regulatory compliance expenses in New Zealand. Refer to "Analysis of Major Income and Expense Items" on pages 67 for further details on key movements.
- Credit impairment charges increased $106 million (+15%) largely due to higher collectively assessed credit impairment charges, primarily as a result of the 2018 fiscal year benefitting from the release of temporary economic overlays and a greater number of customer upgrades. Refer to "Analysis of Major Income and Expense Items" on pages 68 and 69 for further details on key movements.

ANALYSIS OF MAJOR INCOME AND EXPENSE ITEMS

Net interest income – continuing operations

The following tables summarize net interest income, net interest margin, average interest earning assets and average deposits and other borrowings for the Group and for the Australia Retail and Commercial, Institutional and New Zealand divisions.

Group	Years ended September 30 2020 $M	 2019 $M	 2018 $M
Net interest income	**14,049**	14,339	14,514
Average interest earning assets[1,2]	**862,882**	813,219	774,883
Average deposits and other borrowings[1,2,3]	**679,336**	638,380	617,008
Net interest margin (%)	**1.63**	1.76	1.87

Net interest margin by major division	Years ended September 30 2020 $M	 2019 $M	 2018 $M[3]
Australia Retail and Commercial / Australia			
Net interest margin (%)	**2.59**	2.59	2.69
Average interest earning assets[2]	**305,953**	311,944	314,048
Average deposits and other borrowings[2]	**215,816**	203,781	202,884
Institutional			
Net interest margin (%)	**0.76**	0.82	0.88
Average interest earning assets[1,2]	**420,052**	373,926	341,525
Average deposits and other borrowings[1,2]	**313,625**	286,372	263,742
New Zealand			
Net interest margin (%)	**2.26**	2.33	2.42
Average interest earning assets[1,2]	**121,030**	117,461	109,554
Average deposits and other borrowings[1,2]	**91,542**	86,608	80,444

1. *Average balance sheet amounts include assets and liabilities reclassified as held for sale from continuing operations in the 2019 and 2018 fiscal year.*
2. *Averages are calculated using predominantly daily averages.*
3. *Average deposits and other borrowings for 2019 fiscal year have been restated by $764 million to reflect a change in classification on certain liabilities. Comparative information for the 2018 fiscal year has not been restated and reflects the financial information presented in the 2019 Annual U.S. Disclosure Document.*

Comparison of 2020 with 2019

The decrease in net interest income of $290 million (-2%) was driven by:

Net interest margin (-13 bps)

- Impact of rates net of repricing (-4 bps): the impact of central bank rate cuts on low rate deposits, earnings on capital and replicated deposits, net of repricing.
- Asset and deposit mix (-4 bps): unfavorable product mix from the impacts of customer switching from interest only to principal and interest home loans in Australia, as well as customers switching from variable to fixed home loans in Australia and New Zealand, and lower unsecured lending in Australia Retail and Commercial, along with unfavorable divisional lending mix from a higher proportion of Institutional lending. This was partly offset by favorable deposit mix from growth in at-call deposits.
- Liquidity (-3 bps): predominantly the growth in liquid assets, driven by an increase in system liquidity.
- Wholesale funding and deposits pricing (+1 bps): favorable short term funding costs, partly offset by deposit margin compression.
- Asset pricing (-2 bps): competition in home lending in Australia Retail and Commercial.
- Markets Balance Sheet activities (0 bps): neutral impact year on year.
- Large/notable (-1 bps): the impact of large and notable movements year on year.

Average interest earning assets (+$49.7 billion or +6%)

- Average net loans and advances (+$18.1 billion or +3%): increase primarily driven by growth in Institutional lending and the impact of foreign currency translation movements.
- Average trading and investment securities (+$13.5 billion or +12%): increase primarily driven by higher liquid assets and trading securities in Markets, and the impact of foreign currency translation movements.
- Average cash and other liquid assets (+$18.1 billion or +17%): increase primarily driven by higher central bank cash balances, higher collateral balances and the impact of foreign currency translation movements.

Average deposits and other borrowings (+$41.0 billion or +6%)

- Average deposits and other borrowings (+$41.0 billion or +6%): increase driven by growth in deposits in all divisions, but particularly in Institutional division, and the impact of foreign currency translation movements.

Comparison of 2019 with 2018

The decrease in net interest income of $175 million (-1%) was driven by:

Net interest margin (-11 bps)

- Asset mix and funding mix (-4 bps): unfavorable asset mix from the impacts of customer switching from interest only to principal and interest home loans in the Australia Retail and Commercial division, customer switching from variable to fixed home loans in the New Zealand division and unfavorable mix impacts from a higher proportion of Institutional lending.
- Wholesale funding costs (0 bps): broadly flat basis risk and broadly flat spreads on wholesale funding.
- Deposit pricing (-1 bps): margin compression from lower interest rates and competition in the Australia Retail and Commercial and New Zealand divisions. Higher deposit margins in the Institutional division during the March 2019 half were offset by rate cuts in the 2019 fiscal year.
- Assets pricing (+2 bps): impact of re-pricing of home loans in the Australia Retail and Commercial division, partially offset by increased competition in all divisions.
- Treasury (-2 bps): lower earnings on capital reflecting a lower interest rate environment.
- Markets Balance Sheet activities (-5 bps): growth in lower interest margin Markets Balance Sheet trading activities and the impact of flattening yield curve.
- Large/notable items (-1 bps): the impact of higher customer remediation and the impact of divestments.

Average interest earning assets (+$38.3 billion or +5%)

- Average net loans and advances (+$20.9 billion or +4%): increase primarily driven by growth in Institutional lending, home loan growth in the New Zealand division, and foreign currency translation movements.
- Average trading and investment securities/available-for-sale assets (+$5.8 billion or +5%): increase primarily driven by an increase in liquid assets in Markets and the impact of foreign currency translation movements, partially offset by a decrease in trading securities.
- Average cash and other liquids (+$11.6 billion or +12%): increase primarily driven by higher central bank cash balances, and the impact of foreign currency translation movements.

Average deposits and other borrowings (+$21.4 billion or +3%)

- Average deposits and other borrowings (+$21.4 billion or +3%): increase primarily driven by growth in the Institutional and New Zealand divisions, and the impact of foreign currency translation movements.

Other operating income – continuing operations

	Years ended September 30		
	2020 $M	**2019 $M**	**2018 $M**
Net fee and commission income[1]	**2,215**	2,493	2,624
Markets other operating income	**1,884**	1,286	1,129
Share of associates profit[1]	**155**	262	183
Economic hedges[2]	**(169)**	(164)	349
Revenue and expense hedges[3]	**51**	26	12
Other[1,4]	**(548)**	543	1,173
Total other operating income from continuing operations	**3,588**	4,446	5,470

	Years ended September 30		
Markets income	**2020 $M**	**2019 $M**	**2018 $M**
Net interest income	**770**	491	658
Other operating income	**1,884**	1,286	1,129
Markets income	**2,654**	1,777	1,787

1. *Excluding the Markets business.*
2. *Represents gains and losses on economic hedges used to manage interest rate and foreign exchange risk and the ineffective portion of designated accounting hedges.*
3. *Represents unrealized gains and losses on revenue and expense hedges used to hedge large foreign exchange currency denominated revenue and expense streams.*
4. *Includes foreign exchange earnings and net income from insurance business.*

Comparison of 2020 with 2019

Other operating income decreased by $858 million (-19%). Key factors affecting the result were:

Net fee and commission income (-$278 million or -11%)

- $153 million decrease in the Australia Retail and Commercial division primarily driven by lower credit card and international transaction volumes due to the impact of COVID-19 and fee removals.
- $93 million decrease in the New Zealand division primarily driven by the reduction or removal of fees and lower volume related fee income and fee waivers due to the impact of COVID-19.
- $52 million decrease in the Institutional division driven by lower merchant transaction fees and loan syndication fees due to the impact of COVID-19.
- $20 million increase due to lower customer remediation in the September 2020 full year, partially offset by the loss of income from divested businesses.

Markets income (+$877 million or 49%)

- $566 million increase in Franchise Trading across all asset classes primarily attributable to increased customer sales flow and improved trading conditions, particularly in International, along with favorable derivative valuation adjustments.
- $259 million increase in Balance Sheet trading driven by decreasing funding costs and increasing value of high quality liquid assets.
- $52 million increase in Franchise Sales due to COVID-19 related customer demand for hedging solutions.

Share of associates' profit (-$107 million or -41%)

- $68 million decrease due to the Group's equity accounted share of PT Panin's transition adjustment on its adoption of AASB 9 Financial Instruments in 2020.
- $39 million decrease in profits from associates of which $24 million relates to AmBank and $10 million relates to PT Panin.

Economic hedges (-$5 million or -3%)

- For the 2020 fiscal, the majority of the $169 million loss on economic hedges relates to funding related swaps, principally from narrowing basis spreads on AUD/USD and NZD/USD currency pairs and the strengthening of AUD against USD.
- For the 2019 fiscal year, the majority of the $164 million loss on economic hedges relates to funding related swaps, principally from narrowing basis spreads on AUD/USD and NZD/USD currency pairs partially offset by the weakening of both the AUD and NZD against USD.

Revenue and expense hedges (+$25 million)

- For the 2020 fiscal year, the gain of $51 million on revenue and expense hedges was mainly due to the strengthening of AUD against the USD.
- For the 2019 fiscal year, the gain of $26 million on revenue and expense hedges was mainly due to the strengthening of AUD against the NZD.

Other (-$1,091 million)

- $815 million decrease due to the impairment of PT Panin of $220 million and AmBank of $595 million.
- $171 million decrease due to gains on sale ($136 million) from One Path Life NZ, Cambodia JV and Paymark in the 2019 fiscal year, a loss on sale ($7 million) from UDC in the 2020 fiscal year and the impact of loss of income from divested business results ($28 million).
- $79 million decrease in Institutional division due to widening credit spread impacts on loans measured at fair value.
- $38 million decrease in Australia Retail and Commercial division due to lower net insurance revenues of $23 million and lower income from foreign cash services of $15 million.

- $34 million increase in TSO and Group Centre division due to higher realized gains on economic hedges against foreign currency denominated revenue streams. These offset net unfavorable foreign currency translations elsewhere in the Group.
- $16 million increase due to the gross up of sublease income on adoption of the new leasing standard (comparatives not restated), partially offset by higher customer remediation in the 2020 fiscal year.

Comparison of 2019 with 2018

Other operating income decreased by $1,024 million (-19%). Key factors affecting the result were:

Net fee and commission income (-$131 million or -5%)

- $125 million decrease in the Australia Retail and Commercial division primarily driven by lower fee income due to the reduction or removal of commercial and retail fees and lower lending volumes.
- $42 million decrease due to a reduction of income following the sale of divested businesses.
- $14 million decrease in the Institutional division excluding Markets primarily due to higher interchange and scheme costs in the payments and cash management business and a slowdown in loan syndication activities. This was partially offset by higher guarantee and commitment fees in the Transaction Banking business and favorable foreign currency translation movements.
- $38 million increase in the New Zealand division primarily due to an increase in commission fees, higher funds under management income and favorable foreign currency translation movements.
- $17 million increase due to lower customer remediation in 2019.

Markets income (-$10 million or -1%)

- $120 million decrease in Balance Sheet trading driven by a reduction in net interest income from falling and flattening yield curves.
- $71 million increase in Franchise Trading primarily attributable to favorable market conditions in Australia and New Zealand rates and tighter credit spreads in the March 2019 half ($96 million). This was partially offset by adverse derivative valuation adjustments primarily from falling AUD and NZD swap rates (-$25 million).
- $39 million increase in Franchise Sales due to Australian and New Zealand clients restructuring to lock in low rates, and franchise growth initiatives in North East Asia.

Share of associates' profit (+$79 million or +43%)

- $79 million increase in profits from associates of which $44 million relates to P.T. Bank Pan Indonesia and $36 million relates to AmBank.

Economic hedges (-$513 million)

- For the 2019 fiscal year, the majority of the $164 million loss on economic hedges relates to funding related swaps, principally from narrowing basis spreads on AUD/USD and NZD/USD currency pairs partially offset by the weakening of both the AUD and NZD against USD.
- For the 2018 fiscal year, the majority of the $349 million gain on economic hedges relates to funding related swaps, principally from widening basis spreads on AUD/USD and NZD/USD currency pairs and from weakening of the AUD against the USD and EUR.

Revenue and expense hedges (+$14 million)

- For the 2019 fiscal year, the gain of $26 million on revenue and expense hedges was mainly due to the strengthening of AUD against the NZD.
- For the 2018 fiscal year, the gain of $12 million on revenue and expense hedges was mainly due to the strengthening of the AUD against the NZD.

Other (-$630 million or -54%)

- $390 million decrease in gains on sale recognized in 2019 compared to 2018. The gain on sale recognized in 2018 of $526 million resulted from divestments of MCC, Asia Retail and Wealth, SRCB, UDC, Cambodia JV and PNG Retail, Commercial and SME. The gain on sale recognized in 2019 included: One Path Life (NZ) ($89 million), Cambodia JV ($10 million) and Paymark ($37 million).
- $124 million decrease resulted from a loss of income from divested businesses, primarily related to OnePath Life (NZ).
- $64 million decrease in the TSO and Group Centre division primarily due to realized hedges on economic hedges against foreign currency denominated revenue streams as the result of the NZD and USD strengthening against the AUD of $51 million in 2019 compared to a $4 million gain in 2018. These offset foreign currency translation gains elsewhere in the Group.
- $61 million decrease in the Australia Retail and Commercial division. This was partly due to a reduction in income from the lenders mortgage insurance business.
- $28 million increase due to lower customer remediation in 2019.

Operating expenses – continuing operations

	Years ended September 30		
	2020 $M	**2019 $M**	**2018 $M**
Personnel[1]	**4,878**	4,765	4,758
Premises	**789**	795	811
Technology (excluding personnel)[1]	**1,824**	1,534	1,899
Restructuring	**161**	77	227
Other[1]	**1,731**	1,900	1,706
Total operating expenses from continuing operations[1]	**9,383**	9,071	9,401
Full time equivalent staff from continuing operations	**37,506**	37,588	37,860
Average full time equivalent staff from continuing operations	**37,728**	37,480	40,016

1. *Includes customer remediation expenses of $209 million for the 2020 fiscal year (2019 fiscal year: $373 million).*

Comparison of 2020 with 2019

Operating expenses increased by $312 million (+3%):

- Personnel expenses increased $113 million (+2%) largely driven by higher investment spend in the New Zealand and Australia Retail and Commercial divisions, higher customer remediation costs ($80 million), wage inflation and adverse foreign currency translation movements. This was partially offset by lower variable remuneration and lower business as usual expenses, including reduced employee leave balances.
- Premises expense decreased $6 million (-1%) largely driven lower premises expense in our International network, partially offset by a change in accounting treatment associated with the new leasing standard (comparatives not restated).
- Technology expenses increased $290 million (+19%) largely as a result of accelerated amortization of $197 million due to a change in application of the software amortization policy, a change in accounting treatment associated with the new leasing standard (comparatives not restated), an increase in investment spend and customer remediation ($13 million).
- Restructuring expenses increased $84 million largely relating to business and distribution channel changes in the Australia Retail and Commercial division.
- Other expenses decreased $169 million (-9%) largely due to lower customer remediation ($257 million) and lower travel expenses, partially offset by higher investment spend and goodwill write-off of $77 million in Pacific and New Zealand divisions.

Comparison of 2019 with 2018

Operating expenses decreased by $330 million (-4%):

- Personnel expenses increased $7 million (0%) largely driven by higher regulatory compliance spend in the New Zealand division, higher employee leave provisions, wage inflation and the impact of insourcing technology services. This was offset by lower FTE, lower personnel expenses following the sale of the OPL NZ and the Asia Retail and Wealth businesses ($33 million) and lower customer remediation ($58 million).
- Premises expenses decreased $16 million (-2%) primarily driven by the consolidation of our property footprint.
- Technology expenses decreased $365 million (-19%) largely due to accelerated amortization charge in the prior period ($251 million) and the insourcing of technology services.
- Restructuring expenses decreased $150 million (-66%) due to higher spend in the prior period associated with the move to agile ways of working in the Australia Retail and Commercial division and technology function in the TSO and Group Centre division.
- Other expenses increased $194 million (+11%) largely due to higher customer remediation ($240 million), partially offset by lower expenses following the sale of OPL NZ and Asia Retail and Wealth businesses ($26 million) and a reduction in Royal Commission legal costs ($40 million).

Credit risk – continuing operations

The tables below provide information about the credit provision of the Group. As reported in the 2019 Annual U.S. Disclosure Document the Group adopted AASB 9 *Financial Instruments* effective October 1, 2018 which resulted in key changes to the classification and measurement of financial assets including the impairment of financial assets. Under AASB 9, provisions for credit impairment is based on an expected loss model (ECL) incorporating forward looking information. The presentation of credit risk information for September 2020 and September 2019 reflect the application of AASB9. On adoption comparative information was not restated. Accordingly 2018 financial information continues to reflect the requirements of the previous standard AASB 139 *Financial Instruments: Recognition and Measurement* (refer Note 1 of the 2019 Financial Report attached as part of Annex C to this U.S. Disclosure Document).

The impact and duration of COVID-19 on the global economy and how governments, businesses and consumers respond is uncertain. The ECL charge for the half year and ECL provisions as at September 30, 2020 are therefore partly based on management judgement with respect to the impacts of COVID-19 on the Group's credit exposures. The judgements and assumptions made by management are based on a variety of internal and external information, as well as the Group's experience with respect to the performance of the portfolio under previous stressed conditions. For further details on key estimates, assumptions and judgements that have changed during the 2020 fiscal year described above refer to Note 1 of the 2020 Financial Report (attached as part of Annex A to this U.S. Disclosure Document).

Credit impairment charge/(release)

	Years ended September 30								
	Collectively assessed			Individually assessed			Total		
Division	2020 $M	2019 $M	2018 $M	2020 $M	2019 $M	2018 $M	2020 $M	2019 $M	2018 $M
Australia Retail and Commercial / Australia	1,051	7	(14)	596	705	712	1,647	712	698
Institutional	373	10	(20)	321	(12)	(24)	694	(2)	(44)
New Zealand	248	12	(43)	97	75	49	345	87	6
Pacific / Asia Retail & Pacific	45	(12)	(2)	7	11	5	52	(1)	3
TSO & Group Centre	-	-	(6)	-	(2)	31	-	(2)	25
Total	**1,717**	**17**	**(85)**	**1,021**	**777**	**773**	**2,738**	**794**	**688**

Full Year - 2020 - Credit impairment charge/(release) under AASB 9

	Collectively Assessed				Individually Assessed			
	Stage 1	Stage 2	Stage 3	Total	Stage 3 - New and increased	Stage 3 - Recoveries and write-backs	Total	Total
Division	$M	$M	$M	$M	$M	$M	$M	$M
Australia Retail and Commercial	228	805	18	**1,051**	965	(369)	**596**	**1,647**
Institutional	203	178	(8)	**373**	451	(130)	**321**	**694**
New Zealand	20	190	38	**248**	147	(50)	**97**	**345**
Pacific	4	37	4	**45**	12	(5)	**7**	**52**
TSO and Group Centre	-	-	-	**-**	-	-	**-**	**-**
Total	455	1,210	52	**1,717**	1,575	(554)	**1,021**	**2,738**

Full Year - 2019 - Credit impairment charge/(release) under AASB 9

	Collectively Assessed				Individually Assessed			
	Stage 1	Stage 2	Stage 3	Total	Stage 3 - New and increased	Stage 3 - Recoveries and write-backs	Total	Total
Division	$M	$M	$M	$M	$M	$M	$M	$M
Australia Retail and Commercial	(35)	(26)	68	**7**	1,173	(468)	**705**	**712**
Institutional	27	(13)	(4)	**10**	55	(67)	**(12)**	**(2)**
New Zealand	1	10	1	**12**	131	(56)	**75**	**87**
Pacific	(4)	(6)	(2)	**(12)**	16	(5)	**11**	**(1)**
TSO and Group Centre	-	-	-	**-**	(1)	(1)	**(2)**	**(2)**
Total	(11)	(35)	63	**17**	1,374	(597)	**777**	**794**

Full Year - Sep 18 - Individually assessed credit impairment charge/(release) under AASB 139

	New and increased	Recoveries and write-backs	Total
Division	$M	$M	$M
Australia Retail and Commercial	1,109	(397)	**712**
Institutional	143	(167)	**(24)**
New Zealand	143	(94)	**49**
Pacific	13	(8)	**5**
TSO and Group Centre	36	(5)	**31**
Total	1,444	(671)	**773**

Comparison of 2020 with 2019

- The collectively assessed credit impairment charge increased by $1,700 million primarily driven by a $1,044 million increase in the Australia Retail and Commercial division, a $363 million increase in the Institutional division and a $236 million increase in the New Zealand division. The significant increases across all divisions were due to forward-looking assessments of the impacts of the COVID-19 pandemic driven by the deterioration in the economic outlook as well as management adjustments to recognize the risk of credit quality deterioration expected to emerge as COVID-19 stimulus and support programs ease.
- The individually assessed credit impairment charge increased by $244 million primarily due to a single name impairment in the Institutional division. This was partially offset by improved delinquencies in the Australia Retail portfolios combined with ongoing lower portfolio growth in the unsecured portfolio, and lower provisions in the Commercial portfolio.

Comparison of 2019 with 2018

- The collectively assessed credit impairment charge increased by $102 million primarily driven by a $55 million increase in the New Zealand division and a $30 million increase in the Institutional division. The increase in the New Zealand division was primarily due to release of a temporary economic overlay in 2018, followed by a new temporary economic overlay in 2019. The increase in the Institutional division was due to a greater number of customer upgrades in the prior period.
- The individually assessed credit impairment charge increased by $4 million (+1%) primarily due to lower write-backs and recoveries in the New Zealand and Institutional divisions, partially offset by higher write-backs and recoveries in the Australia Retail and Commercial division and a decrease due to the sale of the Asia Retail and Wealth businesses in the prior year.

Allowance for expected credit losses[1,2]

	Collectively assessed		
	As at		
Division	**Sep 20 $M**	**Sep 19 $M**	**Sep 18 $M**
Australia Retail and Commercial	**2,845**	1,795	1,125
Institutional	**1,513**	1,169	1,073
New Zealand	**570**	374	279
Pacific	**80**	38	43
TSO and Group Centre	**-**	-	3
Total	**5,008**	3,376	2,523

	Individually assessed		
	As at		
Division	**Sep 20 $M**	**Sep 19 $M**	**Sep 18 $M**
Australia Retail and Commercial	**610**	558	569
Institutional	**158**	160	251
New Zealand	**102**	72	81
Pacific	**21**	24	18
TSO and Group Centre	**-**	-	1
Total	**891**	814	920

	Total provision		
	As at		
Division	**Sep 20 $M**	**Sep 19 $M**	**Sep 18 $M**
Australia Retail and Commercial	**3,455**	2,353	1,694
Institutional	**1,671**	1,329	1,324
New Zealand	**672**	446	360
Pacific	**101**	62	61
TSO and Group Centre	**-**	-	4
Total	**5,899**	4,190	3,443

	Collectively assessed				Individually assessed	
Division	**Stage 1 $M**	**Stage 2 $M**	**Stage 3 $M**	**Total $M**	**Stage 3 $M**	**Total $M**
Australia Retail and Commercial	597	1,886	362	**2,845**	610	**3,455**
Institutional	1,056	426	31	**1,513**	158	**1,671**
New Zealand	147	346	77	**570**	102	**672**
Pacific	20	46	14	**80**	21	**101**
Total	1,820	2,704	484	**5,008**	891	**5,899**

As at Sep 19

	Collectively assessed				Individually assessed	
Division	**Stage 1 $M**	**Stage 2 $M**	**Stage 3 $M**	**Total $M**	**Stage 3 $M**	**Total $M**
Australia Retail and Commercial	370	1,082	343	1,795	558	2,353
Institutional	872	257	40	1,169	160	1,329
New Zealand	152	182	40	374	72	446
Pacific	18	9	11	38	24	62
Total	1,412	1,530	434	3,376	814	4,190

1. *Includes allowance for expected credit losses for Net loans and advances – at amortized cost, Investment securities – debt securities at amortized cost and Off-balance sheet commitments - undrawn and contingent facilities.*
2. *Balance Sheet amounts include assets and liabilities reclassified as held for sale.*

Gross Impaired assets[1]

	As of September 30		
	2020 $M	**2019 $M**	**2018 $M**
Gross impaired assets			
Impaired loans[2]	**2,001**	1,711	1,802
Restructured items[3]	**254**	267	269
Non-performing commitments and contingencies[2]	**204**	51	68
Gross impaired assets	**2,459**	2,029	2,139
Individually assessed provisions			
Impaired loans	**(851)**	(791)	(894)
Non-performing commitments and contingencies	**(40)**	(23)	(26)
Net impaired assets	**1,568**	1,215	1,219

	As of September 30		
	2020 $M	**2019 $M**	**2018 $M**
Gross impaired assets by division			
Australia Retail and Commercial	**1,634**	1,468	1,411
Institutional	**434**	265	442
New Zealand	**347**	245	236
Pacific	**44**	51	50
Gross impaired assets	**2,459**	2,029	2,139

	As of September 30		
	2020 $M	**2019 $M**	**2018 $M**
Gross impaired assets by size of exposure			
Less than $10 million	**1,713**	1,593	1,615
$10 million to $100 million	**339**	247	335
Greater than $100 million	**407**	189	189
Gross impaired assets	**2,459**	2,029	2,139

1. *Balance sheet amounts include assets reclassified as held for sale.*
2. *Impaired loans and non-performing commitments and contingencies do not include exposures which are included in collectively assessed Stage 3 ECL, which comprise unsecured retail exposures greater than 90 days past due and defaulted but well secured exposures.*
3. *Restructured items are facilities where 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 for new facilities with similar risk.*

Comparison of 2020 with 2019

- Gross impaired assets increased $430 million (21%) driven by the Institutional division ($169 million), Australia Retail and Commercial division ($166 million) and New Zealand division ($102 million). The increase in the Institutional division primarily relates to impairments on a small number of single name exposures primarily in the March 2020 half. The Australia Retail and Commercial division increase was driven by home loans with a combination of the implementation of a more market responsive collateral valuation methodology and impairments as 90 days past due exposures increased in the March 2020 half, combined with impairments on a small number of single name exposures in the commercial portfolio. The increase in New Zealand was driven by impairments on a small number of single name commercial exposures.

Comparison of 2019 with 2018

- Gross impaired assets decreased $110 million (-5%) driven by the Institutional division (-$177 million) with repayments reducing a number of large impaired assets. This was partially offset by an increase in the Australia Retail and Commercial division (+$57 million) primarily driven by a number of single name impaired loans in the Commercial portfolio. The Group’s individually assessed provision coverage ratio on impaired assets was 40.1 % as at September 30, 2019 (2018: 43.0%).

The Group’s individually assessed provision coverage ratio on impaired assets was 36.2% as at September 30, 2020 (Sep 19: 40.1%).

New impaired assets[1]

	As of September 30		
	2020 $M	**2019 $M**	**2018 $M**
New impaired assets			
Impaired loans	**2,488**	1,927	1,846
Restructured items	**70**	42	224
Non-performing commitments and contingencies	**231**	38	38
Total new impaired assets	**2,789**	2,007	2,108

	As of September 30		
	2020 $M	**2019 $M**	**2018 $M**
New impaired assets by division			
Australia Retail and Commercial	**1,645**	1,631	1,604
Institutional	**768**	78	169
New Zealand	**361**	278	292
Pacific	**15**	20	32
TSO and Group Centre	**-**	-	11
Total new impaired assets	**2,789**	2,007	2,108

1. *Balance sheet amounts include assets reclassified as held for sale.*

Comparison of 2020 with 2019

- New impaired assets increased $782 million (+39%) with increases in Institutional division ($690 million) related to a small number of impairments of single name exposures. New Zealand division increases ($83 million) related to a small number of impairments of single name exposures in the commercial portfolio.

Comparison of 2019 with 2018

- New impaired assets decreased $101 million (-5%) primarily driven by the Institutional division as the result of an improved risk profile due to portfolio rebalancing, combined with a benign credit environment. In addition, new impaired assets decreased due to lending reductions following the sale of Asia Retail and Wealth businesses. This was partially offset by an increase in the Australia Retail and Commercial division.

Other potential problem loans

ANZ does not use the category "potential problem loans" for loans that continue to accrue interest. ANZ's risk grading systems identify customers that attract a higher probability of default and where necessary these customers receive specialist management attention.

Accruing loans – past due 90 days or more[1]

Set out below are loans that are past due by over 90 days. A facility is past due when a contracted payment (principal or interest) has not been met or the facility is outside of contractual arrangements (e.g. an overdraft is over the limit). This category comprises accrual loans that are past due 90 days or more and that are well secured, or loans that are past due 90 days or more and are portfolio managed (typically unsecured personal loans and credit cards) that can be held on an accrual basis for up to 180 days.

	As of September 30		
	2020 $M	**2019 $M**	**2018 $M**
Australia Retail and Commercial	**3,307**	3,409	2,666
Institutional	**9**	4	12
New Zealand	**486**	309	203
Pacific	**40**	17	25
TSO and Group Centre	**2**	5	5
Total accruing loans - past due 90 days or more	**3,844**	3,744	2,911

1. *Balance sheet amounts include assets and liabilities reclassified as held for sale.*

Comparison of 2020 with 2019

- The accruing loans – past due 90 days or more increased by $100 million (+3%) primarily driven by portfolio deterioration in the New Zealand division home loan ($177 million) and Australia small business ($65 million) portfolios. This was offset by a decrease in the Australia Retail and Commercial division home loans ($127 million).

Comparison of 2019 with 2018

- The accruing loans – past due 90 days or more increased by $833 million (+29%) primarily driven by portfolio deterioration in the Australia Retail and Commercial division across home loans ($645 million) and commercial portfolios ($110 million), and the New Zealand division home loans ($93 million).

Concentrations of credit risk/loans and advances by industry category

Credit risk becomes concentrated when a number of customers are engaged in similar activities, have similar economic characteristics, or have similar activities within the same geographic region – therefore, these customers may be similarly affected by changes in economic or other conditions. The Group monitors its credit portfolios to manage risk concentration and rebalance the portfolio. The Group also applies single customer counterparty limits to protect against unacceptably large exposures to one single customer.

For further information relating to the Group's credit risk exposures, refer to Note 16 of the 2020 Financial Report (attached as part of Annex A to this U.S. Disclosure Document).

Loan Deferral and Relief Packages[1]

Since March 2020, the Group has offered various forms of assistance to customers to counteract the impact of COVID-19 on the ability of customers to meet their loan obligations. The assistance provided has included arrangements such as temporary deferral of principal and interest repayments, replacing principal and interest with interest only repayments, and extension of loan maturity dates.

The Group does not consider that when a customer is first provided assistance, all other things being equal, that there has been a Significant Increase in Credit Risk (SICR) and a consequent impact on ECL when assessing provisions. Subsequent to take-up, customers have been contacted to discuss available options once the packages reach their end date. This additional information on the customer's financial position and ability to recommence their loan repayments is used to assist in classification of customers into risk categories. Customers in higher risk categories, and those who have requested a deferral extension, have been classified as having a SICR. The Group continues to work with our customers on arrangements in respect of their loan obligations once the assistance package has ceased.

The categories of assistance packages provided and the amounts outstanding as at September 30, 2020 are noted in the following table:

Assistance package category	Australia Geography At September 30, 2020 $M	New Zealand Geography At September 30, 2020 $M	Total At September 30, 2020 $M
Loan deferral package			
Retail	26,117	3,705	29,822
Commercial and other	8,989	193	9,182
Interest Only			
Retail	126	2,287	2,413
Commercial and other	33	494	527
Term extensions			
Retail	3	611	614
Commercial and other	24	66	90
Total	35,292	7,356	42,648
Retail	26,246	6,603	32,849
Commercial and other	9,046	753	9,799
Total	35,292	7,356	42,648

- *COVID-19 loan deferral packages are available to customers if either their loan repayments are less than 30 days past due, or if their repayments are less than 90 days past due but were up to date at 1 March 2020.*

Income tax expense – continuing operations

	Years ended September 30		
	2020 $M	2019 $M	2018 $M
Income tax expense charged to the income statement	1,840	2,609	2,784
Effective tax rate	33.4%	29.2%	28.1%
Australian corporate tax rate	30.0%	30.0%	30.0%

Comparison of 2020 with 2019

- The effective tax rate increased from 29.2% to 33.4%. The increase of 420 bps is primarily due to the non-tax deductible impairment of investments in AmBank and PT Panin (+444 bps) in the 2020 fiscal year.

Comparison of 2019 with September 2018

- The effective tax rate has increased from 28.1% to 29.2%. The increase of 110 bps is primarily due to the net movement in respect of gains and losses on sale from divestments (+114 bps), the net movement in other items (+78 bps) which included the impact of customer remediation, partially offset by higher offshore earnings which attract a lower average tax rate (-67 bps).

CONDENSED BALANCE SHEET – INCLUDING DISCONTINUED OPERATIONS

	As of September 30		
	2020 $B	2019 $B	2018 $B
Assets			
Cash / Settlement balances owed to ANZ / Collateral paid	**129.7**	100.3	98.0
Trading and investment securities/available-for-sale assets	**144.3**	126.9	112.0
Derivative financial instruments	**135.3**	120.7	68.4
Net loans and advances	**617.1**	615.3	604.5
Assets held for sale[1]	**-**	1.8	45.2
Other	**15.9**	16.1	15.1
Total assets	**1,042.3**	981.1	943.2
Liabilities			
Settlement balances owed by ANZ / Collateral received	**31.5**	18.8	18.3
Deposits and other borrowings	**682.3**	637.7	618.2
Derivative financial instruments	**134.7**	121.0	69.7
Liabilities held for sale[2]	**-**	2.1	47.2
Debt issuances	**119.7**	129.7	121.2
Other	**12.8**	11.0	9.2
Total liabilities	**981.0**	920.3	883.8
Total equity	**61.3**	60.8	59.4

1. *The September 30, 2019 balance of assets held for sale comprises: $1.8 billion for discontinued operations. The September 30, 2018 balance of assets held for sale comprises: $42.9 billion for discontinued operations; $1.4 billion for Cambodia JV; $0.8 billion for OPL NZ and $0.2 billion for PNG Retail, Commercial & SME.*
2. *The September 30, 2019 balance of liabilities held for sale comprises: $2.1 billion for discontinued operations. The September 30, 2018 balance of liabilities held for sale comprises: $45.1 billion for discontinued operations; $1.2 billion for Cambodia JV; $0.3 billion for OPL NZ and $0.5 billion for PNG Retail, Commercial & SME.*

Comparison of 2020 with 2019

- Cash/Settlement balances owed to ANZ/Collateral paid increased $29.4 billion (+29%) driven by an increase in balances with central banks, increased overnight inter-bank deposits, and an increase in short term reverse repurchase agreements, partially offset by foreign currency translation movements.
- Trading and investment securities increased $17.4 billion (+14%) driven by an increase in liquid assets, partially offset by the impact of foreign currency translation movements.
- Derivative financial assets and liabilities increased $14.6 billion (+12%) and $13.7 billion (+11%) respectively as interest rate and foreign exchange movements resulted in higher derivative volumes and fair values, particularly in interest rate and foreign exchange swap products.
- Net loans and advances increased $1.8 billion (+0%), driven by growth in home loans in the Australia Retail and Commercial division (+$10.1 billion) and New Zealand division (+$4.4 billion), partially offset by lower credit volumes in other products as a result of the ongoing impacts of COVID-19 in the Institutional (-$4.1 billion) and ,Australia Retail and Commercial (-$1.6 billion) divisions, higher credit provisions (-$1.5 billion) as a result of the ongoing impacts of COVID-19, the sale of the UDC business in New Zealand division in September 2020 (-$3.4 billion) and foreign currency translation movements.
- Deposits and other borrowings increased $44.6 billion (+7%) driven by increased customer deposits in the Australia Retail and Commercial division (+$26.6 billion), Institutional division (+$11.8 billion), and New Zealand division (+$7.8 billion) and drawdown of the RBA Term Funding Facility (TFF) (+$12 billion). This was partially offset by a reduction in certificates of deposit (-$4.0 billion), commercial paper issued (-$2.7 billion) and the impact of foreign currency translation movements.
- Debt issuances decreased $10.0 billion (-8%) driven by lower senior debt issuances. Funding was partially replaced by the TFF, which is classified in Deposits and other borrowings.

Comparison of 2019 with 2018

- Trading and investment securities/available-for-sale assets increased $14.9 billion (+13%) primarily driven by an increase in liquid assets in Markets and the impact of foreign currency translation movements.
- Derivative financial assets and liabilities increased $52.3 billion (+76%) and $51.3 billion (+74%) respectively as interest rate movements resulted in higher derivative volumes and fair values, particularly in interest rate swap products.
- Net loans and advances increased $10.8 billion (+2%) primarily driven by lending growth in the Institutional division (+$10.5 billion), growth in home loans in the New Zealand division (+$4.1 billion) and the impact of foreign currency translation movements, partially offset by the decrease in home loans in the Australia Retail and Commercial division (-$9.4 billion).
- Assets and liabilities held for sale decreased $43.4 billion (-96%) and $45.1 billion (-96%) respectively primarily driven by the sale completion of the life insurance business to Zurich, and the sale completion of OPL NZ, Cambodia JV and PNG Retail, Commercial & SME.
- Deposits and other borrowings increased $19.5 billion (+3%) primarily driven by increase deposits from banks and repurchase agreements (+$9.9 billion), growth in customer deposits across the Australia Retail and Commercial (+$5.3 billion) and New Zealand division (+$2.7 billion) and the impact of foreign currency translation movements. This was partially offset by reduction in certificates of deposit and commercial paper issued (-$11.6 billion).
- Debt issuances increased $8.5 billion (+7%) primarily driven by senior debt issuances and the impact of foreign currency translation movements.

RESULTS BY DIVISION – CONTINUING OPERATIONS

For further information on the composition of the divisions refer to “Section 2: Information on the Group – Principal Activities”.

This Results by division section is reported on a continuing operations basis. For information on discontinued operations please refer to “Section 1: Key Information - Basis of Preparation – Discontinued Operations”.

The divisions reported are consistent with internal reporting provided to the chief operating decision maker, being the Chief Executive Officer.

During the 2020 fiscal year, the Institutional product set, Loans and Specialized Finance was renamed to Corporate Finance. This change did not affect the Group structurally.

2020 Fiscal Year	Australia Retail and Commercial $M	Institutional $M	New Zealand $M	Pacific $M	TSO & Group Centre $M	Group $M
Net interest income	7,916	3,182	2,731	109	111	**14,049**
Other operating income	1,161	2,649	473	84	(779)	**3,588**
Operating income	9,077	5,831	3,204	193	(668)	**17,637**
Operating expenses	(4,091)	(2,558)	(1,435)	(205)	(1,094)	**(9,383)**
Profit/(Loss) before credit impairment and income tax	4,986	3,273	1,769	(12)	(1,762)	**8,254**
Credit impairment (charge)/release	(1,647)	(694)	(345)	(52)	-	**(2,738)**
Profit/(Loss) before income tax	3,339	2,579	1,424	(64)	(1,762)	**5,516**
Income tax (expense)/benefit and non-controlling interests	(1,002)	(725)	(407)	2	291	**(1,841)**
Profit/(Loss) after income tax from continuing operations	2,337	1,854	1,017	(62)	(1,471)	**3,675**
Balance Sheet						
Net loans and advances	339,381	157,634	116,625	1,866	1,587	**617,093**
Other external assets	3,663	391,862	4,073	1,533	24,062	**425,193**
External assets	343,044	549,496	120,698	3,399	25,649	**1,042,286**
Customer deposits	234,594	223,288	91,004	3,534	(57)	**552,363**
Other external liabilities	9,220	256,745	23,261	140	139,260	**428,626**
External liabilities	243,814	480,033	114,265	3,674	139,203	**980,989**

2019 Fiscal Year	Australia Retail and Commercial $M	Institutional $M	New Zealand $M	Pacific $M	TSO & Group Centre $M	Group $M
Net interest income	8,092	3,080	2,736	128	303	**14,339**
Other operating income	1,347	2,192	580	104	223	**4,446**
Operating income	9,439	5,272	3,316	232	526	**18,785**
Operating expenses	(4,074)	(2,667)	(1,286)	(150)	(894)	**(9,071)**
Profit before credit impairment and income tax	5,365	2,605	2,030	82	(368)	**9,714**
Credit impairment (charge)/release	(712)	2	(87)	1	2	**(794)**
Profit before income tax	4,653	2,607	1,943	83	(366)	**8,920**
Income tax expense and non-controlling interests	(1,458)	(779)	(544)	(24)	181	**(2,624)**
Profit/(loss) after income tax from continuing operations	3,195	1,828	1,399	59	(185)	**6,296**
Balance Sheet[1]						
Net loans and advances	331,871	164,526	116,729	2,120	12	**615,258**
Other external assets	4,350	346,094	3,690	1,403	8,511	**364,048**
External assets	336,221	510,620	120,419	3,523	8,523	**979,306**
Customer deposits	208,005	217,259	83,387	3,546	(385)	**511,812**
Other external liabilities	9,610	230,917	25,792	140	139,951	**406,410**
External liabilities	217,615	448,176	109,179	3,686	139,566	**918,222**

2018 Fiscal Year	Australia Retail and Commercial $M	Institutional $M	New Zealand $M	Pacific $M	TSO & Group Centre $M	Group $M
Net interest income	8,449	2,993	2,651	131	290	**14,514**
Other operating income	1,510	2,066	671	100	1,123	**5,470**
Operating income	9,959	5,059	3,322	231	1,413	**19,984**
Operating expenses	(4,075)	(2,948)	(1,205)	(128)	(1,045)	**(9,401)**
Profit before credit impairment and income tax	5,884	2,111	2,117	103	368	**10,583**
Credit impairment (charge)/release	(698)	44	(6)	(3)	(25)	**(688)**
Profit before income tax	5,186	2,155	2,111	100	343	**9,895**
Income tax expense and non-controlling interests	(1,560)	(675)	(590)	(28)	53	**(2,800)**
Profit/(loss) after income tax from continuing operations	3,626	1,480	1,521	72	396	**7,095**
Balance Sheet[1]						
Net loans and advances	341,310	150,133	111,334	2,114	526	**605,417**
Other external assets	4,139	276,607	4,136	1,427	8,560	**294,869**
External assets	345,449	426,740	115,470	3,541	9,086	**900,286**
Customer deposits	202,732	205,809	79,780	3,467	(4,515)	**487,273**
Other external liabilities	10,302	172,235	24,802	90	143,957	**351,386**
External liabilities	213,034	378,044	104,582	3,557	139,442	**838,659**

1. *Balance Sheet amounts includes asset and liabilities reclassified as held for sale from continuing operations.*

Australia Retail and Commercial – continuing operations

	Years ended September 30		
Australia Retail and Commercial	**2020 $M**	**2019 $M**	**2018 $M**
Net interest income	**7,916**	8,092	8,449
Other operating income	**1,161**	1,347	1,510
Operating income	**9,077**	9,439	9,959
Operating expenses	**(4,091)**	(4,074)	(4,075)
Profit before credit impairment and income tax	**4,986**	5,365	5,884
Credit impairment (charge)/release	**(1,647)**	(712)	(698)
Profit before income tax	**3,339**	4,653	5,186
Income tax expense and non-controlling interests	**(1,002)**	(1,458)	(1,560)
Profit after income tax	**2,337**	3,195	3,626
Consisting of:			
Retail	**1,827**	2,132	2,427
Commercial	**510**	1,063	1,199
Profit after income tax	**2,337**	3,195	3,626
Balance Sheet			
Net loans and advances	**339,381**	331,871	341,310
Other external assets	**3,663**	4,350	4,139
External assets	**343,044**	336,221	345,449
Customer deposits	**234,594**	208,005	202,732
Other external liabilities	**9,220**	9,610	10,302
External liabilities	**243,814**	217,615	213,034
Risk weighted assets	**166,662**	162,060	159,282
Average gross loans and advances[1]	**334,965**	338,785	341,199
Average deposits and other borrowings[1]	**216,699**	203,781	202,884
Ratios			
Return on average assets	**0.69%**	0.94%	1.05%
Net interest margin	**2.59%**	2.59%	2.69%
Operating expenses to operating income	**45.1%**	43.2%	40.9%
Operating expenses to average assets	**1.22%**	1.20%	1.18%
Individually assessed credit impairment charge/(release)	**596**	705	712
Individually assessed credit impairment charge/(release) as a % of average GLA[2]	**0.18%**	0.21%	0.21%
Collectively assessed credit impairment charge/(release)	**1,051**	7	(14)
Collectively assessed credit impairment charge/(release) as a % of average GLA[2]	**0.31%**	0.00%	0.00%
Gross impaired assets	**1,634**	1,468	1,411
Gross impaired assets as a % of GLA	**0.48%**	0.44%	0.41%
Total full time equivalent staff	**14,078**	13,903	13,731

1. *Averages are calculated using predominantly daily averages.*
2. *Credit impairment charge used in the ratios relates to gross loans and advances and off-balance sheet commitments - undrawn and contingent liabilities.*

Comparison of 2020 with 2019

Profit after income tax decreased by $858 million (-27%).

Key factors affecting the result were:

- Lending volumes increased in the September 2020 half driven by home loan growth, partially offset by lower consumer demand for unsecured borrowing and increased customer repayments following fiscal and regulatory stimulus and a lower interest rate environment.
- Net interest margin was flat as the headwinds from official cash rate decreases on low customer rate deposits and earnings on capital, unfavorable lending mix from proportionately more growth in lower margin home loans compared to higher margin unsecured lending were offset by home loan repricing benefits, lower funding costs and a favorable deposit mix impact.
- Other operating income decreased $186 million (-14%) driven by lower credit card and international transaction volumes driven by COVID-19 impacts and fee removals.
- Operating expenses increased $17 million driven by higher investment spend, higher restructuring expenses, additional charges for lease-related items, accelerated amortization due to changes in application of the software policy and inflationary increases being offset by productivity benefits and lower remediation expenses.
- Credit impairment charges increased $935 million driven by collectively assessed credit impairment charges for the expected impact of COVID-19.

Comparison of 2019 with 2018

Profit after income tax decreased by $431 million (-12%).

Key factors affecting the result were:

- Net loans and advances decreased as a result of lower system credit growth, asset competition, more conservative home loan origination risk settings and execution challenges that were addressed during the year.
- Net interest margin decreased 10 basis points as a result of home loan mix changes and higher discounting, the impact of official cash rate decreases on low-rate deposits, regulatory impact on credit card pricing, and higher customer remediation. This was partially offset by home loans re-pricing.
- Other operating income decreased $163 million (-11%) as the result of higher customer remediation, and lower fee income due to the removal of fees and lower volumes.
- Operating expenses were flat with higher inflation, higher compliance costs and increased technology infrastructure spend offset by productivity initiatives including workforce and branch optimization.
- Credit impairment charges increased $14 million (+2%) primarily due to an increase in collectively assessed credit impairment as a result of a weakening Australian economic outlook, partially offset by higher recoveries and write-backs.

Institutional – continuing operations

Institutional	Years ended September 30 2020 $M	2019 $M	2018 $M
Net interest income	**3,182**	3,080	2,993
Other operating income	**2,649**	2,192	2,066
Operating income	**5,831**	5,272	5,059
Operating expenses	**(2,558)**	(2,667)	(2,948)
Profit before credit impairment and income tax	**3,273**	2,605	2,111
Credit impairment (charge)/release	**(694)**	2	44
Profit before income tax	**2,579**	2,607	2,155
Income tax expense and non-controlling interests	**(725)**	(779)	(675)
Profit after income tax	**1,854**	1,828	1,480
Consisting of:			
Transaction Banking	**285**	695	593
Corporate Finance	**419**	736	677
Markets	**1,169**	469	451
Central Functions	**(19)**	(72)	(241)
Profit after income tax	**1,854**	1,828	1,480
Balance Sheet[1]			
Net loans and advances	**157,634**	164,526	150,133
Other external assets	**391,862**	346,094	276,607
External assets	**549,496**	510,620	426,740
Customer deposits	**223,288**	217,259	205,809
Other external liabilities	**256,745**	230,917	172,235
External liabilities	**480,033**	448,176	378,044
Risk weighted assets	**186,502**	181,088	163,713
Average gross loans and advances[2]	**177,252**	156,676	141,184
Average deposits and other borrowings[2]	**313,625**	286,372	263,742
Ratios[1]			
Return on average assets	**0.32%**	0.38%	0.34%
Net interest margin	**0.76%**	0.82%	0.88%
Net interest margin (excluding Markets)	**1.78%**	2.05%	2.11%
Operating expenses to operating income	**43.9%**	50.6%	58.3%
Operating expenses to average assets	**0.45%**	0.56%	0.69%
Individually assessed credit impairment charge/(release)	**321**	(12)	(24)
Individually assessed credit impairment charge/(release) as a % of average GLA[3]	**0.18%**	(0.01%)	(0.02%)
Collectively assessed credit impairment charge/(release)	**373**	10	(20)
Collectively assessed credit impairment charge/(release) as a % of average GLA[3]	**0.21%**	0.01%	(0.01%)
Gross impaired assets	**434**	265	442
Gross impaired assets as a % of GLA	**0.27%**	0.16%	0.29%
Total full time equivalent staff	**5,291**	5,468	6,188

1. *Balance Sheet amounts includes asset and liabilities reclassified as held for sale from continuing operations.*
2. *Averages are calculated using predominantly daily averages.*
3. *Credit impairment charge used in the ratios relates to gross loans and advances and off-balance sheet commitments - undrawn and contingent liabilities.*

Comparison of 2020 with 2019

Profit after income tax increased by $26 million (+1%).

Key factors affecting the result were:

- Average lending volumes increased against the prior period. Customer deposits increased in Transaction Banking, partially offset by decreases in the other businesses.
- Net interest margin (excluding the Markets business) decreased 27 basis point mainly due to the impact of low interest rates on deposit margins.
- Other operating income increased $457 million (+21%) mainly due to higher Markets income, partly offset by lower volume related fee income in the transaction banking business with a subdued international trade environment.
- Operating expenses decreased $109 million (-4%) as a result of lower personnel costs, lower discretionary spend, lower property charges and lower remediation expenses, partly offset by accelerated amortization due to changes in application of the software policy and additional charges for lease related items.
- Credit impairment charges increased $696 million due to higher collectively assessed credit impairment charge for the expected impact of COVID-19 and an increase in individually assessed credit impairment charges in Transaction Banking.

Comparison of 2019 with 2018

Profit after income tax increased by $348 million (+24%).

Key factors affecting the result were:

- Net loans and advances grew across Loans & Specialized Finance, Markets and Transaction Banking subdivisions. Customer deposits grew in Markets and Transaction Banking subdivisions.
- Net interest margin (excluding the Markets business) decreased 6 basis point primarily due to reduction in lending margins, partially offset by higher deposit margins.
- Other operating income increased $126 million (+6%) as a result of higher Markets income across Franchise Sales, Franchise Trading and Balance Sheet subdivisions.
- Operating expenses decreased $281 million (-10%) due to a reduction in FTE and related costs, and lower ongoing software amortization charges. This was partially offset by inflation.
- Credit impairment charges increased $42 million primarily due to an increase in individually assessed impairment charges driven by lower writebacks and recoveries, and an increase in collectively assessed impairment charges as a result of a greater number of customer upgrades in the prior period.

New Zealand – continuing operations

Table reflects NZD for New Zealand.

AUD results shown on page 84.

	Years ended September 30		
New Zealand	**2020 NZD M**	**2019 NZD M**	**2018 NZD M**
Net interest income	**2,895**	2,892	2,885
Other operating income	**501**	613	729
Operating income	**3,396**	3,505	3,614
Operating expenses	**(1,520)**	(1,360)	(1,310)
Profit before credit impairment and income tax	**1,876**	2,145	2,304
Credit impairment (charge)/release	**(366)**	(92)	(6)
Profit before income tax	**1,510**	2,053	2,298
Income tax expense and non-controlling interests	**(431)**	(574)	(643)
Profit after income tax	**1,079**	1,479	1,655
Consisting of:			
Retail	**673**	934	1,066
Commercial	**402**	542	581
Central Functions	**4**	3	8
Profit after income tax	**1,079**	1,479	1,655
Balance Sheet			
Net loans and advances	**125,981**	125,991	121,551
Other external assets	**4,400**	3,983	4,515
External assets	**130,381**	129,974	126,066
Customer deposits	**98,304**	90,004	87,101
Other external liabilities	**25,128**	27,841	26,018
External liabilities	**123,432**	117,845	114,179
Risk weighted assets	**71,225**	70,727	62,463
Average gross loans and advances[1]	**128,358**	124,264	119,342
Average deposits and other borrowings[1]	**97,032**	91,565	87,541
Net funds management income	**219**	222	221
Funds under management ("FUM")	**35,223**	34,145	30,665
Average funds under management	**34,809**	31,610	29,700
Ratios			
Return on average assets	**0.82%**	1.16%	1.34%
Net interest margin	**2.26%**	2.33%	2.42%
Operating expenses to operating income	**44.8%**	38.8%	36.2%
Operating expenses to average assets	**1.15%**	1.07%	1.06%
Individual credit impairment charge/(release)	**103**	79	52
Individual credit impairment charge/(release) as a % of average GLA[2]	**0.08%**	0.06%	0.04%
Collective credit impairment charge/(release)	**263**	13	(46)
Collective credit impairment charge/(release) as a % of average GLA[2]	**0.20%**	0.01%	(0.04%)
Gross impaired assets	**374**	265	258
Gross impaired assets as a % of GLA	**0.30%**	0.21%	0.21%
Total full time equivalent staff	**5,761**	6,121	6,165

1. *Averages are calculated using predominantly daily averages.*
2. *Credit impairment charge relates to gross loans and advances and off-balance sheet commitments - undrawn and contingent liabilities.*

New Zealand results and commentary are reported in NZD. AUD results are shown on page 84.

Comparison of 2020 with 2019

Profit after income tax decreased by NZD 400 million (-27%).

Key factors affecting the result were:

- Lending ended flat against the prior period impacted by the sale of UDC at the end of the year. Customer deposit volumes grew across all portfolios while funds under management increased during the period.
- Net interest margin decreased 7 basis points mainly due to lower interest rates compressing deposit margins.
- Other operating income decreased NZD 112 million (-18%) primarily driven by fee changes and lower volume related fee income and fee waivers due to the impact of COVID-19.
- Operating expenses increased NZD 160 million (+12%) due to higher investment spend on compliance projects, goodwill write-off related to the Bonus Bonds business, accelerated amortization due to changes in application of the software policy, and increased restructuring charges.
- Credit impairment charges increased NZD 274 million driven by additional collectively assessed credit impairment charges for the expected impact of COVID-19.

Comparison of 2019 with 2018

Profit after income tax decreased by NZD $176 million (-11%).

Key factors affecting the result were:

- Lending and customer deposit volumes grew across all portfolios and funds under management increased during the period.
- Net interest margin decreased 9 basis points as a result of compressed deposit margins and home loan mix changes.
- Other operating income decreased NZD 116 million (-16%) primarily due to the loss of income as a result of the OPL NZ divestment, and an one-off insurance recovery in the prior fiscal year.
- Operating expenses increased NZD 50 million (+4%) primarily due to higher regulatory compliance spend, partly offset by the OPL NZ divestment.
- Credit impairment charges increased NZD 86 million primarily due to an increase in individually assessed impairment charges driven by lower writebacks and recoveries, and increase in collectively assessed impairment charges in the Commercial portfolio driven by the release of an Agriculture economic cycle adjustment in 2018.

New Zealand – continuing operations

Table reflects AUD for New Zealand.
NZD results shown on page 82.

	Years ended September 30		
New Zealand	**2020 $M**	**2019 $M**	**2018 $M**
Net interest income	**2,731**	2,736	2,651
Other operating income	**473**	580	671
Operating income	**3,204**	3,316	3,322
Operating expenses	**(1,435)**	(1,286)	(1,205)
Profit before credit impairment and income tax	**1,769**	2,030	2,117
Credit impairment (charge)/release	**(345)**	(87)	(6)
Profit before income tax	**1,424**	1,943	2,111
Income tax expense and non-controlling interests	**(407)**	(544)	(590)
Profit after income tax	**1,017**	1,399	1,521
Consisting of:			
Retail	**635**	883	979
Commercial	**378**	513	534
Central Functions	**4**	3	8
Profit after income tax	**1,017**	1,399	1,521
Balance Sheet			
Net loans and advances	**116,625**	116,729	111,334
Other external assets	**4,073**	3,690	4,136
External assets	**120,698**	120,419	115,470
Customer deposits	**91,004**	83,387	79,780
Other external liabilities	**23,261**	25,794	24,802
External liabilities	**114,265**	109,181	104,582
Risk weighted assets	**65,936**	65,527	57,213
Average gross loans and advances[1]	**121,096**	117,537	109,667
Average deposits and other borrowings[1]	**91,542**	86,608	80,444
Net funds management income	**207**	210	204
Funds under management	**32,608**	31,633	280,878
Average funds under management	**32,839**	29,900	27,292
Ratios			
Return on average assets	**0.82%**	1.16%	1.34%
Net interest margin	**2.26%**	2.33%	2.42%
Operating expenses to operating income	**44.8%**	38.8%	36.3%
Operating expenses to average assets	**1.15%**	1.07%	1.06%
Individual credit impairment charge/(release)	**97**	75	49
Individual credit impairment charge/(release) as a % of average GLA[2]	**0.08%**	0.06%	0.04%
Collective credit impairment charge/(release)	**248**	12	(43)
Collective credit impairment charge/(release) as a % of average GLA[2]	**0.20%**	0.01%	(0.04%)
Gross impaired assets	**347**	245	236
Gross impaired assets as a % of GLA	**0.30%**	0.21%	0.21%
Total full time equivalent staff	**5,761**	6,121	6,165

1. *Averages are calculated using predominantly daily averages.*
2. *Credit impairment charge relates to gross loans and advances and off-balance sheet commitments - undrawn and contingent liabilities.*

LIQUIDITY AND CAPITAL RESOURCES – INCLUDING DISCONTINUED OPERATIONS

Funding – including discontinued operations

ANZ targets a diversified funding base, avoiding undue concentrations by investor type, maturity, market source and currency.

$13.2 billion of term wholesale debt with a remaining term greater than one year as of September 30, 2020 was issued during the fiscal year ended September 30, 2020.

In addition, the Group drew down $12.0 billion of its initial TFF allowance, taking the total amount of long-term funding for the 12 months to September 30, 2020 to $25.2 billion.

The following table shows the Group's total funding composition:

	As of September 30		
	2020 $B	2019 $B	2018 $B
Customer deposits and other liabilities			
Australia Retail and Commercial	**234.6**	208.0	202.7
Institutional	**223.3**	217.3	205.8
New Zealand	**91.0**	83.4	79.8
Pacific	**3.5**	3.5	3.5
TSO and Group Centre[1]	**-**	(0.4)	(4.5)
Customer deposits	**552.4**	511.8	487.3
Other funding liabilities[2,3]	**8.9**	9.6	8.6
Total customer liabilities (funding)	**561.3**	521.4	495.9
Wholesale funding			
Debt issuances and Term Funding Facility	**110.6**	113.1	105.3
Subordinated debt	**21.1**	16.6	15.9
Certificates of deposit	**32.5**	36.6	42.7
Commercial paper	**9.1**	11.7	17.0
Other wholesale borrowings[4,5]	**104.2**	92.3	86.8
Total wholesale funding	**277.5**	270.3	267.7
Shareholders' equity	**61.3**	60.8	59.4
Total funding	**900.1**	852.5	823.0

1. *Includes term deposits and other deposits.*
2. *Includes interest accruals, payables and other liabilities, provisions and net tax provisions.*
3. *Excludes liability for acceptances as they do not provide net funding.*
4. *Includes borrowings from banks, securities sold under repurchase agreements, net derivative balances, special purpose vehicles and other borrowings.*
5. *Includes RBA open repurchase arrangement netted down by the exchange settlement account cash balance.*

Term debt maturity profile

The amounts disclosed below represent the outstanding principal of term debt issued by the Group under its term funding programs, and drawdowns under the RBA's TFF on or before September 30, 2020. The TFF provides eligible ADIs with fixed rate funding at 0.25 percent. For the avoidance of doubt, this excludes commercial paper issuance and short dated issuance off ANZ's long term programs, and the amounts do not include interest cash flows. For the purposes of this maturity profile, foreign currency denominated term debt has been translated into Australian Dollars using spot foreign exchange rates as of September 30, 2020.

Contractual maturity ($m)[1]	FY21	FY22	FY23	FY24	FY25	After 2025	Total
Debt issuances and Term Funding Facility[2]	27,334	20,924	30,577	15,755	4,587	9,735	108,912
Subordinated debt[3]	833	713	133	2,875	3,408	4,538	12,500
Total	**28,167**	**21,637**	**30,710**	**18,630**	**7,995**	**14,273**	**121,412**

1. *The maturity profile is presented as the total amount of term debt scheduled to mature in the relevant fiscal year ending September 30. Maturities for the fiscal year ending September 30, 2021 ("FY21") relate to term debt maturing in the period October 1, 2020 to September 30, 2021.*
2. *Debt issuances include transferable certificate of deposits and drawdowns of the Reserve Bank of Australia's Term Funding Facility included as "Deposits and other borrowings" in the balance sheet.*
3. *The maturity profile for all non-perpetual subordinated debt is presented based on the next callable date. The maturity profile excludes additional Tier 1 capital.*

	As of September 30, 2020		
Credit Ratings of ANZBGL	**Short-Term**	**Long-Term**	**Outlook**
Moody's Investor Services	P-1	Aa3	Stable
Standard & Poor's	A-1+	AA-	Negative
Fitch Ratings	F1	A+	Negative

On April 7, 2020, Fitch Ratings downgraded the Short-term credit rating to F1 and the Long-term credit rating to A+. The outlook remains negative.

On April 8, 2020, Standard & Poor's revised the outlook to negative.

A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by an assigning rating agency and any rating should be evaluated independently of any other information.

Capital management – including discontinued operations

	APRA Basel 3		
	As of September 30		
Qualifying Capital	2020 $M	2019 $M	2018 $M
Tier 1			
Shareholders' equity and non-controlling interests	**61,297**	60,794	59,383
Prudential adjustments to shareholders' equity	**(205)**	120	(322)
Gross Common Equity Tier 1 capital	**61,092**	60,914	59,061
Deductions	**(12,390)**	(13,559)	(14,370)
Common Equity Tier 1 capital	**48,702**	47,355	44,691
Additional Tier 1 capital	**7,779**	7,866	7,527
Tier 1 capital	**56,481**	55,221	52,218
Tier 2 capital	**13,957**	8,549	7,291
Total qualifying capital	**70,438**	63,770	59,509
Capital adequacy ratios (Level 2)			
Common Equity Tier 1	**11.3%**	11.4%	11.4%
Tier 1	**13.2%**	13.2%	13.4%
Tier 2	**3.3%**	2.1%	1.9%
Total capital ratio	**16.4%**	15.3%	15.2%
Risk weighted assets	**429,384**	416,961	390,820

APRA implementation of Basel 3 capital reforms

APRA has adopted the majority of Basel 3 capital reforms in Australia. APRA views the Basel 3 reforms as a minimum requirement and hence has not incorporated some of the concessions proposed in the Basel 3 rules and has also set higher requirements in other areas. As a result, Australian banks' Basel 3 reported capital ratios will not be directly comparable with international peers.

ANZ's interpretation of the material differences in APRA's implementation of Basel 3 and Basel 3 as implemented in major offshore jurisdictions (referred to below as "Internationally Comparable basis") include:

Deductions

- Investments in insurance and banking associates – APRA requires full deduction against CET1. On an Internationally Comparable basis, these investments are subject to a concessional threshold before a deduction is required.
- Deferred tax assets – A full deduction is required from CET1 for deferred tax assets ("DTA") relating to temporary differences. On an Internationally Comparable basis, this is first subject to a concessional threshold before the deduction is required.

RWA

- Mortgages RWA - APRA imposes a floor of 20% on the downturn LGD used in credit RWA calculations for residential mortgages. The Internationally Comparable Basel 3 framework requires a downturn LGD floor of 10%. Additionally, from July 2016, APRA also requires a higher correlation factor than the Basel framework.
- IRRBB RWA – APRA requires inclusion of Interest Rate Risk in the Banking Book ("IRRBB") within the RWA base for the CET1 ratio calculation. This is not required on an Internationally Comparable basis.
- Specialized Lending - APRA requires the supervisory slotting approach be used in determining credit RWA for specialized lending exposures. The Internationally Comparable basis allows for the advanced internal ratings based approach to be used when calculating RWA for these exposures.
- Unsecured Corporate Lending LGD – an 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").
- Undrawn Corporate Lending EAD – an adjustment to ANZ's credit conversion factors for undrawn corporate loan commitments to 75% (used in FIRB approach) to align with banks in other jurisdictions.

Comparison of 2020 with 2019

ANZ's CET1 ratio decreased 2 bps to 11.3% during the year. Key drivers of the movement in the CET1 ratio were:

- Statutory profit (excluding large/notable and one off items which are included in other with the exception of Asian associate impairments, Asian associate AASB 9 adjustment, goodwill write-off and accelerated software amortization which have no impact to capital since they result in an equivalent reduction in capital deductions) and credit impairment charge (CIC)) increased the ratio by +172 bps.
- The above however was offset by:
  - The impact from increases in CIC including the associated DTA increase, along with the impact of RWA risk migration, totaled -76 bps. These impacts were primarily driven by the COVID-19 impact.
  - Higher business RWA usage (excluding foreign currency translation movements, regulatory changes, risk migration and other one-offs) were mainly driven by $10.3 billion (-28 bps) increase in non-CRWA. Underlying CRWA increase during the year was a modest $0.4 billion (-1 bps) as the growth in March 2020 half was largely offset by reduction in September 2020 half. Movements in both halves were predominantly in the Institutional division.
  - Payment of the 2019 final dividend (net of Bonus Option Plan ("BOP") issuance, neutralized Dividend Reinvestment Plan ("DRP")) and the 2020 interim dividend (net of BOP and DRP issuance) reduced the ratio by -69 bps.
  - Other impacts included +30 bps of capital benefits from completion of asset sales (Pension and Investment business to IOOF and UDC to Shinsei Bank Limited), but was offset by the impacts from large/notable adjustments from customer remediation, restructuring cost and lease impacts (-12 bps), capital deductions (-8 bps), net increase in RWA imposts (-4 bps), movement in deferred tax assets not relating to CIC (-4 bps), and other items (-2 bps).

Comparison of 2019 with 2018

ANZ's CET1 ratio decreased 8 bps to 11.4% during the year. Key drivers of the movement in the CET1 ratio were:

- Net organic capital generation of 162 bps. This was primarily driven by statutory profit (excluding large/notable and one-off items), partially offset by underlying RWA growth (excluding foreign currency translation impacts, regulatory changes and other one-offs).
- Payment of the September 2018 final and the March 2019 interim dividends (net of BOP issuance, neutralized DRP) reduced the CET1 ratio by 115 bps.
- Capital benefits from asset disposals completed during the year increased the CET1 ratio by 69 bps, partially offset by-on market share buy-back of $1.1 billion which decreased the CET1 ratio by 29 bps (completion of the announced $3 billion buy back during the March 2019 half).
- RWA modelling changes reduced the CET1 ratio by 60 bps, including impacts from implementation of Standardized Approach for Measuring Counterparty Credit Risk Exposures (SA-CCR) (-18 bps), APRA Operational Risk overlay (-18 bps), implementation of risk weight floors for the New Zealand mortgages and farm lending portfolios (-18 bps) and other RWA modelling changes (-6 bps).
- Customer remediation impacts (continuing and discontinuing) reduced the CET1 by 16 bps.
- Other impacts further reduced the CET1 ratio by 19 bps, including impacts from AASB 9 transition (-5 bps), net foreign currency translation, defined benefit plan impacts and movements in deferred tax assets (-4 bps), and various other movements (-10 bps).

Leverage Ratio – including discontinued operations

At September 30, 2020, the Group's APRA Leverage Ratio was 5.4% which is above the 3.5% APRA proposed minimum for internal ratings-based approach ADI (IRB ADI) which includes ANZ. The following table summarises the Group's Leverage Ratio calculation:

	As of September 30		
	2020 $M	**2019 $M**	**2018 $M**
Tier 1 Capital (net of capital deductions)	**56,481**	55,221	52,218
On-balance sheet exposures (excluding derivatives and securities financing transaction exposures)	**841,830**	810,644	785,405
Derivative exposures	**32,296**	34,258	30,676
Securities financing transaction exposures	**58,416**	36,923	36,066
Other off-balance sheet exposures	**114,128**	107,400	102,810
Total exposure measure	**1,046,670**	989,225	954,957
APRA Leverage Ratio	**5.4%**	5.6%	5.5%

Comparison of 2020 with 2019

APRA leverage ratio decreased 18 bps during the year. Key drivers of the movement were:

- Net organic capital generation (largely from statutory profit excluding large/notable and one-off items) less dividends paid during the year (+21 bps).
- On balance sheet exposures growth primarily from higher liquids mainly during March 2020 half (-21 bps).
- Growth in off balance sheet exposures and securities financing transactions reduced the leverage ratio by -14 bps.
- Net other impacts of -4 bps. This included the benefits from sale of Pension and Investment business to IOOF and UDC to Shinsei Bank (+10 bps) but is more than offset by impacts from increased deferred tax assets (-7 bps), large and notable adjustments (-5 bps) and other items (-2 bps).

Comparison of 2019 with 2018

APRA leverage ratio increased 11 bps during the year. Key drivers of the movement were:

- Net organic capital generation (largely from statutory profit excluding large/notable items and one-off items) less dividends paid during the year (+22 bps).
- Exposure growth including derivatives which collectively reduced the leverage ratio by 11 bps.

Guarantees and contingent liabilities

Details of the estimated maximum amount of guarantees, letters of credit and performance related contingencies that may become payable are disclosed in the following table.

These guarantees, letters of credit and performance related contingencies relate to transactions that the Group has entered into as principal, including guarantees, standby letters of credit and documentary letters of credit.

Documentary letters of credit involve the Group issuing of letters of credit guaranteeing payment in favor of an exporter. They are secured against an underlying shipment of goods or backed by a confirmatory letter of credit from another bank.

Performance related contingencies are liabilities that oblige the Group to make payments to a third party if the customer fails to fulfill its non-monetary obligations under the contract.

To reflect the risk associated with these transactions, we apply the same credit origination, portfolio management and collateral requirements that we apply for loans. The contract amount represents the maximum potential amount that we could lose if the counterparty fails to meet its financial obligations. As the facilities may expire without being drawn upon, the notional amounts do not necessarily reflect future cash requirements.

	As of September 30		
	2020 $M	**2019 $M**	**2018 $M**
Contract amount of:			
Guarantees and letters of credit	22,778	22,339	18,441
Performance related contingencies	17,017	22,112	24,136
Total	39,795	44,451	42,577

For further information on Group's other contingent liabilities, refer to Note 33 of the 2020 Financial Report (attached to this U.S. Disclosure Document as part of Annex A).

Directors

In accordance with the rules of the ANZ Constitution, as amended December 17, 2010 and December 19, 2018 (the "Constitution"), and except as otherwise required by the Corporations Act, any other applicable law, and the Listing Rules of the ASX, the Board of Directors has power to manage the business of the Group and may exercise all powers not required to be exercised at a general meeting of shareholders.

As of the date of this U.S. Disclosure Document, the Directors were:

Director's Name	Position held	Year appointed	Age
Mr. P O'Sullivan	Chairman, Independent Non-Executive Director	2019	60
Mr. S C Elliott	Chief Executive Officer	2016	56
Ms. I R Atlas, AO	Independent Non-Executive Director	2014	66
Ms. P J Dwyer	Independent Non-Executive Director	2012	60
Ms. S J Halton, AO PSM	Independent Non-Executive Director	2016	60
Sir J Key, GNZM AC	Independent Non-Executive Director	2018	59
Mr. G R Liebelt	Independent Non-Executive Director	2013	66
Mr. J T Macfarlane	Independent Non-Executive Director	2014	60

Under the Constitution, a non-executive Director must retire from office at the third annual general meeting after being elected or last re-elected and may seek re-election. As of the date of this U.S. Disclosure Document, the Board was comprised of seven Non-Executive Directors and one Executive Director, the Chief Executive Officer. The names of the Directors, together with details of their qualifications, experience and special responsibilities are set out below.

Directors' Profiles

MR P O'SULLIVAN, Chairman, Independent Non-Executive Director and Chair of the Ethics, Environment, Social and Governance Committee and the Nomination and Board Operations Committee.
BA(MOD) ECONOMICS, ADVANCED MANAGEMENT PROGRAM OF HARVARD

Chairman since October 2020 and a Non-Executive Director since November 2019. Mr. O'Sullivan is an ex-officio member of all Board Committees including Chair of the Ethics, Environment, Social and Governance Committee and the Nomination and Board Operations Committee.

Career

Mr. O'Sullivan has experience in the telecommunications and oil and gas sectors, both in Australia and overseas. He has held senior executive roles with Singapore Telecommunications (Singtel) and was previously the CEO of Optus. He has also held management roles with the Colonial Group and the Royal Dutch Shell Group in Canada, the Middle East, Australia and United Kingdom.

Relevant other Directorships

Chairman: Singtel Optus Pty Limited (from 2014, Director from 2004) and Western Sydney Airport Corporation (from 2017).

Director: Coca-Cola Amatil Limited (from 2017), St Vincent's Health Australia (from 2019) and Telkomsel Indonesia (from 2010).

Relevant Directorships held in last three years include

Former Director: Healthscope Limited (2016-2019) and National Disability Insurance Agency (2017-2020).

Age: 60. **Residence:** Sydney, Australia.

MR S C ELLIOTT, Chief Executive Officer and Executive Director
BCOM

Chief Executive Officer and Executive Director since January 1, 2016.

Career

Mr. Elliott has over 30 years' experience in banking in Australia and overseas, in all aspects of the industry. Mr. Elliott joined ANZ as CEO Institutional in June 2009, and was appointed Chief Financial Officer in 2012.

Prior to joining ANZ, Shayne held senior executive roles at EFG Hermes, the largest investment bank in the Middle East, which included Chief Operating Officer. He started his career with Citibank New Zealand and worked with Citibank/Citigroup for 20 years, holding various senior positions across the UK, USA, Egypt, Australia and Hong Kong.

Shayne is a Director of the Financial Markets Foundation for Children and a member of the Australian Banking Association, the Business Council of Australia and the Australian Customs Advisory Board.

Relevant other Directorships

Director: ANZ Bank New Zealand Limited (from 2009) and the Financial Markets Foundation for Children (from 2016).
Member: Business Council of Australia (from 2016), the Australian Banking Association (from 2016, Chairman 2017-2019) and the Australian Customs Advisory Board (from 2020).

Age: 56. **Residence:** Melbourne, Australia.

MS I R ATLAS, AO, Independent Non-Executive Director and Chair of the Human Resources Committee.
BJURIS (HONS), LLB (HONS), LLM

Non-Executive Director since September 2014. Ms Atlas is a member of the Audit Committee, Ethics, Environment, Social and Governance

Committee and the Nomination and Board Operations Committee.

Career

Ms. Atlas brings a strong financial services background and legal experience to the Board. Ilana was a partner at law firm Mallesons Stephen Jaques (now King & Wood Mallesons), where in addition to her practice in corporate law, she held a number of management roles in the firm including Executive Partner, People and Information, and Managing Partner. She also worked at Westpac for 10 years, where her roles included Group Secretary and General Counsel and Group Executive, People, where she was responsible for human resources, corporate affairs and sustainability. Ilana has a strong commitment to the community, in particular the arts and education.

Relevant other Directorships

Chairman: Coca-Cola Amatil Limited (from 2017, Director from 2011) and Jawun (from 2017, Director from 2014).
Director: Paul Ramsay Foundation (from 2017).
Member: Panel of Adara Partners (from 2015).

Relevant Former Directorships held in last three years include

Former Director: OneMarket Limited (2018-2019),Westfield Corporation Limited (2014-2018), Human Rights Law Centre Ltd (2012-2017) and Treasury Corporation of New South Wales (2013-2017).
Former Fellow: Senate of the University of Sydney (2015-2019).

Age: 66. **Residence:** Sydney, Australia.

MS P J DWYER, Independent Non-Executive Director and Chair of the Audit Committee.
BCOM, FCA, SF FIN, FAICD

Non-Executive Director since April 2012. Ms. Dwyer is a member of the Risk Committee, Human Resources Committee and Nomination and Board Operations Committee.

Career

Ms. Dwyer has extensive experience in financial markets, corporate finance, risk management and investments, having held senior executive roles at Calibre Asset Management, Ord Minnett (now J P Morgan) and at Price Waterhouse (now PricewaterhouseCoopers). Her career as a company director spans financial services, investment, insurance, healthcare, gambling and entertainment, fast moving consumer goods, property and construction and retailing sectors. Paula has a strong interest in education and medical research, having served as a member of the Geelong Grammar School Council and the Business and Economics Faculty at the University of Melbourne and as Deputy Chairman of Baker IDI.

Relevant other Directorships

Chairman: Tabcorp Holdings Limited (from 2011, Director from 2005), Kin Group Advisory Board (from 2014) and Allianz Australia Limited (from 2020, Director from 2019).
Director: Lion Pty Ltd (from 2012).
Member: Kirin International Advisory Board (from 2012) and Australian Government Takeovers Panel (from 2017).

Relevant Former Directorships held in last three years include

Former Chairman: Healthscope Limited (2014-2019).

Age: 60. **Residence:** Melbourne, Australia.

MS S J HALTON, AO, PSM, Independent Non-Executive Director and Chair of the Digital Business and Technology Committee.
BA (HONS) PSYCHOLOGY, FIPAA, HON. FAAHMS, HON. FACHSE, HON. DLITT, FAIM, FAICD.

Non-Executive Director since October 2016. Ms. Halton is a member of the Human Resources Committee, Ethics, Environment, Social and Governance Committee and Nomination and Board Operations Committee.

Career

Ms Halton's 33 year career in the public service includes the positions of Secretary of the Australian Department of Finance, Secretary of the Australian Department of Health, Secretary of the Department of Health and Ageing, and Executive Coordinator (Deputy Secretary) of the Department of the Prime Minister and Cabinet. She brings to the Board extensive experience in finance, insurance, risk management, information technology, human resources, health and ageing and public policy. She also has significant international experience.

Jane has contributed extensively to community health through local and international organizations including the World Health Organization and the National Aboriginal and Torres Strait Islander Health Council.

Relevant other Directorships

Chairman: Vault Systems (from 2017), Coalition for Epidemic Preparedness (Norway) (from 2018, Member from 2016) and Council on the Ageing Australia (from 2017).

Director: Clayton Utz (from 2017) and Crown Resorts Limited (from 2018).
Member: Executive Board of the Institute of Health Metrics and Evaluation at the University of Washington (from 2007) and National COVID-19 Commission Advisory Board (from 2020).
Adjunct Professor: University of Sydney and University of Canberra.
Council Member: Australian Strategic Policy Institute (from 2016).

Age: 60. **Residence:** Canberra, Australia.

RT HON SIR JOHN KEY GNZM AC Independent Non-Executive Director
BCOM, DCOM (HONORIS CAUSA)

Non-Executive Director since February 2018. Sir John is a member of the Risk Committee, Ethics, Environment, Social and Governance Committee, Digital Business and Technology Committee and Nomination and Board Operations Committee.

Career

Sir John was Prime Minister of New Zealand from 2008 to 2016, having commenced his political career in 2002. Sir John had a long career in international finance, primarily for Bankers Trust in New Zealand and Merrill Lynch in Singapore, London and Sydney. He was previously a member of the Foreign Exchange Committee of the Federal Reserve Bank of New York (from 1999-2001).

Sir John was made a Knight Grand Companion of the New Zealand Order of Merit in the 2017 Queen's Birthday Honours. In 2017 Sir John became a Companion of the Order of Australia for advancing the Australia-New Zealand bilateral relationship.

Relevant Other Directorships

Chairman: ANZ Bank New Zealand Limited (from 2018, Director from 2017).
Director: Palo Alto Networks (from 2019).

Relevant Former Directorships held in last three years include

Former Chairman: The International Democratic Union (2014-2018).

Former Director: Air New Zealand Limited (2017-2020).

Age: 59 **Residence**: Auckland, New Zealand

MR G R LIEBELT, Independent Non-Executive Director and Chair of the Risk Committee
BEC (HONS), FAICD, FTSE, FIML

Non-Executive Director since July 2013. Mr. Liebelt is a member of the Audit Committee, Human Resources Committee and Nomination and Board Operations Committee.

Career

Mr. Liebelt brings to the Board his experience of a 23 year executive career with Orica Limited (including a period as Chief Executive Officer), a global mining services company with operations in more than 50 countries. He has extensive international experience and a strong record of achievement as a senior executive including in strategy development and implementation.
Graeme is committed to global trade and co-operation, as well as community education.

Relevant other Directorships

Chairman: Amcor Limited (from 2013, Director from 2012).

Director: Australian Foundation Investment Company Limited (from 2012) and Carey Baptist Grammar School (from 2012).

Relevant Former Directorships held in last three years include

Former Chairman: DuluxGroup Limited (2018-2019, Director from 2016).

Age: 66. **Residence:** Melbourne, Australia

MR J T MACFARLANE Independent Non-Executive Director
BCOM, MCOM (HONS)

Non-Executive Director since May 2014. Mr. Macfarlane is a member of the Audit Committee, Risk Committee, Digital Business and Technology Committee and Nomination and Board Operations Committee.

Career

Mr. Macfarlane is one of Australia's most experienced international bankers having previously served as Executive Chairman of Deutsche Bank Australia and New Zealand, and CEO of Deutsche Bank Australia. Mr. Macfarlane has also worked in the USA, Japan and PNG, and brings to the Board a depth of banking experience in ANZ's key markets in Australia, New Zealand and the Asia Pacific.
He is committed to community health, and is a Director of the Aikenhead Centre of Medical Discovery Limited (from 2016).

Relevant other Directorships

Director: Colmac Group Pty Ltd (from 2014), AGInvest Holdings Limited (MyFarm Limited) (from 2014, Chairman 2014-2016), Balmoral Pastoral Investments (from 2017) and L1 Long Short Fund (from 2018).

Relevant Former Directorships held in last three years include

Former Director: St Vincent's Institute of Medical Research (2008-2019) and Craigs Investment Partners Limited (2013-2020).

Age: 60. **Residence:** Melbourne, Australia

Senior Management and Executives

As of the date of this U.S. Disclosure Document, the senior management and executives (excluding non-executive directors) of ANZ were:

Executive Officers	Position held	Appointed to position	Joined Group
S Elliott Age – 56	Chief Executive Officer Over 30 years' experience in banking in Australia and overseas, in all aspects of the industry. Previous roles within ANZ include: Chief Financial Officer; Chief Financial Officer (Designate); Chief Executive Officer, Institutional. Roles prior to ANZ include: Head of Business Development, EFG Hermes; Chief Operating Officer, EFG Hermes; various senior positions at Citigroup across geographies and business sectors over the course of 20 years which include: CEO Global Transaction Services Asia Pacific; CEO Corporate Bank Australia/NZ & Country Corporate Officer; CEO Egypt; Vice President Strategic Planning New York; Head of Investor Derivative Sales London; and Head of NZ Derivatives Sales and Trading. Shayne is a Director of the Financial Markets Foundation for Children and a member of the Australian Banking Association, the Business Council of Australia and the Australian Customs Advisory Board.	January 2016	June 2009
M Carnegie Age – 50	Group Executive, Digital and Australia Transformation Previous roles within ANZ include: Group Executive, Digital Banking. Roles prior to ANZ include: Managing Director, Google Australia and New Zealand; Managing Director, Proctor and Gamble, Australia and New Zealand.	March 2019	June 2016
K Corbally Age - 50	Chief Risk Officer Previous roles within ANZ include: Group General Manager Internal Audit; Managing Director, Head of Credit and Capital Management; Head of Institutional Relationship Banking Australia; Head of Diversified Industrials. Roles prior to ANZ include: Managing Director and Head of Corporate and Commercial Banking Australia and New Zealand, Citigroup.	March 2018	July 2009
F Faruqui Age – 56	Group Executive, International Over 25 years' experience in the financial services industry Previous roles within ANZ include: CEO International Banking. Roles prior to ANZ include: Head of Corporate and Commercial Banking, Asia Pacific – Citi; Head of Global Loans & Leveraged Finance, Asia Pacific and Head of Fixed Income, Capital Markets – Citi.	February 2016	August 2014
G Florian Age – 55	Group Executive, Technology Over 30 years' experience in technology. Roles prior to ANZ include: Chief Strategy Officer: ITaaS, Dimension Data; Senior Vice President – Strategy and Engagement: ITaaS, Dimension Data; Chief Product Officer: Cloud Business Unit, Dimension Data; Chief Marketing Office, Dimension Data; Chief Technology Officer, Dimension Data.	January 2017	January 2017
A George Age – 56	Deputy Chief Executive Officer Over 25 years' experience in the financial services industry. Previous roles within ANZ include: Group Executive, Wealth Australia; Managing Director, Insurance. Roles prior to ANZ include: Various senior roles with ING Group which include CEO Czech Republic and Slovakia, responsible for banking, insurance and funds management and Regional COO, Asia responsible for Product, Marketing, IT and Operations.	May 2018	December 2013
E Gray Age – 51	Group Executive, Data and Automation Experienced international executive with significant experience in data and customer insights. Previous roles within ANZ include: Chief Data Officer Roles prior to ANZ include: Chief Loyalty and Data Officer, Woolworths; Chief Strategy Officer, Rebel Sport; Partner Bain & Company.	May 2020	February 2017
M Hand Age – 54	Group Executive, Australia Retail and Commercial Banking Previous roles within ANZ include: Group Executive, Australia (acting); Group Executive, Australian Business & Private Banking; Managing Director, Business & Private Banking; Managing Director, Corporate and Commercial Banking; Managing Director, Retail Distribution, Australia; General Manager, Regional Commercial Banking; General Manager, Business Banking Manager segment; State Manager, Business Banking Victoria & Tasmania; District Manager, Business Banking, Melbourne CBD; Head of Credit and Operating Risk, SME Banking; Head of Audit, Middle East & South Asia (based in Mumbai, India).	March 2019	August 1988
M Jablko Age – 48	Chief Financial Officer Over 15 years' experience in investment banking. Roles prior to ANZ include: Managing Director and Co-Head, Greenhill, Australia; Managing Director, UBS Australia; Lawyer, Allens Linklaters (formerly Allens Arthur Robinson), Australia.	July 2016	July 2016
K van der Merwe Age – 46	Group Executive, Talent and Culture Over 15 years' experience focused on leading business transformations. Roles prior to ANZ include: Vice President, Bain & Company	May 2017	May 2017
A Watson Age – 50	Group Executive and Chief Executive Officer, New Zealand Over 25 years' experience in the professional services and financial services sector in New Zealand, the United Kingdom, Australia and Hungary. Previous roles within ANZ include: Group Executive and Chief Executive Officer, New Zealand (acting); Managing Director, Retail & Business Banking; Chief Financial Officer, New Zealand; Financial Controller, New Zealand.	December 2019	April 2009
M Whelan Age – 60	Group Executive, Institutional Over 35 years' experience in banking and has vast experience in the Asian Market and Institutional Banking. Previous roles within ANZ include: Chief Executive Officer, Australia; Managing Director, Commercial Banking Australia; Managing Director, Asia, Europe & America, Institutional; Managing Director, Institutional Asia; Managing Director Markets; Head of Sales, Markets.	February 2016	November 2004

There are no family relationships between or among any key management personnel. All executives can be contacted through our Company Secretary on +61-3-8654-7597 or in writing to the Company Secretary, Australia and New Zealand Banking Group Limited, Level 9, 833 Collins Street, Docklands, Victoria 3008, Australia.

Corporate Governance

ANZ is committed to maintaining a high standard in its governance framework. ANZ confirms it has followed the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (3rd edition) during the 2020 fiscal year. ANZ's Corporate Governance Statement, together with the ASX Appendix 4G which relates to the Corporate Governance Statement, has been lodged with the ASX. They can be found on our website at:

http://shareholder.anz.com/reviews/usdebtinvestors-files and are incorporated by reference and form part of this U.S. Disclosure Document. Information incorporated by reference into, or contained in or accessible through any web site referred to in, the Corporate Governance Statement or the related ASX Appendix 4G does not form part of this U.S. Disclosure Document unless we specifically state that it is incorporated by reference and forms part of this U.S. Disclosure Document.

Employees – including discontinued operations

As of September 30, 2020, ANZ employed 38,579 people worldwide (September 30, 2019: 39,060) on a full-time equivalent ("FTEs") basis.

Division	As of September 30		
	2020	**2019**	**2018**
Australia Retail and Commercial / Australia	**14,078**	13,903	13,731
Institutional	**5,291**	5,468	6,188
New Zealand	**5,761**	6,121	6,165
Pacific / Asia Retail & Pacific	**1,113**	1,086	1,125
TSO and Group Centre	**11,263**	11,010	10,651
Total FTE from continuing operations	**37,506**	37,588	37,860
Discontinued operations[1]	**1,073**	1,472	2,064
Total FTE	**38,579**	39,060	39,924

1. *The discontinued operations FTE is based on an estimate of the staff working in the divested businesses based on an allocation methodology and includes staff retained in the Group working on transitioning the sold businesses to the purchasers.*

Industrial Relations Developments

Australia

In Australia, terms and conditions of employment of most non-management staff, including salaries, may be negotiated between unions and management as part of a collective enterprise bargaining agreement ("EBA") subject to majority employee approval.

The *ANZ Enterprise Agreement 2015-2016 (Australia)* commenced operation on December 29, 2015. The agreement was approved by the Fair Work Commission following an employee ballot in which a majority of 89% voted to endorse it. The agreement replaced the *ANZ Enterprise Agreement 2013-2014 (Australia)* and set the minimum terms and conditions of employment for ANZ's Australian Group 4, 5 and 6 employees (i.e. junior management and non-management employees). The agreement also governed the pay increase arrangements for eligible 'non-market rated' Australian Group 5 and 6 employees (i.e. non-management employees) in respect of the 2015 and 2016 performance and remuneration reviews and contains the salary ranges applicable to these employees.

On September 19, 2017, a 94% majority of employees voted to endorse a proposed variation to the agreement which would extend its operation for another year and provide pay increases for eligible 'non-market rated' Australian Group 5 and 6 employees (i.e. non-management employees) in respect of the 2017 performance and remuneration reviews and include updated salary ranges for these employees. The Fair Work Commission approved this variation on October 31, 2017. As of the date of this U.S. Disclosure Document, the agreement continues to apply and will do so indefinitely – although in 2018 and 2019 the pay increases for eligible 'non-market rated' Australian Group 5 and 6 employees (i.e. non-management employees) were managed outside of the agreement given that the agreement's pay increase provisions have now expired.

In Australia, there are no significant disputes between management and labor unions.

New Zealand

The large majority of New Zealand employees are covered by individual employment agreements. ANZ's collective employment agreement with FIRST Union, which covers approximately 12% of New Zealand employees, was renewed effective as of August 1, 2020, expiring on July 31, 2022.

There are no significant disputes between management and labor unions.

Asia Pacific, Europe & America

There are no significant disputes between management and labor unions in any of the countries located in the Asia Pacific, Europe or America geography.

Superannuation

The Group has established a number of pension, superannuation and post-retirement medical benefit schemes throughout the world. For further information on ANZ's superannuation obligations, refer to Note 30 of the 2020 Financial Report (attached to this U.S. Disclosure Document as part of Annex A).

Employee Equity

ANZ operates a number of employee share and option schemes that operate under the ANZ Employee Share Acquisition Plan and the ANZ Share Option Plan. For further information on ANZ's employee share and option plans, refer to Note 31 of the 2020 Financial Report (attached to this U.S. Disclosure Document as part of Annex A).

Major Shareholders

We are not directly or indirectly controlled by another corporation, any government or any other natural or legal person(s), separately or jointly.

As of October 6, 2020, we are aware of two entities which are the beneficial owners of 5% or more of our ordinary shares.

We were made aware on May 12, 2017 that BlackRock Group became a substantial shareholder, with an interest in 148,984,864 ordinary shares (5.07%) in the Company, and on December 2, 2019, BlackRock Group's interest increased to 172,225,527 ordinary shares (6.07%) in the Company.

We were made aware on July 3, 2018, that The Vanguard Group, Inc. became a substantial shareholder, with an interest in 144,730,016 ordinary shares (5.001%) in the Company, and on March 17, 2020, The Vanguard Group, Inc's interest increased to 170,502,797 ordinary shares (6.012%) in the Company.

Refer to the 2020 Remuneration Report (attached as part of Annex A to this U.S. Disclosure Document) for further information (as of the relevant dates referred to therein) regarding share and option holdings by key management personnel (including directors).

Refer to "Section 6: Additional Information - Limitations affecting security holders" for details of the Australian law limitations on the right of non-residents or non-citizens of Australia to hold, own or vote on shares in the Company.

Description of Ordinary Shares and Constituent Documents

Constitution

A copy of the Company's Constitution, as adopted by shareholders on December 18, 2007 and incorporating amendments approved by shareholders on December 17, 2010 and December 19, 2018 is available on the Company's website at: *https://www.anz.com/shareholder/centre/reporting/supplementary-disclosures/usdebtinvestors-files/*. There have been no changes to the Constitution subsequently. The Company's Constitution does not contain a limit on how many shares the Company may have on issue at any time.

Dividend rights

Holders of ordinary shares are entitled to receive such dividends as may be determined by the directors from time to time in accordance with the Company's Constitution. Dividends that are not claimed are required to be dealt with in accordance with laws relating to unclaimed monies.

The Company must not pay a dividend unless:

- the Company's assets exceed its liabilities immediately before the dividend is declared and the excess is sufficient for the payment of the dividend;
- the payment of the dividend is fair and reasonable to the Company's shareholders as a whole; and
- the payment of the dividend does not materially prejudice the Company's ability to pay its creditors.

Payment of a dividend on ordinary shares may also be restricted by the terms of preference shares and other hybrid securities carrying a prior right to the payment of a dividend or distribution. Before paying any dividend, directors must ensure that they are in compliance with APRA prudential standards. See "Information on the Group - Supervision and Regulation" for more information on APRA prudential standards.

Voting rights

Subject to any applicable laws, as described further below in "Section 6: Additional Information - Limitations affecting security holders" and agreements to the contrary, each ordinary shareholder present at a general meeting (whether in person or by proxy, attorney or representative) is entitled to one vote on a show of hands (unless the shareholder has appointed two proxies in which case neither can vote) or, on a poll, one vote for each fully paid ordinary share held.

Right to share in surplus assets

In the event of a winding-up of the Company, ordinary shareholders rank after creditors and preference shareholders and are fully entitled to any surplus proceeds on liquidation.

Rights to redemption

Ordinary shareholders have no right to redeem their shares.

Further calls

Holders of fully paid ordinary shares have no liability for further capital calls by the Company. There are no partly paid ordinary shares.

There is no provision of the Company's Constitution that discriminates against any existing or prospective holder of ordinary shares as a result of such shareholder owning a substantial number of shares on issue.

Preference shares

The Company's Constitution authorizes the Board of Directors to issue preference shares with any rights attaching to them that the Board of Directors determines prior to their issue. These include rights to dividends that are cumulative or non-cumulative and that are in priority to the rights of ordinary shareholders, and rights to a return of capital and to participate in surplus assets in a winding up in priority to the rights of ordinary shareholders. Preference shareholders have rights to vote only in limited circumstances unless the Board of Directors otherwise determines prior to issue of the preference shares. There is no limit on the amount of preference shares which the Company may issue.

Changes to the rights of shareholders

The Company's Constitution has effect as a contract between the Company and each shareholder, and between each shareholder, under which each person agrees to observe and perform the Company's Constitution as it applies to that person. In accordance with the Corporations Act, the Company may modify or repeal its Constitution, or a provision of its Constitution, by a special resolution that has been passed by at least 75% of the votes cast by shareholders entitled to vote on the resolution.

A Banking Act statutory manager appointed by APRA has power under the Banking Act to, among other things, cancel shares or rights to acquire shares in the Company or vary or cancel rights or restrictions attached to shares, notwithstanding the Constitution, the Corporations Act, the terms of any contract or arrangement to which the Company is party or the listing rules of any financial market in whose official list the Company is included.

Share rights – American Depositary Shares ("ADSs")

Each ADS confers an interest in 1 fully paid ordinary share in the Company which has been deposited with a depositary or custodian. The rights attaching to each fully paid ordinary share represented by an ADS are the same as the rights attaching to fully paid ordinary shares as described above. These rights are legally vested in the custodian or depositary as the holder of the fully paid ordinary shares, although holders of American Depositary Receipts ("ADRs"), which evidence ADSs, have certain rights against the depositary or custodian under the terms governing the issue of the ADRs.

Convening of and admission to general meetings

The Board of Directors may call a meeting of the Company's shareholders. The directors must call and arrange to hold a general meeting of the Company if requested to do so by shareholders who hold at least 5% of the votes that may be cast at the general meeting. Shareholders who hold at least 5% of the votes that may be cast at the general meeting may also call and arrange to hold a general meeting of the Company at their own expense.

At least 28 days' notice must be given of a meeting of the Company's shareholders. Written notice must be given to all shareholders entitled to attend and vote at a meeting. All ordinary shareholders except for holders of partly paid ordinary shares (if any) who have failed to pay a call in respect of such shares are entitled to attend to vote at general meetings of the Company. Voting rights attaching to other classes of shares in the Company may differ.

The directors may, in accordance with the Constitution and the Corporations Act, determine a time before a meeting at which membership in the Company (for the purposes of the meeting) is to be ascertained in respect of holding of shares that are quoted on the stock market of the ASX.

Transfer

A holder of a share may transfer it by any means permitted by the Corporations Act, subject to limited restrictions in the Constitution and applicable law. See further "Limitations Affecting Security Holders" below.

Limitations on ownership and changes in control

The Constitution contains certain limitations on the rights to own securities in the Company. However, there are detailed Australian laws and regulations which govern the acquisition of interests in the Company, and a summary of those is set out in "Section 6: Limitations affecting security holders".

The Constitution requires any sale or disposal of the Company's main undertaking to be subject to ratification by the Company in a general meeting. The ASX Listing Rules may also require ANZ to obtain shareholder approval to effect any such sale or disposal. Except for that provision, there are no provisions in the Constitution which would have the effect of delaying, deferring or preventing a change in control of the Company which would operate only with respect to a merger, acquisition or corporate restructuring involving the Company or its controlled entities.

If the Company issues partly paid shares to a person and that person fails to pay a call on those shares when required, the Board of Directors may give that person a notice which requires the member to pay the called amount and provides information in respect of how and when the called amount is to be paid. If the requirements of the notice are not satisfied, the Board of Directors, via resolution, may forfeit the partly paid share (and all dividends, interest and other money payable in respect of that share and not actually paid before the forfeiture) by resolution before the called amount is paid.

In addition, unless the terms of issue provide otherwise, under the Constitution the Company has a first and paramount lien on each share for all money called or payable at a fixed time in respect of that share that is due and unpaid, and certain amounts paid by the Company for which the Company is indemnified under the terms of the Constitution. If the Company has a lien on a share, and an amount secured by the lien is due and payable, the Company may give notice to the person registered as the holder of the share requiring payment of the amount and specifying how and when the payment must be made. If the requirements of that notice are not fulfilled, the Company may sell the share as if it had been forfeited.

The Board of Directors may also direct the sale of a share that is part of a "non-marketable parcel". For these purposes, a "non-marketable parcel" is a parcel of shares of a single class registered in the same name or same joint names which is less than the number that constitutes a marketable parcel of shares of that class under the ASX Listing Rules, or, subject to applicable law as specified in the Constitution, any other number determined by the Board of Directors from time to time.

Constitution provisions governing disclosure of shareholdings

There are no provisions of the Constitution which provide an ownership threshold above which share ownership must be disclosed. However, the Corporations Act requires a person to disclose certain prescribed information to the Company and the ASX if the person has or ceases to have a "substantial holding" in the Company. The term 'substantial holding' is defined in the Corporations Act as broadly, a relevant interest in 5% or more of the total number of votes attaching to voting shares and is not limited to direct shareholdings.

The Corporations Act also permits the Company or ASIC to direct any member of the Company to make certain disclosures in respect of their interest in the Company's shares and the interest held by any other person in those shares.

Changes in capital

The Constitution does not make any provision governing changes in the capital of the Company that is more stringent than is required by Australian law.

Change in Control

There are no arrangements known to ANZ, the operation of which may at a subsequent date result in a change in control of ANZ.

Related Party Transactions

Key management personnel loan transactions

Loans made to directors of the Company and other Key Management Personnel ("KMP") of the Group are made in the ordinary course of business and on normal commercial terms and conditions that are no more favorable than those given to other employees or customers, including: the term of the loan, security required and the interest rate. No amounts have been written off during the period, or individual provision raised in respect of these balances.

Other transactions of key management personnel and their related parties

All other transactions with KMP and their related parties included amounts paid to the Group in respect of investment management service fees, brokerage and bank fees and charges. The Group has reimbursed KMP for the costs incurred for security and secretarial services associated with the performance of their duties. These transactions are conducted on normal commercial terms and conditions no more favorable than those given to other employees or customers.

There have been no transactions with related parties that are significant to understanding the changes in financial position and performance of the Group since September 30, 2020.

Associates

Transactions conducted with all associates were on terms equivalent to those made on an arm's length basis.

For further information on related party transactions, refer to Note 32 of the 2020 Financial Report (attached as part of Annex A to this U.S. Disclosure Document).

CHESS

CHESS stands for the "Clearing House Electronic Subregister System" and is operated by ASX Settlement Pty Limited, a wholly owned subsidiary of ASX Limited. ASX Settlement Pty Limited authorizes certain participants such as brokers, custodians, institutional investors and settlement agents to access CHESS and settle trades made by themselves or on behalf of clients. Following consultation on a replacement for CHESS, ASX confirmed in October 2020 a go-live date of April 2023 for the replacement system. In October 2020, ASIC and the RBA also outlined their expectations of ASX as it replaces CHESS.

Any public documents referred to in this U.S. Disclosure Document may be inspected by contacting the Company Secretary on +61-3-8654-7597 or in writing to the Company Secretary, Australia and New Zealand Banking Group Limited, Level 9, 833 Collins Street, Docklands, Victoria 3008, Australia.

LEGAL PROCEEDINGS

There are outstanding court proceedings, claims and possible claims for and against the Group. Where relevant, expert legal advice has been obtained and, in the light of such advice, provisions and/or disclosures as deemed appropriate have been made (Note 21 of the 2020 Financial Report (attached to this U.S. Disclosure Document as part of Annex A) contains a description of provisions held). In some instances we have not disclosed the estimated financial impact of the individual items either because it is not practicable to do so or because such disclosure may prejudice the interests of the Group.

Contingent liabilities

Refer to Note 33 of the 2020 Financial Report (attached to this U.S. Disclosure Document as part of Annex A) for a description of contingent liabilities and contingent assets as of September 30, 2020.

A summary of some of those contingent liabilities is set out below.

- *Regulatory and customer exposures*

  In recent years there has been an increase in the number of matters on which the Group engages with its regulators. There have also been significant increases in the nature and scale of regulatory investigations, surveillance and reviews, civil and criminal enforcement actions (whether by court action or otherwise), formal and informal inquiries, regulatory supervisory activities and the quantum of fines issued by regulators, particularly against financial institutions both in Australia and globally. The Group has received various notices and requests for information from its regulators as part of both industry-wide and Group-specific reviews and has also made disclosures to its regulators at its own instigation. The nature of these interactions can be wide ranging and, for example, currently include a range of matters including responsible lending practices, regulated lending requirements, product suitability and distribution, interest and fees and the entitlement to charge them, customer remediation, wealth advice, insurance distribution, pricing, competition, conduct in financial markets and financial transactions, capital market transactions, anti-money laundering and counter-terrorism financing obligations, reporting and disclosure obligations and product disclosure documentation. There may be exposures to customers which are additional to any regulatory exposures. These could include class actions, individual claims or customer remediation or compensation activities. The outcomes and total costs associated with such reviews and possible exposures remain uncertain.

- *Benchmark/rate actions*

  In July and August 2016, class action complaints were brought in the U.S. District Court against local and international banks, including ANZBGL - one action relating to the bank bill swap rate (“BBSW”), and one action relating to SIBOR and the Singapore Swap Offer Rate (“SOR”). The class actions are expressed to apply to persons and entities that engaged in U.S.-based transactions in financial instruments that were priced, benchmarked, and/or settled based on BBSW or SIBOR. The claimants seek damages or compensation in amounts not specified, and allege that the defendant banks, including ANZBGL, violated U.S. anti-trust laws and (in the BBSW case only) anti-racketeering laws, the Commodity Exchange Act, and unjust enrichment principles. ANZBGL is defending the proceedings.

  In February 2017, the South African Competition Commission commenced proceedings against local and international banks including ANZBGL alleging breaches of the cartel provisions of the South African Competition Act in respect of trading in the South African rand. The potential civil penalty or other financial impact is uncertain.

- *Capital raising actions*

  In June 2018, the Commonwealth Director of Public Prosecutions commenced criminal proceedings against ANZBGL and a senior employee alleging that they were knowingly concerned in cartel conduct by the joint lead managers of ANZBGL’s August 2015 underwritten institutional equity placement of approximately 80.8 million ordinary shares. ANZBGL and its senior employee are defending the allegations.

  In September 2018, ASIC commenced civil penalty proceedings against ANZBGL alleging failure to comply with continuous disclosure obligations in connection with ANZBGL’s August 2015 underwritten institutional equity placement. ASIC alleges ANZBGL should have advised the market that the joint lead managers took up approximately 25.5 million ordinary shares of the placement. ANZBGL is defending the allegations.

- *Consumer credit insurance litigation*

  In February 2020, a class action was brought against ANZBGL alleging breaches of financial advice obligations, misleading or deceptive conduct and unconscionable conduct in relation to the distribution of consumer credit insurance products. The issuers of the insurance products, QBE and OnePath Life, are also defendants to the claim. ANZBGL is defending the allegations.

- *Esanda dealer car loan litigation*

  In August 2020, a class action was brought against ANZBGL alleging unfair conduct, misleading or deceptive conduct and equitable mistake in relation to the use of flex commissions in dealer arranged Esanda car loans. ANZBGL is defending the allegations.

- *Royal Commission*

  The Royal Commission released its final report on February 4, 2019. The findings and recommendations of the Royal Commission are resulting in additional costs and may lead to further exposures, including exposures associated with further regulator activity or potential customer exposures such as class actions, individual claims or customer remediation or compensation activities. The outcomes and total costs associated with these possible exposures remain uncertain. See also “*Section 2: Information on the Group - Supervision and Regulation - Australia - Australian Regulatory Developments – Royal Commission*” for further information.

- *Security recovery actions*

  Various claims have been made or are anticipated, arising from security recovery actions taken to resolve impaired assets. These claims will be defended.

- *Warranties and Indemnities*

  The Group has provided warranties, indemnities and other commitments in favor of the purchaser and other persons in connection with various disposals of businesses and assets and other transactions, covering a range of matters and risks. It is exposed to claims under those warranties, indemnities and commitments.

Periodical payment remediation and ASIC action

In July 2019, ASIC commenced civil penalty proceedings against ANZBGL in relation to the charging of fees for periodical payments in certain circumstances between August 2003 and February 2016. ASIC sought civil penalties in respect of alleged false or misleading representations and unconscionable conduct and alleged that ANZBGL engaged in misleading or deceptive conduct and breached certain statutory obligations as a financial services licensee. On October 2, 2020, ANZBGL announced that the Federal Court of Australia had approved its agreement with ASIC to settle the court action. As part of the settlement ANZBGL has paid a civil penalty of $10 million and $1 million towards ASIC's costs.

DIVIDEND DISTRIBUTION POLICY

The Board of Directors of ANZ will determine the amount and timing of dividend distributions to holders of ordinary shares based on the financial performance and financial position of the Group.

ANZ has a DRP and a BOP that will operate in respect of the 2020 final dividend. For the 2020 final dividend, new ANZ ordinary shares will be issued to satisfy ANZ's obligations under the DRP and BOP. The "Acquisition Price" to be used in determining the number of shares to be provided under the DRP and BOP will be calculated by reference to the arithmetic average of the daily volume weighted average sale price of all fully paid ANZ ordinary shares sold in the ordinary course of trading on the ASX and Chi-X during the ten trading days commencing on November 13, 2020, and then rounded to the nearest whole cent. Shares provided under the DRP and BOP will rank equally in all respects with existing fully paid ANZ ordinary shares. Eligibility criteria applies to the participation in the DRP and BOP. In particular, until the Board otherwise determines, participation in the DRP and BOP is not available directly or indirectly to any entity or person, including any legal or beneficial owner of the ordinary shares of ANZBGL, who is (or who is acting on behalf of or for the account or benefit of an entity or person who is) in or resident in the U.S. its possessions or territories, or in Canada.

EXCHANGE CONTROLS

There are currently no general Australian exchange control regulations in force that restrict the payment of dividends, interest or other remittances to holders of our securities. Economic and trade sanctions are, however, implemented in Australia from time to time to reflect Australian public policy, and operate to prohibit the entry into certain transactions with specified persons or entities without the consent of the applicable Australian regulatory body. These include the following:

1. The Autonomous Sanctions Act 2011 of Australia and Autonomous Sanctions Regulations 2011 of Australia prohibit dealing with certain "sanctioned" vessels, "designated" persons or entities by directly or indirectly making assets (including shares and securities) available to or for their benefit without a permit, including:

   (a) persons who have been indicted for an offence by or within the jurisdiction of the International Criminal Tribunal for the former Yugoslavia ("ICTY") or who are subject to an Interpol arrest warrant related to such an offence within the jurisdiction of the ICTY, persons who are suspected of assisting persons who have been indicted by the ICTY and are not currently detained by the ICTY, as well as certain supporters of the former Milosevic regime;

   (b) persons or entities engaging (or who have engaged) in activities that seriously undermine democracy, respect for human rights and the rule of law in Zimbabwe;

   (c) certain persons or entities associated with the weapons of mass destruction or missiles program of North Korea, or have assisted or are assisting North Korea to violate or evade certain United Nations Resolutions;

   (d) certain persons associated with the Myanmar regime, including current and former ministers, senior officials in security or corrections agencies, senior officials or executives in a state-owned or military owned enterprise and current or former military officers of particular ranks, and immediate family members of such persons;

   (e) certain persons or entities who have contributed or are contributing to Iran's nuclear or missile programs, or have assisted or are assisting Iran to violate certain United Nations Resolutions;

   (f) certain close associates of the former Qadhafi regime, entities under the control of the Qadhafi family and persons or entities who have assisted or are assisting in the violation of certain United Nations Resolutions with respect to Libya and immediate family members of such persons;

   (g) certain persons or entities providing support to the Syrian regime or responsible for human rights abuses in Syria; and

   (h) persons or entities responsible for, or complicit in, the threat to the sovereignty and territorial integrity of Ukraine.

   The Minister for Foreign Affairs also has the ability to designate a person or entity that contributes to the proliferation of weapons of mass destruction for the purposes of the Autonomous Sanctions Regulations 2011 of Australia.

2. Under Part 4 of the Charter of the United Nations Act 1945 of Australia, the Charter of the United Nations (Dealing with Assets) Regulations 2008 of Australia provide for sanctions against using or dealing with financial or other assets of persons or entities listed by the Minister for Foreign Affairs in the Commonwealth of Australia Gazette from time to time. Under Part 3 of the Charter of the United Nations Act 1945 of Australia and pursuant to specific regulations, it is prohibited to make certain supplies (which may include financial supplies) in respect of certain countries, including:

   (a) Democratic Republic of the Congo (see the Charter of the United Nations (Sanctions – Democratic Republic of the Congo) Regulations 2008 of Australia);

   (b) North Korea (see the Charter of the United Nations (Sanctions – Democratic People's Republic of Korea) Regulations 2008 of Australia);

   (c) Sudan (see the Charter of the United Nations (Sanctions – Sudan) Regulations 2008 of Australia);

   (d) Iran (see the Charter of the United Nations (Sanctions – Iran) Regulation 2016 of Australia);

   (e) Iraq (see the Charter of the United Nations (Sanctions – Iraq) Regulations 2008 of Australia);

(f) Al-Qaida and the Taliban (see the Charter of the United Nations (Sanctions – Al-Qaida) Regulations 2008 of Australia and the Charter of the United Nations (Sanctions – the Taliban) Regulation 2013 of Australia);

(g) Somalia (see the Charter of the United Nations (Sanctions – Somalia) Regulations 2008 of Australia);

(h) Lebanon (see the Charter of the United Nations (Sanctions – Lebanon) Regulations 2008 of Australia);

(i) Libya (see the Charter of the United Nations (Sanctions – Libya) Regulations 2011 of Australia);

(j) Central African Republic (see the Charter of the United Nations (Sanctions – Central African Republic) Regulation 2014 of Australia);

(k) Yemen (see the Charter of the United Nations (Sanctions – Yemen) Regulation 2014 of Australia);

(l) South Sudan (see the Charter of the United Nations (Sanctions – South Sudan) Regulation 2015 of Australia);

(m) Syria (see the Charter of the United Nations (Sanctions – Syria) Regulation 2015 of Australia); and

(n) Mali (see the Charter of the United Nations (Sanctions – Mali) Regulations 2018 of Australia).

3. Under the AML Act (or, where applicable, the Financial Transaction Reports Act 1988 of Australia), transfer of physical currency or digital currency (cryptocurrency) of $10,000 (or the foreign equivalent) and above must be reported by certain persons (including ANZ) to AUSTRAC. The Australian Government has introduced a bill to prohibit individuals and entities from making or accepting cash payments of $10,000 or more (or the foreign equivalent). Such payments will include those made offshore by certain types of entities with sufficient connection to Australia and where the cash payment is made or accepted for a supply that is wholly or partly supplied in Australia. As at the date of this U.S. Disclosure Document, it is anticipated that the bill will be passed and come into effect some time in 2020.

LIMITATIONS AFFECTING SECURITY HOLDERS

The following Australian laws impose limitations on the right of persons to hold, own or vote on shares in our company.

- Foreign Acquisitions and Takeovers Act 1975 of Australia

  The acquisition of shares in Australian companies by foreign interests is regulated by the Foreign Acquisitions and Takeovers Act 1975 of Australia. The Foreign Acquisitions and Takeovers Act 1975 of Australia applies (subject to certain monetary thresholds) to, among other things, any acquisition or issue of shares which results in either:

  - a foreign person or foreign-controlled corporation alone or together with any associates being in a position to control 20% or more of the voting power or potential voting power or hold any legal or equitable interest in 20% or more of the issued shares or rights to issued shares in a corporation carrying on an Australian business; or
  - two or more foreign persons or foreign-controlled corporations, together with any associates of any of those foreign persons or foreign-controlled corporations being in a position to control 40% or more of the voting power or potential voting power or hold any legal or equitable interest in 40% or more of the issues shares or rights to issued shares in a corporation carrying on an Australian business.

  In either of these cases, and in certain other circumstances, the Federal Treasurer may prohibit the acquisition if it would be contrary to the Australian national interest.

- Financial Sector (Shareholdings) Act 1998 of Australia

  The Financial Sector (Shareholdings) Act 1998 of Australia prohibits a person (together with their associates, if any), or two or more persons under an arrangement, from acquiring shares in a financial sector company if the acquisition would result in a person, together with their associates, holding a stake in the company of more than 20%. However, the Federal Treasurer may grant approval to a person to hold a stake of greater than 20% but only if satisfied that it is in the Australian national interest. No such approvals have been granted in respect of our shares.

- Corporations Act and ASX Listing Rules

  Shareholding restrictions

  Any person acquiring voting shares in a listed company or an unlisted company with more than 50 members is subject to the provisions contained in Chapter 6 of the Corporations Act relating to the acquisition of relevant interests in voting shares. Subject to certain exceptions (and among other prohibitions), section 606 of the Corporations Act prohibits a person from acquiring a relevant interest in issued voting shares in such a company if, because of the acquisition, the person's or someone else's voting power in the company increases:

  - from 20% or below to more than 20%; or
  - from a starting point that is above 20% and below 90%.

  One of the exceptions to section 606 allows a person to acquire voting power of an additional 3% in a company if:

  - throughout the six months before the acquisition that person, or any other person, has had voting power in the company of at least 19%; and
  - as a result of the acquisition, neither that person, nor any other person who has had voting power of at least 19% in the preceding six months, would have voting power in the company more than 3% higher than they had six months before the acquisition.

  For the purposes of the Corporations Act, a person's voting power in a company is the total number of votes attached to voting shares in respect of which the person and its associates (which are broadly defined) have a 'relevant interest' as a proportion of the total number of votes attached to all voting shares in the company. Broadly speaking, subject to certain qualifications, a person has a 'relevant interest' in securities if the person is the holder of the securities; has the power to exercise, or control the exercise of, a right to vote attached to the securities; or has the power to dispose of, or control the exercise of a power to dispose of, a security.

  In addition, under the Corporations Act, any person who begins to have or ceases to have, a substantial holding in us, or who already has a substantial holding and there is a movement of at least 1% in their holding, or who makes a takeover bid for our securities, is required to give a notice to the Company and to ASX Limited providing certain prescribed information, including their name and address and details or their relevant interests in our voting shares. Generally, such notice must be provided within two business days after the person becomes aware of the information.

The sale of shares may also be restricted by applicable Australian law, including restrictions under the Corporations Act on the sale of shares to investors within 12 months of their issue (except where certain exemptions apply) on account of the shares, or the securities which convert into those shares, being issued without disclosure as required by the Corporations Act.

Divestment of shares in relation to control transactions

The Corporations Act also enables persons to compulsorily acquire shares in a company in certain circumstances, including where they obtain a relevant interest in 90% or more of the issued voting shares of a company through a takeover bid or other means. A person may also compulsorily acquire shares pursuant to a court order in connection with a scheme of arrangement under the Corporations Act, following approval of the scheme of arrangement by the requisite number of shareholders at a prior vote.

The Australian Takeovers Panel also has the ability to make orders requiring persons to divest interests in shares, or to seize shares from persons, or restrict voting rights, where the Takeovers Panel finds (on an application by an interested party) where they make a decision that unacceptable circumstances exist in relation to the affairs of a company that warrant the granting of such an order.

Restrictions on voting under the Corporations Act and ASX Listing Rules

The Corporations Act and ASX Listing Rules impose restrictions on certain persons and their associated or related entities from voting at general meetings of the Company in certain circumstances. These restrictions include, to the extent applicable to a shareholder, voting on: related party transactions involving the shareholder; change of control transactions involving the shareholder; capital actions involving the shareholder (including issues of shares requiring shareholder approval, share consolidations, splits and buy-backs); remuneration related resolutions presented to shareholders for approval, and other similar corporate actions.

Other restrictions relating to shares

Australian securities laws impose prohibitions of general application on misconduct in financial markets and dealings relating to financial products in Australia. These laws may prevent a person from acquiring or selling shares in the Company in certain circumstances (for example, where such conduct would constitute “insider trading”).

- Competition and Consumer Act 2010 of Australia

  The Competition and Consumer Act 2010 of Australia regulates acquisitions which would have the effect, or be likely to have the effect, of substantially lessening competition in a market in Australia.

WITHHOLDING TAXES

Australia imposes withholding taxes on certain payments to recipients outside Australia including certain dividend payments (to the extent such dividends are unfranked) and certain interest payments.

CONSTITUTION

The Company’s Constitution was most recently amended on December 19, 2018. There have been no changes to the Constitution subsequently.

MATERIAL CONTRACTS

There have been no material contracts entered into by the Group in the past two years, other than in the ordinary course of its business, upon which it is substantially dependent.

AASB - Australian Accounting Standards Board. The term "AASB" is commonly used when identifying Australian Accounting Standards issued by the AASB.

APRA - Australian Prudential Regulation Authority.

APRA Leverage Ratio compares Tier 1 Capital to the "exposure measure" (expressed as a percentage) as defined by APS 110. It is a designed as a 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.

APS - ADI Prudential Standard.

Cash and cash equivalents comprise coins, notes, money at call, balances held with central banks, liquid settlement balances (readily convertible to known amounts of cash which are subject to insignificant risk of changes in value) and securities purchased under agreements to resell (reverse repos) in less than three months.

Collectively assessed allowance for expected credit loss represents collectively assessed ECL. These incorporate forward looking information and do not require an actual loss event to have occurred for an impairment provision to be recognized.

Coronavirus ("COVID-19") is a respiratory illness caused by a new virus and declared a Public Health Emergency of International Concern. COVID-19 was characterized as a pandemic by the World Health Organization on March 11, 2020.

Covered bonds are bonds issued by an ADI to external investors secured against a pool of the ADI's assets (the cover pool) assigned to a bankruptcy remote special purpose entity. The primary assets forming the cover pool are mortgage loans. The mortgages remain on the issuer's balance sheet. The covered bond holders have dual recourse to the issuer and the cover pool assets. The mortgages included in the cover pool cannot be otherwise pledged or disposed of but may be repurchased and substituted in order to maintain the credit quality of the pool. The Group issues covered bonds as part of its funding activities.

Credit risk is the risk of financial loss resulting from the failure of ANZ's customers and counterparties to honor or perform fully the terms of a loan or contract.

Credit risk weighted assets ("CRWA") represent assets which are weighted for credit risk according to a set formula as prescribed in APS 112/113.

Customer deposits represent term deposits, other deposits bearing interest, deposits not bearing interest and borrowing corporations' debt excluding securitization deposits.

Customer remediation includes provisions for expected refunds to customers, remediation project costs and related customer and regulatory claims, penalties and litigation outcomes.

Derivative credit valuation adjustment ("CVA") - Over the life of a derivative instrument, ANZ uses a 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.

Dividend payout ratio is the total ordinary dividend payment divided by profit attributable to shareholders of the Company.

FX means foreign exchange.

Gross loans and advances ("GLA") is made up of loans and advances, capitalized brokerage/mortgage origination fees less unearned income.

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 valuation adjustment (CVA), which is a market assessment of the credit risk of the relevant counterparties.

Impaired loans comprise of drawn facilities where the customer's status is defined as impaired.

Individually assessed allowance for expected credit loss is assessed on a case-by-case basis for all individually managed impaired assets taking into consideration factors such as the realizable 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.

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:

1. 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;
2. Basis risk - the risk to earnings or market value arising from volatility in the interest margin applicable to banking book items; and
3. Optionality risk - the risk to earnings or market value arising from the existence of stand-alone or embedded options in banking book items.

Level 1 in the context of APRA supervision, Australia and New Zealand Banking Group Limited consolidated with certain approved subsidiaries.

Level 2 in the context of APRA supervision, the consolidated ANZ Group excluding associates, insurance and funds management entities, commercial non-financial entities and certain securitization vehicles.

Major Bank Levy refers to a levy that was introduced by the Australian Government with effect from July 2017 and is imposed on liabilities for certain large banks, including the Group.

Net interest margin is net interest income as a percentage of average interest earning assets.

Net loans and advances represent gross loans and advances less allowance for credit losses.

Net Stable Funding Ratio ("NSFR") is the ratio of the amount of available stable funding ("ASF") to the amount of required stable funding ("RSF") defined by APRA. The amount of ASF is the portion of an ADI's capital and liabilities expected to be a reliable source of funds over a one year time horizon. The amount of RSF is a function of the liquidity characteristics and residual maturities of an ADI's assets and off-balance sheet activities. ADIs must maintain an NSFR of at least 100%.

Net tangible assets equal share capital and reserves attributable to shareholders of the Company less unamortized intangible assets (including goodwill and software).

Regulatory deposits are mandatory reserve deposits lodged with local central banks in accordance with statutory requirements.

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.

Return on average assets is the profit attributable to shareholders of the Company, divided by average total assets.

Return on average ordinary shareholders' equity is the profit attributable to shareholders of the Company, divided by average ordinary shareholders' equity.

Risk weighted assets ("RWA") are risk weighted according to each asset's inherent potential for default and what the likely losses would be in the case of default. In the case of non-asset backed risks (i.e. market and operational risk), RWA is determined by multiplying the capital requirements for those risks by 12.5.

Settlement balances owed to/by ANZ represent financial assets and/or liabilities which are in the course of being settled. These may include trade dated assets and liabilities, vostro accounts and securities settlement accounts.

Term Funding Facility ("TFF") refers to three-year funding announced by the Reserve Bank of Australia on March 19, 2020 and offered to ADIs in order to support lending to Australian businesses at low cost.

ANNEX A: THE 2020 REMUNERATION REPORT, THE 2020 FINANCIAL REPORT OF THE GROUP, AND THE INDEPENDENT AUDITOR'S REPORT ON THE 2020 FINANCIAL REPORT OF THE GROUP (EXTRACTS FROM ANZ's 2020 ANNUAL REPORT)

ANNEX B: THE 2020 FINANCIAL REPORT OF THE COMPANY AND THE INDEPENDENT AUDITOR'S REPORT ON THE 2020 FINANCIAL REPORT OF THE COMPANY

ANNEX C: THE 2019 REMUNERATION REPORT, THE 2019 FINANCIAL REPORT OF THE GROUP, AND THE INDEPENDENT AUDITOR'S REPORT ON THE 2019 FINANCIAL REPORT OF THE GROUP (EXTRACTS FROM ANZ's 2019 ANNUAL REPORT)

ANNEX D: THE 2019 FINANCIAL REPORT OF THE COMPANY AND THE INDEPENDENT AUDITOR'S REPORT ON THE 2019 FINANCIAL REPORT OF THE COMPANY

ADAPT

ENGAGE
PREPARE
PROTECT

ANZ

2020 ANNUAL REPORT

Remuneration report

Dear Shareholder,

2020 Remuneration Report – audited

In many respects this was not the year we planned it to be. However, despite the unprecedented combination of challenges from COVID-19, bushfires and ongoing industry transformation, management navigated the year extremely well and delivered the vast majority of the priorities and objectives agreed with the Board. Like many businesses, ANZ has been affected both operationally and financially.

From an operational perspective, we took swift action to ensure our people could safely and productively work at home, while still supporting customers during a period of significant stress.

Since March 2020 we have provided 142,000 home and business loan repayment deferrals in Australia and New Zealand – providing much needed relief for those who had either lost income or face uncertainty due to the pandemic.

Shareholders will be acutely aware of the financial impacts COVID-19 has had on the bank. Increased provisions for potential future credit losses (which the Board determined were appropriate), along with the impairment of two of the Group's Asian associate investments, have reduced profits and our share price has also been adversely affected.

While these provisions were appropriate given the uncertain environment, they have reduced the amount of profit we are able to pay to shareholders in the form of dividends this year.

Aside from the financial impact of COVID-19, the Group Performance Framework met the Board's expectations when considering the stretching objectives we set ourselves at the start of the year. Solid growth in our key markets, a continued simplification of our operations and maintaining our disciplined approach to expense management were key highlights.

The Board was also pleased with the way the bank responded to the challenges of COVID-19 with our plan designed to protect our people and the things that matter, adapt quickly to the new operating environment, increase engagement with important stakeholders, including Governments and regulators and prepare for the future.

In 2020 we also moved to a new approach to how we reward, recognise and manage the performance of our employees as part of the Group's Reimagining Reward program. This included basing variable remuneration on Group rather than individual performance for around 80% of employees.

Fixed remuneration

To ensure remuneration remained market competitive, the Board engaged PricewaterhouseCoopers in September 2019 to assist the Board to conduct a detailed remuneration market benchmarking review for our Chief Executive Officer and our Disclosed Executives.

Shayne Elliott's fixed remuneration was increased (effective 1 October 2019 before the COVID-19 pandemic) from $2.1 million to $2.5 million and this is reflected in this year's Remuneration Report. Shayne's Long Term Variable Remuneration was reduced by $700k, with the target decreasing from 200% to 140% of fixed remuneration. The Annual Variable Remuneration target remained unchanged at 100% of fixed remuneration.

It should be noted that Shayne has not received a fixed remuneration increase since starting as Chief Executive Officer in January 2016, and his target total remuneration remains largely consistent with previous years.

Ilana Atlas, AO, Chair – Human Resources Committee

Fixed remuneration increases were also applied to five Disclosed Executives on 1 October 2019 to improve market positioning, and one increase was made on permanent appointment. For the year commencing 1 October 2020, the Board determined there would be no fixed remuneration increases for any of the Disclosed Executives, including the Chief Executive Officer.

There were no increases to the Chairman fee or Non-Executive Director base fee for the 2020 year.

Variable remuneration outcomes

Shayne had a successful year and has ANZ well positioned to assist our customers and the community in the most challenging environment in decades, while also delivering a decent result for shareholders.

Shayne has role modelled ANZ's values and culture, demonstrated outstanding leadership as well as making strong progress in simplifying and improving our operations. Despite this good performance, the Board took into account the significant impact of COVID-19 on returns and the profitability of our business as well as the impact on the broader community, and exercised its discretion by applying a 50% reduction to his 2020 Annual Variable Remuneration outcome.

As a result, the Board awarded an Annual Variable Remuneration outcome of $1.25 million (33% of maximum opportunity) for 2020.

Long Term Variable Remuneration of $3.5 million (reduced from $4.2 million the previous year) is proposed. This reinforces Shayne's focus on achieving longer term strategic objectives and creating long-term value for all stakeholders. This allocation of course remains subject to shareholder approval at the 2020 Annual General Meeting and performance hurdles being met.

For Disclosed Executives, the Board also exercised its discretion and applied a 50% reduction to their 2020 Variable Remuneration outcomes resulting in an average outcome of 36% of maximum opportunity. Total remuneration reduced by 15% year-on-year for 2020 Disclosed Executives who were in role for the full year 2019 and 2020.

Performance rights granted in late 2016 to the Chief Executive Officer and Disclosed Executives (excluding the Chief Risk Officer) did not meet their hurdles when tested in November 2019. Therefore, the rights were lapsed and executives received no value from these awards.

This has been a difficult year for all our stakeholders and as a Board we believe we have struck the right balance in rewarding our executives for good performance while also taking into account the broader environment.

On behalf of the Board, I invite you to consider our Remuneration Report which will be presented to shareholders for adoption at the 2020 Annual General Meeting.

Ilana Atlas, AO
Chair – Human Resources Committee

Contents

1. WHO IS COVERED BY THIS REPORT

1.1 DISCLOSED EXECUTIVE AND NED CHANGES

There were several changes to our Key Management Personnel (KMP) during the 2020 year:

- Paul O'Sullivan was appointed as a Non-Executive Director (NED) from November 2019 and as Chairman from 28 October 2020 (following the retirement of Chairman, David Gonski on that date).
- All Group Executive Committee (ExCo) roles with key responsibility for the strategic direction and management of the Group, and who report directly to the Chief Executive Officer (CEO) have been included in this year's report, and so the roles of Group Executive, Talent and Culture (Kathryn van der Merwe) and Group Executive, Technology (Gerard Florian) are now included.
- Antonia Watson was permanently appointed to the Group Executive and Chief Executive Officer, New Zealand (NZ) role in December 2019 (acting since June 2019).

1.2 KEY MANAGEMENT PERSONNEL (KMP)

The KMP whose remuneration is disclosed in this year's report are:

2020 Non-Executive Directors (NEDs)	
D Gonski	Chairman (retired 28 October 2020)
I Atlas	Director
P Dwyer	Director
J Halton	Director
J Key	Director
G Liebelt	Director
J Macfarlane	Director
P O'Sullivan	Director – appointed 4 November 2019 (Chairman from 28 October 2020)

2020 Chief Executive Officer (CEO) and Disclosed Executives	
S Elliott	Chief Executive Officer and Executive Director
M Carnegie	Group Executive, Digital and Australia Transformation
K Corbally	Chief Risk Officer (CRO)
G Florian	Group Executive, Technology
A George	Deputy Chief Executive Officer (title changed effective 22 September 2020 from Deputy Chief Executive Officer and Group Executive, Wealth Australia)
M Hand	Group Executive, Australia Retail and Commercial Banking
M Jablko	Chief Financial Officer (CFO)
K van der Merwe	Group Executive, Talent and Culture (GE T&C)
A Watson	Group Executive and Chief Executive Officer, New Zealand (NZ) – appointed 18 December 2019 (Acting Group Executive and Chief Executive Officer, NZ to 17 December 2019)
M Whelan	Group Executive, Institutional

There have been no changes to KMP since the end of 2020 up to the date of signing the Directors' Report, other than Paul O'Sullivan commencing as Chairman on the retirement of David Gonski from that role.

The Remuneration Report for the Group outlines our remuneration strategy and framework and the remuneration practices that apply to KMP. This report has been prepared, and audited, as required by the Corporations Act 2001. It forms part of the Directors' Report.

2. 2020 OUTCOMES AT A GLANCE

2020 REMUNERATION CHANGES

The following remuneration changes were made at the start of the 2020 financial year following a detailed review to better align to the external market:

- On 1 October 2019 the CEO's fixed remuneration was increased and Long Term Variable Remuneration (LTVR) was reduced (see section 3.2).
- On 1 October 2019 fixed remuneration was increased for a number of Disclosed Executives (see section 4.1).
- No increase to the Chairman fee or NED base fee, and Committee fees remained unchanged except for the Digital Business and Technology Committee Chair fee in recognition of the significant increase in workload of the Committee Chair (see section 7.1).

2020 OUTCOMES

- For the 2021 financial year (i.e. year commencing 1 October 2020), the Board determined that there would be no increases to fixed remuneration for either the CEO or Disclosed Executives.
- The Board exercised their discretion and applied a 50% reduction to the Annual Variable Remuneration (AVR)/Variable Remuneration (VR) outcomes for the CEO and Disclosed Executives having regard to the impact of COVID-19 (see section 4).
  - The CEO received an AVR award of 33% of maximum opportunity.
  - Disclosed Executives' VR outcomes averaged 36% of maximum opportunity, with individual outcomes ranging from 31% to 44% of maximum opportunity.
- The CEO will be awarded LTVR of $3.5 million subject to shareholder approval at the 2020 Annual General Meeting (AGM).
- 100% of the performance rights granted in late 2016 to the CEO and Disclosed Executives (excluding the CRO) were lapsed, as the performance hurdles were not met when tested at the end of the performance period in November 2019 (see section 4.4.3).
- As part of the Group's Reimagining Reward program effective 1 October 2019, ANZ made adjustments to the remuneration mix for staff (increased fixed/reduced variable remuneration), which included replacing individual variable remuneration for around 80% of employees with variable remuneration based on the overall performance of the Group (see section 4.5.1).
- Enhancements were made to continue to strengthen and further embed ANZ's Accountability and Consequence Framework (A&CF) (see section 6).

3. OVERVIEW OF ANZ'S REMUNERATION FRAMEWORK

3.1 REMUNERATION FRAMEWORK OVERVIEW

The structure of our remuneration framework is aligned with our Reward Principles and has been designed to support ANZ's purpose and strategy.

ANZ'S PURPOSE AND STRATEGY[1]

IS UNDERPINNED BY OUR REMUNERATION POLICY WHICH INCLUDES OUR REWARD PRINCIPLES:

Attract, motivate and keep great people	Reward our people for doing the right thing having regard to our customers and shareholders	Focus on **how** things are achieved as much as **what** is achieved	Are fair and simple to understand

WITH REMUNERATION DELIVERED TO OUR CEO AND DISCLOSED EXECUTIVES THROUGH:

Fixed remuneration Cash salary and superannuation contributions. The Board sets (and reviews annually) the CEO and Disclosed Executives' fixed remuneration based on financial services market relativities reflecting their responsibilities, performance, qualifications, experience and location.

Variable remuneration (at risk) The CEO and Disclosed Executives are eligible to receive variable remuneration under the ANZ Incentive Plan (ANZIP), our variable remuneration plan.

CEO

Annual Variable Remuneration (AVR)

- Rewards the achievement of Group, and individual outcomes over a 12-month period
- Determination: ANZ Group Performance Framework, individual strategic objectives, ANZ values[2] and risk/compliance assessments, and Board discretion
- Maximum opportunity: 150% of fixed remuneration
- Delivery: 50% cash and 50% as ANZ shares deferred over four years, subject to malus[3]

Long Term Variable Remuneration (LTVR)

- Reinforces the CEO's focus on achieving longer term strategic objectives and creating long-term value for all stakeholders
- Face value at full vesting: 140% of fixed remuneration
- Delivery: Performance rights deferred for four years subject to performance hurdles and malus
- Performance hurdles: Relative total shareholder return (TSR) (75%), absolute TSR (25%)

DISCLOSED EXECUTIVES[4]

Variable Remuneration (VR)

- Rewarded under a single VR framework enabling us to:
  - Provide the appropriate mix of short and long-term rewards (including performance hurdles) to drive performance, and attract and retain talent;
  - Tie the full VR award to the performance of ANZ; and
  - Defer VR over the short, medium and longer term.
- Determination: ANZ Group Performance Framework, Divisional Performance Frameworks, ANZ values and risk/compliance assessments, and Board discretion
- Maximum opportunity: 402% of fixed remuneration[5]
- Delivery: 25% cash, 25% as ANZ shares deferred over four years subject to malus, and 50% as performance rights deferred for four years subject to performance hurdles and malus
- Performance hurdles: Relative TSR (75%), absolute TSR (25%)

Board discretion is applied when determining CEO and Disclosed Executive performance and remuneration outcomes, and also before any scheduled release of previously deferred remuneration (see section 5.3). All deferred variable remuneration is subject to malus adjustment.

REINFORCED BY ALIGNING REMUNERATION AND RISK:

Assessing behaviours based on ANZ's values and risk/compliance standards (including the Banking Executive Accountability Regime (BEAR))	Determining variable remuneration outcomes, with risk as a key input at a pool and individual level	Weighting remuneration toward the longer-term with a significant proportion at risk	Determining accountability and applying consequences where appropriate	Prohibiting the hedging of unvested equity

WHILE SUPPORTING THE ALIGNMENT OF EXECUTIVES AND SHAREHOLDERS THROUGH:

Substantial shareholding requirements	Significant variable remuneration deferral in ANZ equity	Use of relative and absolute TSR hurdles	Consideration of cash profit and economic profit in determining the ANZIP variable remuneration pool	Consideration of the impact to shareholders of the reduction in share price and dividends

WHILE GOVERNED BY:

The Human Resources (HR) Committee and the Board determining fixed remuneration and the variable remuneration outcomes for the CEO and each Disclosed Executive. Additionally, the CEO's LTVR outcome is also subject to shareholder approval at the AGM.

1. See the 'About our business' and 'Our vision and strategy' sections of the Annual Report. **2.** ANZ's values (**I**ntegrity, **C**ollaboration, **A**ccountability, **R**espect, **E**xcellence (ICARE)) – the foundation of how we work, supported by our Code of Conduct and our New Ways of Leading framework. **3.** Malus relates to downward adjustment of unvested remuneration. **4.** The maximum opportunity and delivery of VR differs for the CRO to that of other Disclosed Executives. See section 5 for further details. **5.** Performance rights face value at full vesting.

3.2 CHANGES TO THE CEO AND DISCLOSED EXECUTIVES' REMUNERATION FRAMEWORKS MADE IN 2020

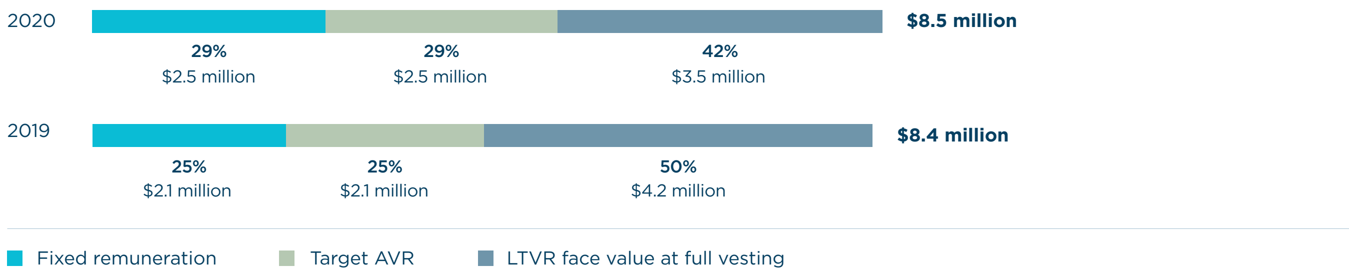
CEO

With the assistance of a detailed market benchmarking review conducted by PricewaterhouseCoopers in September 2019, the Board re-balanced the CEO's remuneration mix from 1 October 2019 to ensure both the CEO's fixed remuneration and total remuneration were market competitive at that time. There have been no changes to the delivery of AVR or LTVR for the 2020 financial year.

In summary:

- Fixed remuneration was increased from $2.1 million to $2.5 million (to better align to the external market while also recognising the skills and experience the CEO brings to the role, noting that this was the first increase since his appointment in January 2016).
- Target AVR remains unchanged at 100% of fixed remuneration.
- LTVR has reduced from 200% to 140% of fixed remuneration providing an appropriate balance between rewarding for short-term and long-term performance and ensuring total remuneration at target remains largely unchanged.
- Total remuneration at target increased from $8.4 million to $8.5 million (~1%).

CHANGE IN CEO'S REMUNERATION MIX



Disclosed Executives

No changes have been made to the remuneration framework for Disclosed Executives for 2020.

A detailed review of our remuneration frameworks was planned for 2020, however this is now expected to occur in 2021 to enable appropriate consideration of the new APRA Prudential Standard CPS 511 Remuneration and to ensure that our frameworks continue to appropriately support ANZ's purpose, strategy and Reward Principles.

4. 2020 OUTCOMES

Variable remuneration at ANZ is truly at risk and can range from zero to maximum opportunity. The HR Committee and the Board make variable remuneration outcome decisions for the CEO and Disclosed Executives following lengthy and detailed discussions and assessment, supported by comprehensive analysis of performance from a number of sources.

The tables in sections 4.1 and 4.2 supplement, and are different to, the Statutory Remuneration table (see section 9.1) which presents the accounting expense for both vested and unvested awards in accordance with Australian Accounting Standards.

4.1 YEAR-ON-YEAR REMUNERATION AWARDED

These tables show a year-on-year comparison of remuneration awarded to the CEO and Disclosed Executives for the 2018, 2019 and 2020 performance periods. Remuneration awarded includes any cash payments (e.g. fixed remuneration and cash variable remuneration) and the value of deferred shares and performance rights awarded for the year but which have not yet vested (i.e. the value was not received during the year).

Although 2020 performance was assessed as 'Met Expectations', the Board determined it was both necessary and appropriate to use its discretion to ensure the market conditions arising from COVID-19 were factored into the process, resulting in a 50% reduction to the AVR/VR outcomes for the CEO and Disclosed Executives. In determining the 50% reduction, the Board judged what was fair and reasonable having regard to the impact on shareholders, and considering expectations from customers and the community.

CEO

The 2020 LTVR shown below has not yet been awarded to the CEO, approval will be sought from shareholders at the 2020 AGM. Note the CEO's 2018 LTVR award was significantly reduced as a result of the matters raised in the Royal Commission relating to conduct issues and associated reputational damage (as previously disclosed).

YEAR-ON-YEAR REMUNERATION AWARDED – CEO

						Threshold vesting		Full vesting		AVR as % of	
	Financial year	Fixed remuneration $	AVR cash $	AVR deferred shares $	Total AVR $	LTVR performance rights $	Total remuneration awarded $	LTVR performance rights $	Total remuneration awarded $	Target opport-unity	Maximum opport-unity
CEO											
S Elliott	2020	2,500,000	625,000	625,000	1,250,000	1,750,000	5,500,000	3,500,000	7,250,000	50%	33%
	2019	2,100,000	750,000	750,000	1,500,000	2,100,000	5,700,000	4,200,000	7,800,000	71%	48%
	2018	2,100,000	875,000	875,000	1,750,000	1,400,000	5,250,000	2,800,000	6,650,000	83%	56%

Disclosed Executives

- Fixed remuneration increases were applied to five Disclosed Executives on 1 October 2019 to improve alignment to desired market positioning, and one increase was made on permanent appointment (Antonia Watson). External benchmarking conducted by PricewaterhouseCoopers in September 2019 highlighted that ANZ was paying behind the market on fixed remuneration and these increases were designed to deliver more market competitive remuneration reflecting executive's responsibilities, qualifications and experience.
- There were no fixed remuneration increases for the 2021 year commencing 1 October 2020.
- Year-on-year remuneration awarded for both Mark Hand and Antonia Watson is not directly comparable, as they were Disclosed Executives for only part of the 2019 financial year. In addition, Antonia Watson's 2020 remuneration awarded reflects her permanent appointment to the Group Executive and CEO, NZ role.
- The average 2020 VR outcome for Disclosed Executives was 36% (45% in 2019) of maximum opportunity (ranging from 31% to 44%). Despite good performance these outcomes were deemed by the Board to better reflect the impact of the current economic conditions.
- Despite the increases to fixed remuneration applied to a number of executives at the start of 2020, year-on-year total remuneration has reduced by 15%, and VR by 28% (at full vesting), for the 2020 Disclosed Executives who were in role for full year 2019 and 2020.
- Variable remuneration continues to differ both year-on-year and between different executives demonstrating the at risk nature of this element of remuneration and the variability in Group and individual performance year-on-year. See section 4.4 for details.

YEAR-ON-YEAR REMUNERATION AWARDED – DISCLOSED EXECUTIVES

					Threshold vesting		Full vesting		VR as % of	
	Financial year	Fixed remuneration $	VR cash $	VR deferred shares $	VR performance rights[1] $	Total remuneration awarded $	VR performance rights[1] $	Total remuneration awarded $	Target opport-unity	Maximum opport-unity
Current Disclosed Executives										
M Carnegie	2020	1,200,000	409,200	409,200	421,600	2,440,000	843,200	2,861,600	52%	34%
	2019	1,000,000	495,000	495,000	510,000	2,500,000	1,020,000	3,010,000	75%	50%
	2018	1,000,000	528,000	528,000	544,000	2,600,000	1,088,000	3,144,000	80%	53%
K Corbally	2020	1,100,000	429,000	429,000	442,000	2,400,000	442,000	2,400,000	66%	44%
	2019	950,000	478,500	478,500	493,000	2,400,000	493,000	2,400,000	85%	57%
	2018 (6.5 months in role)	486,000	164,835	164,835	169,830	985,500	169,830	985,500	83%	55%
G Florian	2020	1,075,000	371,250	371,250	382,500	2,200,000	765,000	2,582,500	52%	35%
A George	2020	1,100,000	363,000	363,000	374,000	2,200,000	748,000	2,574,000	50%	33%
	2019	1,000,000	528,000	528,000	544,000	2,600,000	1,088,000	3,144,000	80%	53%
	2018 (12 months/4.5 months as Deputy CEO)	876,000	354,750	354,750	365,500	1,951,000	731,000	2,316,500	61%	41%
M Hand	2020	1,200,000	462,000	462,000	476,000	2,600,000	952,000	3,076,000	58%	39%
	2019 (9 months as Disclosed Executive)	726,000	198,000	198,000	204,000	1,326,000	408,000	1,530,000	41%	28%
M Jablko	2020	1,100,000	363,000	363,000	374,000	2,200,000	748,000	2,574,000	50%	33%
	2019	1,000,000	544,500	544,500	561,000	2,650,000	1,122,000	3,211,000	83%	55%
	2018	1,000,000	577,500	577,500	595,000	2,750,000	1,190,000	3,345,000	88%	58%
K van der Merwe	2020	850,000	330,000	330,000	340,000	1,850,000	680,000	2,190,000	59%	39%
A Watson[2]	2020	1,015,599	334,681	334,681	344,822	2,029,783	689,645	2,374,605	50%	33%
	2019 (3.5 months in role)	219,440	170,255	113,504	-	503,199	-	503,199	65%	43%
M Whelan	2020	1,200,000	363,000	363,000	374,000	2,300,000	748,000	2,674,000	46%	31%
	2019	1,200,000	874,500	874,500	901,000	3,850,000	1,802,000	4,751,000	110%	74%
	2018	1,200,000	717,750	717,750	739,500	3,375,000	1,479,000	4,114,500	91%	60%

1. Deferred share rights for the CRO. **2.** Paid in NZD and converted to AUD.

4.2 2020 ACTUAL REMUNERATION RECEIVED

This table shows the remuneration the CEO and Disclosed Executives actually received in relation to the 2020 performance year as cash, or in the case of prior equity awards, the value which vested in 2020. The final column also shows the value of prior equity awards which lapsed/were forfeited in 2020 (these awards reflect the 2016 performance rights which fully lapsed when tested against their performance hurdles in November 2019).

2020 ACTUAL REMUNERATION RECEIVED – CEO AND DISCLOSED EXECUTIVES

	Fixed remuneration $	Cash variable remuneration $	Total cash $	Deferred variable remuneration which vested during the year[1] $	Other deferred remuneration which vested during the year[1] $	Actual remuneration received $	Deferred variable remuneration which lapsed/forfeited during the year[1,2] $
CEO and Current Disclosed Executives							
S Elliott	2,500,000	625,000	**3,125,000**	597,362	-	**3,722,362**	(3,768,401)
M Carnegie	1,200,000	409,200	**1,609,200**	276,999	-	**1,886,199**	(241,617)
K Corbally	1,100,000	429,000	**1,529,000**	247,891	-	**1,776,891**	(135,003)
G Florian	1,075,000	371,250	**1,446,250**	141,723	-	**1,587,973**	-
A George	1,100,000	363,000	**1,463,000**	222,997	-	**1,685,997**	(117,474)
M Hand	1,200,000	462,000	**1,662,000**	335,786	-	**1,997,786**	(196,368)
M Jablko[3]	1,100,000	363,000	**1,463,000**	326,785	195,305	**1,985,090**	(241,617)
K van der Merwe	850,000	330,000	**1,180,000**	125,309	-	**1,305,309**	-
A Watson[4]	1,015,599	334,681	**1,350,280**	289,148	-	**1,639,428**	(90,473)
M Whelan	1,200,000	363,000	**1,563,000**	570,684	-	**2,133,684**	(1,374,281)

1. The point in time value of previously deferred remuneration granted as shares/share rights and/or performance rights is based on the one day Volume Weighted Average Price (VWAP) of the Company's shares traded on the ASX on the date of vesting or lapsing/forfeiture multiplied by the number of shares/share rights and/or performance rights. **2.** The lapsed/forfeited values relate to the performance rights we awarded in November/December 2016 which lapsed in November/December 2019 due to the performance hurdles not being met. **3.** Other deferred remuneration for M Jablko relates to previously disclosed compensation for deferred remuneration forfeited as a result of joining ANZ. **4.** Paid in NZD and converted to AUD.

4.3 APPLICATION OF REWARD PRINCIPLES

In considering the 2020 outcomes the HR Committee and Board reflected on the application of ANZ's Reward Principles in the current environment:

- **Reward our people for doing the right thing having regard to our customers and shareholders:** Variable remuneration should be primarily based on 'outcomes' rather than 'effort' and proportionate relative to performance. It also needs to consider the experience/expectations of all stakeholders (including shareholders, customers, employees, community and regulators). On this basis, for 2020 the Board determined to apply a 50% reduction to the outcomes for the CEO (AVR) and Disclosed Executives (VR).
- **Attract, motivate and keep great people:** The Board acknowledged the importance of fixed remuneration being market competitive to ensure retention of key talent – particularly in a more volatile and uncertain environment.
- **Focus on how things are achieved as much as what is achieved:** The Board has ensured that appropriate consideration and weight was given to performance against objectives and how that performance was achieved (i.e. in accordance with our values and purpose).
- **Be fair and simple to understand:** Variable remuneration should be fair and consistent through the cycle and have regard to external influences outside of management's control.

4.4 VARIABLE REMUNERATION – DETAIL

4.4.1 CEO performance, AVR and LTVR

Performance

With regard to AVR, the CEO is assessed 50% on the ANZ Group Performance Framework and 50% on achievement of individual strategic objectives aligned to ANZ's strategy. Both the Group Performance Framework and individual strategic objectives are agreed by the Board at the start of the financial year and are stretching.

WEIGHTING OF FINANCIAL METRICS

AVR

Financial metrics have a 35% weighting in the Group Performance Framework and therefore notionally have a 17.5% weighting in the CEO's AVR. However, the CEO's AVR is not formulaic – outcomes are moderated by the Risk and Reputation element of the Group Performance Framework and the Board's judgement on the appropriate AVR considering all aspects of performance.

LTVR

100% of the LTVR hurdles are based on TSR (both relative and absolute).

At the end of the financial year, ANZ's performance is assessed against the Group Performance Framework, and the CEO's performance is assessed against his individual strategic objectives, the ANZ values (behaviours), delivery of the BEAR obligations and ANZ's risk and compliance standards. In conducting the CEO's performance assessment, the HR Committee seeks input from the Chairman, CRO (on risk management), CFO (on financial performance), GE T&C (on talent and culture matters) and Group General Manager Internal Audit (GGM IA) (on internal audit matters). Material risk events that have either occurred or come to light in the year (provided by the CRO) are also considered together with input from both the Audit Committee and the Risk Committee of the Board.

The Board has assessed the CEO's 2020 performance as follows:

Group Performance Framework	=	Met Expectations (see section 4.5.3)
Individual strategic objectives	=	Met Expectations (see Board assessment below)
ANZ values	=	Above Expectations
Risk/compliance assessment	=	Met Expectations

The Board has exercised their discretion in determining the appropriate AVR outcome for 2020 and applied a 50% reduction which has resulted in an AVR outcome of 33% of maximum opportunity.

2020 CEO individual strategic objectives

- Lead and role model the culture and accountability required to transform ANZ
- Enhance the reputation of ANZ
- Drive the strategic direction of the organisation with a focus on growth
- Show material progress on the productivity initiatives to improve customer and staff experience while driving cost towards a materially reduced run rate by close of 2022
- Continue to build ExCo effectiveness and CEO succession
- Focus on operational excellence, including remediation and system stability, to ensure ANZ has a robust and reliable platform to support long-term growth

Board assessment of performance on individual strategic objectives: Met Expectations

The CEO has had a successful year, despite this being a difficult period, marked by the pandemic and other problems affecting Australia. He has been a role model for ANZ's values and culture – including risk culture, demonstrating outstanding leadership both internally and externally, particularly in providing support and caring for our customers, community and employees during COVID-19.

His crafting and leadership of ANZ's response to COVID-19 enabled the organisation to focus on what mattered most:

- Protecting our people, our customers and our balance sheet
- Adapting to the COVID-19 environment
- Engaging and staying connected with all of our stakeholders
- Preparing for the future and being ready to embrace opportunities

The CEO has maintained the strength of ANZ's leadership, infrastructure, balance sheet, and employee engagement to allow ANZ to be well positioned to assist our customers and the community in the most challenging environment in decades. He has also enhanced the reputation of ANZ, by embedding purpose and values in our decision making and through his leadership in response to COVID-19.

During the last 12 months the CEO has remained focused on driving the strategic agenda for ANZ with progress towards simplifying the business, improving our IT infrastructure and restoring momentum in our core home loans business, while re-shaping the business for the future. Growth continued to be an area of focus in 2020, however opportunities have had to be balanced against our COVID-19 response.

2020 has seen the bulk of our employees working from home (remotely) and productivity has not faltered. The CEO has focused on the safety, wellbeing and engagement of our people whilst also continuing to invest in the business and cultivating a more efficient workforce at all levels. In difficult times, he has continued productivity improvements, with strong management of expenses.

ExCo is functioning very effectively under his leadership and the addition of the Group Executive, Data and Automation role this year appropriately reflects the importance of data within ANZ.

Infrastructure stability has improved and ANZ is well on track in building a better platform for responsible well managed growth.

AVR and LTVR

At the end of the financial year, the HR Committee makes a recommendation to the Board for their approval in respect of the CEO's AVR outcome.

The CEO's AVR will vary up or down year-on-year, it is not guaranteed, and may range from zero to a maximum opportunity.

The 2020 AVR awarded to the CEO is 33% of maximum opportunity.

Despite having been assessed as being above expectations on the ANZ values, and having met expectations on risk/compliance assessment, individual strategic objectives and the Group Performance Framework, the Board has exercised its discretion and applied a 50% reduction to the AVR. This takes into account the current environment in light of the COVID-19 pandemic (including the decline in returns and profitability), the impact on shareholders and having regard to customer, community and regulator expectations. Accordingly, the Board determined that an AVR outcome of $1.25 million (33% of maximum opportunity) was appropriate for 2020, noting that this is 17% lower than 2019.

The CEO's proposed LTVR of $3.5 million (performance rights face value at full vesting) (reduced from $4.2 million in 2019) is subject to shareholder approval at the 2020 AGM.

2020 AVR Awarded

This table shows the AVR awarded to the CEO for the year ending 30 September 2020.

2020 AVR AWARDED – CEO

CEO

Maximum opportunity

S Elliott[1]

AVR $1,250,000 =

$625,000 $625,000

33% of max

+

LTVR $3,500,000 performance rights face value at full vesting (subject to shareholder approval at the 2020 AGM)

Cash   Deferred shares

1. Variable remuneration for the CEO = AVR + LTVR.

Summary of Total Remuneration

The remuneration Shayne Elliott received in 2020 differs to the remuneration he was awarded in relation to the 2020 performance year (which may or may not vest in future years). It also differs to his statutory remuneration which reflects the accounting expense value for 2020. Awarded remuneration shown below includes the face value of the performance rights at both threshold (50%) and full (100%) vesting.

SUMMARY OF TOTAL REMUNERATION – CEO

	Total Remuneration			
	Awarded			
	Threshold vesting $	Full vesting $	Received[1] $	Statutory[2] $
2020	**5,500,000**	**7,250,000**	**3,722,362**	**5,225,308**
2019	5,700,000	7,800,000	4,093,464	5,181,339
2018	5,250,000	6,650,000	3,849,666	5,645,295

1. Includes the value of previously awarded AVR deferred shares and LTVR performance rights at the date of vesting. **2.** Includes the value of AVR and LTVR that has been expensed in the year.

The CEO's awarded remuneration based on full vesting value reduced by 7% from 2019 to 2020, despite the increase in fixed remuneration, reflecting the significant reduction in his 2020 variable remuneration awards. Note his 2018 (variable) remuneration reflected ANZ's acknowledgement of the matters raised in the Royal Commission relating to conduct issues and associated reputational damage.

The reduction in the CEO's received remuneration from 2019 to 2020 reflects the reduction in 2020 variable remuneration and the fact that the LTVR performance rights granted in December 2016 failed to vest when tested in November 2019.

Historical AVR and LTVR

This table shows the AVR as a % of maximum opportunity and LTVR vesting outcomes for the CEO over the last three years.

HISTORICAL AVR AND LTVR – CEO

	2018	2019	2020
AVR outcome (% of maximum opportunity)	56%	48%	**33%**
LTVR vesting outcome (% vested)	0%	21.8%	**0%**

4.4.2 Disclosed Executive performance and VR

Performance

At the start of each year, stretching performance objectives are set by the HR Committee in the form of Divisional Performance Frameworks for each of our Disclosed Executives, in alignment with the Group Performance Framework approved by the Board.

Similar to the Group Performance Framework, the Divisional Performance Frameworks include the key elements of Financial and Discipline, Customer, and People and Culture, with Risk and Reputation acting as a modifier[1]. The weighting of each element varies to reflect the responsibilities of each individual's role. The Financial and Discipline element weightings range from 20% to 45%.

At the end of the financial year, the performance of each Disclosed Executive[2] is assessed against their contribution to the Group Performance Framework, their Divisional Performance Framework, ANZ's values (behaviours), delivery of BEAR obligations and ANZ's risk and compliance standards.

The HR Committee seeks input from the CEO, and independent reports from Risk, Finance, Talent and Culture, and Internal Audit, and also reviews material risk event data provided by the CRO, and seeks input from both the Audit Committee and the Risk Committee of the Board.

The HR Committee reviews and recommends to the Board for approval the overall performance outcomes for each Disclosed Executive.

1. Except for the CRO who has a weighting assigned to Risk and Reputation measures.
2. Performance arrangements for the CRO are addressed additionally by the Risk Committee. Performance arrangements for the Group Executive and CEO, NZ are determined and approved by the ANZ NZ HR Committee/ANZ NZ Board in consultation with and endorsed by the HR Committee/Board, consistent with their respective regulatory obligations.

VR

At the end of the financial year, the CEO and HR Committee determine VR recommendations for each Disclosed Executive, which are ultimately approved by the Board[3]. VR should and does vary year-on-year in line with performance – it is not guaranteed and may be adjusted up or down ranging from zero to a maximum opportunity.

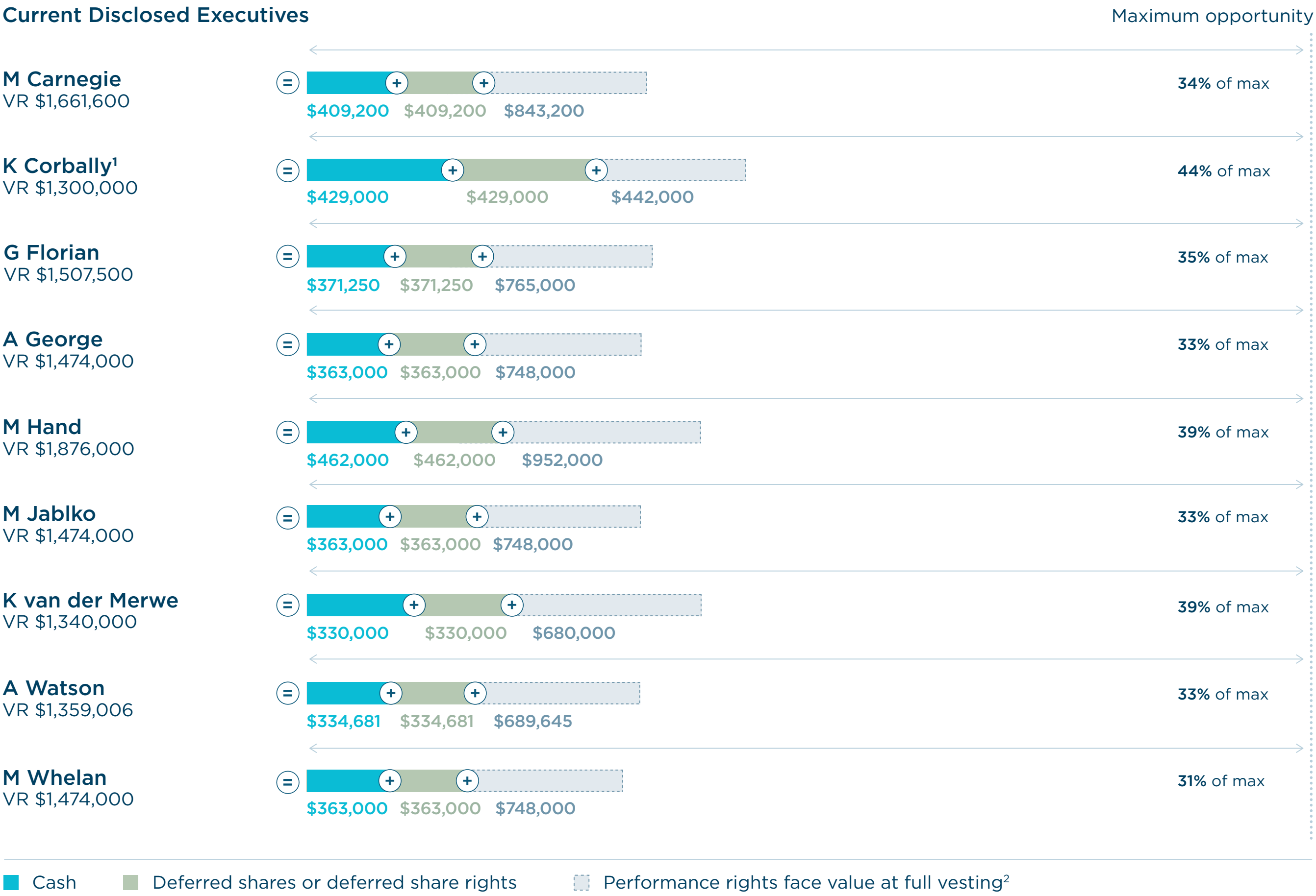
The variance in individual VR outcomes reflect the relative performance of the different areas/individuals, ensuring appropriate alignment between performance and reward. There is less individual differentiation in 2020 in recognition of the significant collaboration and team work across the Executive Committee throughout 2020 and particularly in managing ANZ's response to COVID-19. The outcomes demonstrate the at risk nature of VR, and that outcomes vary across the Disclosed Executives and also from year to year. The average 2020 VR for Disclosed Executives is 36% of maximum opportunity (ranging from 31% to 44%), reflecting the impact of the 50% reduction applied by the Board.

3. Remuneration arrangements for the Group Executive and CEO, NZ are determined and approved by the ANZ NZ Board in consultation with and endorsed by the Board, consistent with their respective regulatory obligations.

2020 VR Awarded

This table shows the combined VR awarded to Disclosed Executives for the year ending 30 September 2020.

2020 VR AWARDED – DISCLOSED EXECUTIVES



1. CRO receives deferred share rights instead of performance rights. **2.** Divide by two to convert to face value at threshold vesting for performance rights.

Historical Disclosed Executive VR

This table shows the VR as a % of maximum opportunity for the executives who were disclosed over the last three years. Although ANZ's performance has been stronger this year and the Group has been assessed by the Board as having 'Met Expectations' against the Group Performance Framework, the 50% reduction applied by the Board has resulted in a significant reduction in 2020 VR outcomes compared to prior years.

HISTORICAL DISCLOSED EXECUTIVE VR

	2018	2019	2020
VR outcome (average % of maximum opportunity)	51%	45%	36%
VR outcome (range % of maximum opportunity)	40% – 60%	0% – 74%	31% – 44%
VR performance rights vesting outcome (% vested)	0%	21.8%	0%

4.4.3 Performance rights outcomes (CEO and Disclosed Executives)

Performance rights granted to the CEO in December 2016 and Disclosed Executives (excluding the CRO) in November 2016 reached the end of their performance period in November 2019. As the performance hurdles were not met none of these performance rights vested, the rights were lapsed and executives received no value from these awards.

PERFORMANCE RIGHTS OUTCOMES

Hurdle	Grant date[1]	First date exercisable[1]	ANZ TSR over three years/ CAGR[2] TSR	Median TSR over three years/ CAGR[2] TSR target	% vested	Overall performance rights outcome
75% relative TSR – Select Financial Services (SFS) comparator group[3]	22 Nov 16	22 Nov 19	18.32%	26.21%	0%	0% vested and 100% lapsed
25% absolute CAGR[2] TSR	22 Nov 16	22 Nov 19	5.78%	9.00%	0%	

1. Grant date for the CEO was 16 December 2016, and date first exercisable was 16 December 2019. The CEO's performance period was the same as the performance period for Disclosed Executives. **2.** Compound Annual Growth Rate (CAGR). **3.** See section 5.2.3a for details of the SFS comparator group.

4.5 ANZIP VARIABLE REMUNERATION POOL AND GROUP PERFORMANCE

4.5.1 ANZIP variable remuneration

The ANZ Incentive Plan (ANZIP) is the variable remuneration plan operating across ANZ, and 2020 is the first year employees will participate in a single Group plan where individual variable remuneration for around 80% of employees has been replaced with a variable payment based on the overall performance of the Group. This change addresses many of the concerns about 'bonus culture' raised in the final report of the Royal Commission, and forms part of wide ranging reforms for 2020 as to how we reward, recognise and manage the performance of employees.

With the exception of the CEO, individual variable remuneration outcomes for all other employees including Disclosed Executives are funded under ANZIP. The Board decides the CEO's variable remuneration outcomes separately to help mitigate potential conflicts of interest. See section 8.1.3.

At the end of each financial year, the HR Committee makes a recommendation to the Board for their approval on the size of the ANZIP variable remuneration pool for that year. The Board exercise their judgement to determine the appropriate pool size – it is not a formulaic outcome.

ANZIP variable remuneration pool recommended to the Board for approval based on performance and affordability > **Board review and approve the ANZIP variable remuneration pool** > **Business and individual allocations from ANZIP variable remuneration pool**

The Board considered a range of factors in determining a fair and reasonable ANZIP pool, particularly given the unique circumstances in 2020.

01	The balance between performance in 2020, considering financial and non-financial performance, and the long-term (strengthening the bank):	• Our 2020 financial performance – in particular cash profit and economic profit, informed the pool range. Given financials were down on 2019 (due to the significant impact of the COVID-19 pandemic), the pool range was negatively impacted. • The 'Met Expectations' Group Performance Framework assessment (see 4.5.3) and the quality of the result then guided the broad positioning in the pool range.
02	The final ANZIP pool outcome also considered:	• The shareholder experience during 2020 and customer and community expectations. • Increased volatility and uncertainty in the current environment. • Our Reward Principles.

4.5.2 ANZ Group Performance Framework

The ANZ Group Performance Framework is approved by the Board at the start of each year and is designed around the following three key inputs:

01 Creating a safe bank with sound risk practices

02 Achieving our agreed annual and longer term goals

03 Realising our strategic vision

The key objective of our Group Performance Framework is to enable aligned focus across the organisation on delivering the critical outcomes that matter most in delivering on our strategy. It plays a key role to:

- message internally what matters most;
- reinforce the importance of sound management in addition to risk, customer, people and financial outcomes; and
- inform focus of effort, prioritisation and decision-making across ANZ.

The emergence of the significant economic and social impacts of the COVID-19 pandemic required a rapid response and reprioritisation of resources. We tested our business strategy and resolved it remains relevant to create long-term sustainable value for our stakeholders, notwithstanding changes caused by the impact of COVID-19.

However, our priorities, sequencing and emphasis needed to change, particularly in the short to medium-term. We also reviewed our 2020 Group performance objectives and determined that while they too remained directionally appropriate, the pandemic demanded a material shift in our focus for the second half of the year resulting in a sharpened emphasis on some key objectives and a shift of focus within others.

These in-year adjustments occurred through the lens of our purpose-led approach to managing through COVID-19 with our objectives being to:

- Protect our people, customers, shareholders and ANZ, including strengthening our operational resilience;
- Adapt to the changing environment;
- Engage even more proactively with our stakeholders; and
- Prepare for the future.

For example:

- Balancing our immediate responses and medium-term cost ambitions became even more critical, particularly in the current low interest-rate environment;
- In times of a crisis, restoring and retaining community trust is crucial, making a focus on strong governance, leadership and corporate citizenship vital in supporting our customers and the community to navigate through the pandemic;
- Our focus on providing great digital solutions was accelerated, encouraged by rapid changes in customer behaviour;
- Immediate efforts to embed positive cultural change involved enabling our people to work safely and productively, while supporting them through clear communications to engage and maintain their wellbeing and performance; and
- Our talent priorities shifted partly away from hiring and retaining strategic capabilities and towards supporting rapid internal moves to maintain operational resilience and respond to rapid changes in customer needs.

4.5.3 Assessment against the Group Performance Framework for 2020

RISK & REPUTATION		CUSTOMER		PEOPLE & CULTURE		FINANCIAL & DISCIPLINE		OVERALL
Overall Adjustment	X	35% weight	+	30% weight	+	35% weight	=	Group Performance
ASSESSMENT: Met Expectations		ASSESSMENT: Met Expectations		ASSESSMENT: Above Expectations		ASSESSMENT: Below Expectations		ASSESSMENT: Met Expectations

As managing risk appropriately is fundamental to the way ANZ operates, Risk and Reputation forms an integral part of the assessment, directly impacting the overall Group Performance Framework outcome (a modifier ranging from 0% to 110% of the Group Performance assessment).

When assessing Financial and Discipline (see section below), the Board considered a range of factors. This included an assessment of external influences outside of the control of management. In 2020, returns and profitability were significantly impacted by COVID-19 – including higher collective credit provision charges and the impairment of two of the Group's Asian associate investments. Accordingly, cash profit from continuing operations decreased 42% and Return on Equity (ROE) declined to 6.2%. This decline in profitability and returns was also considered when the Board determined the size of the ANZIP variable remuneration pool for the year. For the purpose of assessing performance against the Group Performance Framework, the extent these factors were considered outside of the control of management, have been factored into the assessment of performance.

Overall, ANZ's performance 'Met Expectations' when considering the objectives we set ourselves. While we were largely on track to achieve the targets we set before COVID-19, we also demonstrated appropriate responses to the pandemic, supporting our customers and people while remaining well-managed, including through the demonstration of strong financial discipline.

The below table outlines ANZ's focus areas in 2020 (aligned to the three key inputs), and provides a summary of performance outcomes for each of the key performance categories to inform the overall assessment for 2020. Performance against expectations is evaluated using a range of objective indicators and subjective considerations including management input on work undertaken, evidence of outcomes realised and lessons learned, and with consideration given to the operating, regulatory and competitive environment.

RISK & REPUTATION (MODIFIER 0% TO 110%)

COVID-19 introduced a range of both new and increased risks for ANZ, our employees and our customers. Our existing strong risk management framework enabled ANZ to respond well to these risks and continue to support our customers and the communities we serve. In anticipation of the potential future impact of COVID-19 on our customers we increased our forward looking expected credit loss provisions using a range of economic scenarios and we have continued to stress test our portfolio to re-assess our provisioning levels. At the same time, management demonstrated accountability for fixing issues in a sustainable manner.

Risk culture measures reached all time high levels as concerted efforts to transform our culture prepared the bank well to manage through the pandemic in a calm, measured and proactive manner. Strong leadership and citizenship have been paramount, centred on regaining the trust of the community through our commitment to fair and responsible banking.

2020 focus areas	Performance commentary	Performance against expectations		
		Below	Met	Above
Strengthen our financial and non-financial risk, control, governance and compliance focus in line with the risk management framework	• We have continued to develop and improve our financial and operational resilience which has helped position us well to respond to the impact of the evolving external environment including from the impacts of COVID-19, increased regulatory and compliance focus, bushfires and floods, the uncertainty from geopolitical and trade tensions and increased cyber activities. • We prepared and adapted our workforce and increased operational resilience by enabling over 95% of our workforce to work from home.			●
Focus on being well-managed and maintaining or improving across key risk control and cultural indicators	• We have maintained our focus on managing risk controls, and demonstrated accountability for fixing issues in a timely and sustainable manner. • Strong progress continues on risk culture maturity, evidenced in employee engagement scores, with 'Leaders accountable for risk' (87%) – up on 2019, and 'Raise issues without fear of reprisal' (74%) – also up on 2019.		●	
Timely delivery of the APRA Governance, Culture and Accountability (GCA) self-assessment action plan recommendations and success measures	• We have strengthened the bank's focus on non-financial risk (NFR) and progress has been made in uplifting our NFR control, governance and compliance focus, including continuing to deliver sound progress to address the themes identified by the self-assessment and lessons learned from the Royal Commission.		●	
Improve our reputation relative to industry as evaluated by all key stakeholders	• After being the first bank to make Royal Commission commitments, ANZ continues to act on these with a particular focus on supporting our most vulnerable customers in both Australia and NZ. • We remained committed to supporting our customers during the Australian bushfires and COVID-19, through loan payment deferrals and financial support whilst also remaining focused on responsible credit decision making. • Across the industry, community perception scores have fluctuated however, ANZ currently leads the major banks in the IPSOS survey measuring social media sentiment, while in the RepTrak survey ANZ led for the majority of 2020 and was second based on July to September results. An A- rating was achieved in the 2019 CDP climate change assessment, the leading score for Australian banks.			●
Risk & Reputation overall: **Met Expectations**			●	

CUSTOMER (35% WEIGHT)

We have continued to demonstrate our commitment to improve the financial wellbeing of our customers, including ensuring our most vulnerable customers and those undergoing COVID-19 related stress are aware of and can access the support we have available to them.

Despite the serious challenges faced by the sector and community this year, our actions over previous years to simplify and strengthen the bank provided us with the capacity to support our customers at a time of need and strengthen our long-term relationships. A proactive approach to reallocating resources and keeping in close contact with customers through the Australian bushfires and COVID-19 ensured we were available to listen and respond effectively. Across all our retail and commercial businesses in the region, we were also able to work quickly and comprehensively provide an appropriate series of support packages including loan deferrals and access to working capital.

While the focus has clearly been on assisting customers in need, there has also been opportunity to build new customer relationships and enable more digital services that have been especially valued in a restricted COVID-19 environment.

2020 focus areas	Performance commentary	Performance against expectations		
		Below	Met	Above
Strengthen relationships and maintain customer experience in our target segments	• Net Promoter Score (NPS)[1] centred on key onboarding episodes in Australia, where strong improvements have been made in retail home lending and business lending, while NZ Retail achieved all time high scores. • ANZ was ranked the #1 lead institutional bank by Peter Lee Associates[2] for the fifth year running and #1 for relationship strength for the seventh consecutive year, while a new online payments experience has been processing ~1 million payments daily and providing digital self-service for our Institutional customers. • In Australia, customer complaint resolution and home lending assessment timeframes have remained a challenge, however uplift programs are in place to improve these outcomes. Customer complaint timeframes improved from 63% to 66% resolved within five business days, while median home lending decision times increased from 6.0 days to 9.4 days as improved processes and campaigns drove an overwhelmingly strong demand from customers.		●	
Help our people to make wise customer-focused choices every day	• Launched a public campaign to improve financial wellbeing and behaviours in the community and commenced embedding financial wellbeing principles into key products and services. • Supporting our customers through the Australian bushfires and COVID-19 pandemic has been a priority, incorporating financial relief packages and making sure we have remained available to provide assistance where it has been needed. • In Australia, significant progress was made on the customer commitments and initiatives announced in 2019, including a focus on supporting vulnerable customers. In NZ, our Good Customer Outcome principles and product simplification reviews are delivering better customer experiences, including the removal or reduction of several fees, including on Visa debit, low rate products, payments and statements.		●	
Quickly and effectively remediate individual and systemic customer issues across the Group	• Approximately 1.8 million customer accounts in Australia have been refunded (against a target of 500,000 accounts), with a total of ~$161 million returned. Sound progress continues to be made in closing out large remediation streams in both Australia and NZ.		●	
Customer overall: **Met Expectations**			●	

PEOPLE & CULTURE (30% WEIGHT)

In a challenging year, significant capacity and attention was focused on managing through COVID-19 and the Australian bushfires, however strong progress was still made on key priorities including embedding our new reward framework, building strategic and leadership capabilities, and strengthening governance, accountability and culture. Our ability to make progress in the face of disruption is the product of sustained efforts to embed our purpose and aspirational culture over multiple years, including through implementing agile working practices and strong leadership behaviours.

In response to COVID-19, our core focus was protecting the safety of our people and in turn, our customers. By quickly enabling significant increases in our remote working capacity, over 95% of all employees (excluding Australian branches) were able to continue to work productively and safely from home and continue to deliver great outcomes for our customers.

2020 focus areas	Performance commentary	Performance against expectations		
		Below	Met	Above
Strengthen governance, accountability, actions and measurement of culture	• Continued to embed the Accountability and Consequence Framework (A&CF) including in support of our new reward model, with 12 full and 26 preliminary accountability reviews completed. • Divisions have continued to share progress and lessons learned through our culture steering groups and we have undertaken a review of our culture measurement and assessment approach.			●
Engaging our people and diversifying our workforce	• Overall engagement score increased to a record high of 86% (up from 77% in 2019), with strong results also seen in key measures, reflecting ANZ's strong support for our employees and clear senior leader communication during the pandemic. • Women in leadership increased 0.9% to 33.4% (against a 34.1% target).			●
Improve leader capability	• Commenced rollout of a bank wide leadership capability program for all people leaders. • Key leadership survey results continued to improve, including scores for leaders role modelling our values and demonstrating effective leadership behaviours.			●
Embed Reimagining Reward, including new Performance Management approach	• Finalised and embedded changes to how we manage and reward our people to better focus on the interests of our customers, collaboration, and the long-term health of the bank. • Implemented a more dynamic approach to performance management, including a stronger emphasis on more frequent check-in conversations to review and drive performance, as well as maintain employee wellbeing during COVID-19. Some plans to embed performance changes had to be scaled back due to capacity constraints.		●	
Strengthen strategic capabilities	• In response to COVID-19, safe internal workforce movement principles were developed, and we rapidly enabled internal moves to support operational resilience and supplement areas where customer demand was highest. • Enhanced recruiting, assessment and onboarding processes, especially for graduates and high demand capabilities. Achieved targets for hiring into strategic capability areas, such as data and engineering skillsets.			●
People & Culture overall: **Above Expectations**				●

FINANCIAL & DISCIPLINE (35% WEIGHT)

Profitability and returns have been significantly impacted by the COVID-19 pandemic this year, including the impact of higher credit provision charges and the impairment of two of the Group's Asian associate investments. ANZ has been able to manage well through this challenging period given our long-term strategy to simplify the business and strengthen the balance sheet enabled us to enter the COVID-19 environment in a strong financial position. As a result, we have been able to both support our customers and enable prudent dividends to be paid to our shareholders, while absorbing a significant increase in credit reserves and without needing to raise capital. Costs have again been well managed, with expenses broadly flat despite record levels of investment to grow and simplify the business, and increased regulatory and compliance spend. Divestments during the year reduced the complexity of the Group. Ongoing work to identify and rectify customers in need of remediation led to further remediation charges, which impacted financial performance.

2020 focus areas	Performance commentary	Performance against expectations		
		Below	Met	Above
Balance appropriately between financial results, safety and soundness, and investment in the future	• On a cash continuing basis, ROE decreased to 6.2% and NPAT fell 42% due to the impacts of COVID-19 outlined above. Excluding large/notable items[3], a 1% decline in profit before provisions (PBP) was on target, noting the difficult operating environment. • Costs remained broadly flat despite record levels of investment to grow and simplify the business, and increased regulatory and compliance spend. • Capital continued to be well managed. CET1 of 11.3% has remained above regulatory minimums, while enabling dividends (albeit reduced) to be paid to our shareholders and the disciplined use of our balance sheet to support our customers. • Liquidity and funding was prudently managed in the environment, with the Liquidity Coverage Ratio (LCR) of 139% and Net Stable Funding Ratio (NSFR) of 124%, well above regulatory minimums.	●		
Progress agreed simplification plan	• We continued to reduce the complexity of our business (e.g. sale of UDC Finance to Shinsei Bank, sale of offsite ATM network to Armaguard). • Through strong cost management, we created capacity to invest into the business and remain committed to building a simpler and better bank.		●	
Prepare NZ business for Reserve Bank of New Zealand (RBNZ) outsourcing policy (BS11) and capital changes	• We are well progressed in the preparation for both the RBNZ capital changes and BS11 compliance.		●	
Financial & Discipline overall: **Below Expectations**		●		

OVERALL

	Below	Met	Above
Group Performance assessment: **Met Expectations** The impact to profitability and returns in 2020 as a result of the COVID-19 pandemic was considered when the Board determined the ANZIP outcome (see section 4.5.1). For the purpose of assessing financial performance against the Group Performance Framework, the extent these factors were considered outside of the control of management, have been considered when forming the overall assessment of performance. On balance, the Board considered an overall assessment of 'Met Expectations' fair and appropriate.		●	

1. Net Promoter Score (NPS) is a customer loyalty metric used globally to evaluate a company's brand, products or services. Net Promoter® and NPS® are registered trademarks and Net Promoter Score and Net Promoter System are trademarks of Bain & Company, Satmetrix Systems and Fred Reichheld. **2.** Peter Lee Associates 2020 Large Corporate and Institutional Relationship Banking surveys, Australia and NZ. **3.** Large/notable items include the impact of divestments, customer remediation, accelerated software amortisation, Royal Commission legal costs, lease-related items, restructuring and impairments.

4.5.4 ANZ performance outcomes

ANZ's financial performance 2016 – 2020

As discussed in section 4.5.1, when determining variable remuneration outcomes for Disclosed Executives and employees more broadly cash profit and economic profit are considered. The Group uses cash profit[1] as a measure of performance for the Group's ongoing business activities, as this provides a basis to assess Group and Divisional performance against earlier periods and against peer institutions. Although cash profit is not audited, the external auditor has informed the Audit Committee that recurring adjustments have been determined on a consistent basis across each period presented.

Statutory profit has decreased 40% compared to the prior financial year, while cash profit from continuing operations has decreased 42%. The decline was driven primarily by:

- Credit impairment charges of $2.7 billion pre-tax (up from $795 million in the prior financial year), which included increased credit reserves for the impacts of the ongoing COVID-19 pandemic; and
- An $815 million impairment in the valuation of two of the Group's Asian associate investments, largely due to the impact COVID-19 has had in those markets.

Excluding the movement in these two items, cash profit fell 5% from the prior financial year.

The table below provides ANZ's financial performance, including cash profit, over the last five years.

	2016	2017	2018	2019	2020
Statutory profit ($m)	5,709	6,406	6,400	5,953	**3,577**
Cash profit ($m, unaudited)	5,889	6,938	5,805	6,161	**3,660**
Cash profit – Continuing operations ($m, unaudited)[2]	5,889	6,809	6,487	6,470	**3,758**
Cash profit before provisions – Continuing operations ($m, unaudited)[2]	10,155	10,849	9,966	9,958	**8,369**
Cash ROE (%) – Continuing operations (unaudited)[2]	10.3	11.7	11.0	10.9	**6.2**
Cash EPS – Continuing operations (unaudited)[2]	202.6	232.7	223.4	227.6	**132.7**
Share price at 30 September ($) (On 1 October 2015, opening share price was $27.25)	27.63	29.60	28.18	28.52	**17.22**
Total dividend (cents per share)	160	160	160	160	**60**
Total shareholder return (12 month %)	9.2	13.1	0.6	9.2	**(36.9)**

1. Cash profit excludes non-core items included in statutory profit and is provided to assist readers understand the results of the core business activities of the Group. **2.** Cash profit from continuing operations has been presented for 2017, 2018, 2019 and 2020 (2016 has not been restated). Cash profit from continuing operations represents the Group's cash profit excluding the impact of our discontinued businesses, which consist of OnePath Pensions and Investments and aligned dealer groups, and the Group's life insurance business in Australia. The businesses were reclassified to discontinuing in 2018, and only the 2017 result was restated in the table above. During 2019, the Group adopted AASB 15 Revenue from Contracts with Customers and only 2018 has been restated.

ANZ TSR performance (1 to 10 years)

The table below compares ANZ's TSR performance against the median TSR and upper quartile TSR of the performance rights Select Financial Services (SFS) comparator group[1] over one to ten years, noting that for this table TSR is measured over a different timeframe to the performance period for our performance rights, i.e. to 30 September 2020.

- ANZ's TSR performance was slightly above the median TSR of the SFS comparator group[1] when comparing over one and three years;
- slightly below the median over five years; and
- below the median over ten years.

While ANZ's TSR performance over 10 years was lower than the median, since Shayne Elliott's tenure as CEO, ANZ's TSR has performed around the median when assessed over one, three and five years.

	Years to 30 September 2020			
	1	3[2]	5	10
ANZ (%)	**(36.9)**	**(31.8)**	**(15.7)**	**28.5**
Median TSR SFS (%)	(37.3)	(32.0)	(14.9)	40.9
Upper quartile TSR SFS (%)	(18.4)	(1.7)	13.4	111.1

1. See section 5.2.3a for details of the SFS comparator group. **2.** The outcomes for performance rights granted in November/December 2016 and tested in November 2019 are detailed in section 4.4.3.

5. EXECUTIVE REMUNERATION STRUCTURE AND DELIVERY

There are two core components of remuneration at ANZ – fixed remuneration and at risk variable remuneration.

In structuring remuneration, the Board aims to find the right balance between fixed and variable remuneration (at risk), the way it is delivered (cash versus deferred remuneration) and appropriate time frames (the short, medium and long-term).

The Board sets (and reviews annually) the CEO and Disclosed Executives' fixed remuneration based on financial services market relativities and reflecting their responsibilities, performance, qualifications, experience and location.

The way variable remuneration operates differs somewhat between the CEO and Disclosed Executives. Namely:

- The CEO's variable remuneration is comprised of AVR and LTVR (subject to shareholder approval), which provides consistency with external market practice, and LTVR reinforces his focus on achieving longer term strategic objectives and long-term stakeholder value creation.
- Disclosed Executives are subject to one combined VR plan which enables us to:
  - provide the appropriate mix of short and long-term rewards (including performance hurdles) to drive performance, and attract and retain talent;
  - tie the full VR award to the performance of ANZ; and
  - defer VR over the short, medium and longer term.

Variable remuneration seeks to differentiate for performance and is designed to focus our CEO and Disclosed Executives on stretching performance objectives supporting our business strategy, and encourage the delivery of long-term stakeholder value.

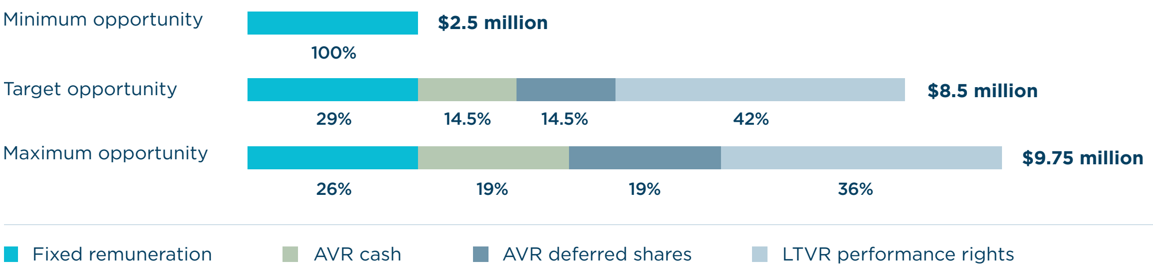
By deferring a significant portion of variable remuneration (74% of maximum opportunity for the CEO, 75% for Disclosed Executives and 67% for the CRO), we seek to ensure alignment with shareholder interests to deliver on ANZ's strategic objectives and ensure a focus on long-term value creation. Deferred variable remuneration has significant retention elements, and most importantly, can be adjusted downwards, including to zero, allowing the Board to hold executives accountable, individually or collectively, for the longer term impacts of their decisions and actions.

Board discretion is applied when determining all CEO and Disclosed Executive variable remuneration outcomes, and also before any scheduled release of previously deferred remuneration (i.e. consider malus or further deferral).

5.1 REMUNERATION MIX

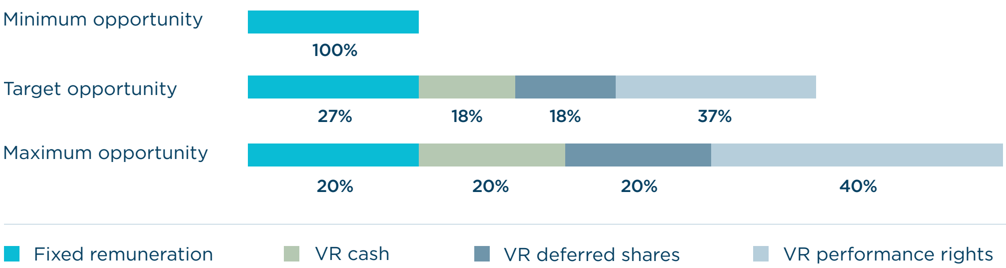
We structure the CEO and Disclosed Executives' remuneration as follows:

REMUNERATION MIX – CEO



Minimum = Fixed remuneration ($2.5 million)
Target = Fixed remuneration + target AVR (100% of fixed remuneration) + LTVR (140% of fixed remuneration (performance rights at full vesting))
Maximum = Fixed remuneration + maximum AVR (150% of fixed remuneration) + LTVR (140% of fixed remuneration (performance rights at full vesting))

REMUNERATION MIX – DISCLOSED EXECUTIVE[1]



Minimum = Fixed remuneration
Target = Fixed remuneration + target VR (268% of fixed remuneration (performance rights at full vesting))
Maximum = Fixed remuneration + maximum VR (402% of fixed remuneration (150% of target VR and performance rights at full vesting))

1. Excluding CRO.

CRO

To preserve the independence of the role and to minimise any conflicts of interest in carrying out the risk control function across the organisation, the CRO's remuneration arrangements differ to other Disclosed Executives.

The remuneration mix is 27% fixed remuneration and 73% VR maximum opportunity. The VR target opportunity is 180% of fixed remuneration and VR maximum opportunity is 270% of fixed remuneration. VR is delivered as 33% cash, 33% deferred shares and 34% deferred share rights (instead of performance rights).

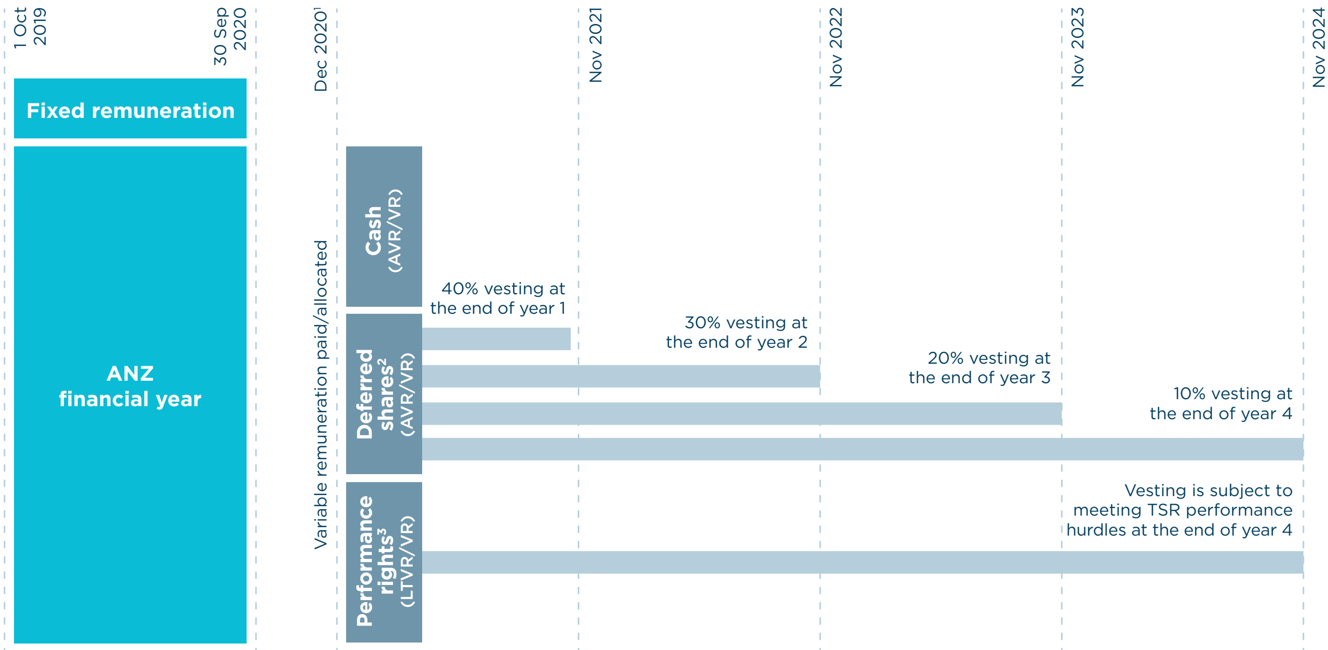
5.2 VARIABLE REMUNERATION DELIVERY

Variable remuneration for the CEO and the Disclosed Executives (excluding the CRO) is delivered partly in cash, shares deferred over four years, and performance rights deferred for four years. The performance rights are also subject to performance hurdles which determine whether they vest in four years' time.

60% of variable remuneration (AVR plus LTVR) for the CEO, 53% of VR for Disclosed Executives (other than the CRO), and 41% of VR for the CRO will be deferred for at least four years (from the date the Board approved the variable remuneration in October (and the date shareholders approve the CEO's LTVR)), noting that this complies with the BEAR minimum deferral requirement of 60% for the CEO and 40% for Disclosed Executives.

Before any scheduled release of deferred shares/deferred share rights/performance rights, the Board considers whether any malus/downward adjustment of previously deferred remuneration (or further deferral of vesting) should be made for the CEO and Disclosed Executives. See section 5.3.

VARIABLE REMUNERATION DELIVERY – CEO AND DISCLOSED EXECUTIVES



1. Variable remuneration outcomes were approved by the Board on 21 October 2020 (noting that the CEO's performance rights are subject to shareholder approval at the 2020 AGM).
2. Deferred shares for the CRO vest as follows: 30% at the end of years 1 and 2, and 20% at the end of years 3 and 4. **3.** Deferred share rights for the CRO.

5.2.1 Cash – CEO (AVR) and Disclosed Executives (VR)

The cash component is paid to executives at the end of the annual Performance and Remuneration Review (December 2020).

5.2.2 Deferred shares – CEO (AVR) and Disclosed Executives (VR)

Deferred shares are ordinary shares, deferred over one to four years. By deferring part of an executives' remuneration over time (and it remaining subject to malus), we enable a substantial amount of their remuneration to be directly linked to delivering long-term shareholder value. We grant deferred shares in respect of performance for the 1 October to 30 September financial year in late November/early December each year.

We calculate the number of deferred shares to be granted based on the VWAP of the shares traded on the ASX in the week leading up to and including the date of grant. For disclosure and expensing purposes, we use the one day VWAP to determine the fair value.

In some cases (generally due to regulatory or tax reasons), we may grant deferred share rights to executives instead of deferred shares. Each deferred share right entitles the holder to one ordinary share.

5.2.3a Performance rights – CEO (LTVR) and Disclosed Executives (VR) excluding the CRO

A performance right is a right to acquire one ordinary ANZ share at nil cost – as long as time and performance hurdles are met. The future value of performance rights may range from zero to an indeterminate value. The value depends on our performance against the hurdles and on the share price at the time of exercise.

The performance rights have a four-year performance period (and remain subject to malus up to the vesting date). For the 2020 grant, the performance period is from 22 November 2020 to 21 November 2024. A four-year performance period provides sufficient time for longer term performance to be reflected.

More detail relating to the 2020 performance rights is provided below.

Element	Detail
Performance rights hurdles	The performance rights have TSR performance hurdles reflecting the importance of focusing on achieving longer term strategic objectives and aligning executives' and shareholders' interests. We will apply two TSR performance hurdles for the 2020 grants of performance rights: • 75% will be measured against a relative TSR hurdle, tranche 1. • 25% will be measured against an absolute TSR hurdle, tranche 2. TSR represents the change in value of a share plus the value of reinvested dividends paid. We regard it as the most appropriate long-term measure – it focuses on the delivery of shareholder value and is a well understood and tested mechanism to measure performance. The combination of relative and absolute TSR hurdles provides balance to the plan by: • Relative: rewarding executives for performance that exceeds that of comparator companies; and • Absolute: ensuring there is a continued focus on providing positive growth – even when the market is declining. The two hurdles measure separate aspects of performance: • the relative TSR hurdle measures our TSR compared to that of the Select Financial Services (SFS) comparator group, made up of core local and global competitors. This comparator group is chosen to broadly reflect the geographies and business segments in which ANZ competes for revenue; and • the absolute Compound Annual Growth Rate (CAGR) TSR hurdle provides executives with a more direct line of sight to the level of shareholder return to be achieved. It also provides a tighter correlation between the executives' rewards and the shareholders' financial outcomes. We will measure ANZ's TSR against each hurdle at the end of the four-year performance period to determine whether each tranche of performance rights become exercisable. We measure each tranche independently from the other – for example one tranche may vest fully or partially but the other tranche may not vest.
Relative TSR hurdle for the November/ December 2020 grant	The relative TSR hurdle is an external hurdle that measures our TSR against that of the SFS comparator group over four years. The SFS comparator group (unchanged from prior years) is made up of: Bank of Queensland Limited; Bendigo and Adelaide Bank Limited; Commonwealth Bank of Australia Limited; DBS Bank Limited; Macquarie Group Limited; National Australia Bank Limited; Standard Chartered PLC; Suncorp Group Limited; and Westpac Banking Corporation.

If our TSR when compared to the TSR of the comparator group	then the percentage of performance rights that vest
is less than the 50th percentile	is nil
reaches at least the 50th percentile, but is less than the 75th percentile	is 50% plus 2% for every one percentile increase above the 50th percentile
reaches or exceeds the 75th percentile	is 100%

Element	Detail
Absolute TSR hurdle for the November/ December 2020 grant	The absolute CAGR TSR hurdle is an internal hurdle as to whether ANZ achieves or exceeds a threshold level of growth the Board sets at the start of the performance period. The Board reviews and approves the absolute TSR targets each year for that year's award. When reviewing the targets, the Board references ANZ's assessed Cost of Capital. The Cost of Capital is determined using methodologies including the Capital Asset Pricing Model (CAPM). There has been no change to the absolute CAGR TSR targets for 2020.

If the absolute CAGR of our TSR	then the percentage of performance rights that vest
is less than 8.5%	is nil
is 8.5%	is 50%
reaches at least 8.5%, but is less than 12.75%	is progressively increased on a pro-rata, straight-line, basis from 50% to 100%
reaches or exceeds 12.75%	is 100%

Calculating TSR performance	When calculating performance against TSR, we: • reduce the impact of share price volatility – by using an averaging calculation over a 90-trading day period for start and end values; • ensure an independent measurement – by engaging the services of an external organisation, Mercer Consulting (Australia) Pty Ltd, to calculate ANZ's performance against the TSR hurdles; and • test the performance against the relevant hurdle once only at the end of the four-year performance period – the rights lapse if the performance hurdle is not met – there is no retesting.
Calculating the number of performance rights	The number of performance rights we grant is calculated using a face value basis – i.e. the full share price. Face value at full vesting is split into two tranches. Each tranche value is then divided by the market price (five trading day VWAP of ANZ shares at the start of the performance period) to determine the number of performance rights we award in each tranche. Performance rights are allocated in late November/early December for Disclosed Executives and December for the CEO (subject to shareholder approval).
Expensing performance rights	ANZ engages PricewaterhouseCoopers to independently determine the fair value of performance rights, which is only used for expensing purposes. They consider factors including: the performance conditions, share price volatility, life of the instrument, dividend yield, and share price at grant date.

5.2.3b Deferred share rights – CRO (VR)

The CRO receives deferred share rights instead of performance rights to preserve the independence of the role and to minimise any conflicts of interest in carrying out the risk control function across the organisation.

The CRO's deferred share rights are subject to a time-based vesting hurdle of four years. The value the Board uses to determine the number of deferred share rights to be allocated to the CRO is the face value of the Company's shares traded on the ASX at the time of grant (five trading day VWAP).

5.3 MALUS (DOWNWARD ADJUSTMENT OF PREVIOUSLY DEFERRED REMUNERATION) – BOARD DISCRETION

All deferred remuneration we award to an employee is subject to ANZ's on-going and absolute discretion to adjust this downward (malus) (including to zero) at any time.

ANZ may exercise this discretion, for example, where:

- there is a need to protect the financial soundness of ANZ or to meet regulatory requirements or there has been a material failure of risk management or controls within ANZ;
- the employee has acted fraudulently or dishonestly, failed to act with due care, skill and diligence, or failed to comply with ANZ policies (including the Code of Conduct), processes or directions;
- the employee is responsible or accountable, directly or indirectly, by virtue of their role or seniority for an occurrence/event which has had an adverse impact on ANZ;
- there has been misconduct and the employee was involved directly or indirectly, failed to take adequate steps, could be considered responsible due to their seniority, or the decision to award or grant the deferred remuneration was made on the basis of misinformation.

Further, where the CEO and/or Disclosed Executives of ANZ have failed to comply with their accountability obligations under the BEAR, their deferred remuneration will be reduced by an amount that is proportionate to the failure, as required by the BEAR.

An employee's deferred remuneration is also subject to ANZ's on-going and absolute discretion to further defer the vesting. Where ANZ exercises this discretion, the vesting date is postponed and will not vest unless and until ANZ determines it should vest.

Before any scheduled vesting of deferred remuneration, the Board (for the CEO, Disclosed Executives and other specified roles) and/or the Consequence Review Group (CRG) (for other employees) considers whether malus/downward adjustment or further deferral should be applied. See section 6 for details.

6. ACCOUNTABILITY AND CONSEQUENCE FRAMEWORK

In 2020, we continued to strengthen and embed the Accountability and Consequence Framework (A&CF).

The HR Committee and Board determine accountability and consequences for the CEO and Disclosed Executives, including the application of malus to previously deferred remuneration.

The CRO presented a report to the HR Committee of the Board on the most material risk events for 2020, and input was also sought from the Audit and Risk Committees of the Board. All of this information was taken into consideration by the HR Committee and the Board when considering the performance of the Group, and determining the performance and remuneration outcomes for our Group Executives including the CEO and the 2020 ANZIP variable remuneration pool for all employees.

Adjustments were made to 2020 individual variable remuneration outcomes to reflect accountability for relevant matters.

No malus was applied to the previously deferred remuneration of the CEO and Disclosed Executives during 2020.

The Consequence Review Group (CRG) supports the Board in monitoring the implementation and ongoing effectiveness of ANZ's A&CF, being cognisant of its impact on the culture of ANZ. The CRG is chaired by the CEO and members include the CRO, CFO and GE T&C. The CRG reviews material events, accountability and the application of suitable consequences where appropriate.

When determining consequences consideration will be given to the level of accountability, and the severity of the issue, including customer impacts. Consequences may include, for example, one or more of the following: counselling, formal warnings, impacts to in year performance and remuneration outcomes or application of malus to previously deferred remuneration and ultimately termination of employment for the most serious issues.

Our ongoing focus on accountability, consequences and driving a strong risk culture supports our customer commitment that when things go wrong, we fix them quickly and hold executives, current (and former where we can), to account where appropriate. We are also focused on ensuring that we learn from the cause of the event, and mitigate the risk of future recurrences and continuously seek to strengthen our risk culture.

We review the effectiveness of the A&CF every year and implement enhancements to further strengthen the framework based on regulatory and internal stakeholder input.

We also examined the impact of the A&CF on our 'speak up' culture. Across all measures reviewed, including our annual My Voice survey, and percentage of self-disclosed audit issues and internal audit cultural review data, we found that our speak-up culture had strengthened in 2020 compared to 2019. This gives us confidence that the implementation of the A&CF is consistent with our speak-up culture. We continue to raise employee awareness of, and promote the various ways that employees can speak up including through initiatives such as the annual Whistleblower Awareness Week.

In 2020 across the Group, there were 1,448 Code of Conduct cases managed resulting in 199 employees being terminated for breaches of our Code of Conduct, or who otherwise left the bank after an investigation had been initiated. A further 370 employees received a formal disciplinary outcome, with managers required to apply impacts to their performance and remuneration outcomes as part of the annual review process.

At the senior leadership level, 34 current or former senior leaders (senior executives, executives and senior managers) had consequences applied in 2020 for Code of Conduct breaches or findings of accountability for a relevant event, or otherwise left the bank after an investigation had been initiated. The 34 employees represent 1.4% of our 2,443 senior leaders. The consequences applied included warnings, impacts to performance and/or remuneration outcomes and cessation of employment.

Senior leader consequences in 2020[1]

Formal warnings[2]	19
No longer employed	7
Performance impacts[3]	18

1. Individuals are included under all categories that are relevant meaning one individual may be reflected in multiple categories. **2.** As part of the annual Performance and Remuneration Review process, performance and remuneration consequences are applied in line with our A&CF. **3.** Performance rating impacts are as at end of October 2020. Remuneration impacts will also be applied.

There are also performance and remuneration consequences for employees who are non-compliant with the mandatory learning requirements by over 30 days, with these employees being deemed ineligible to participate in the year-end remuneration review process (unless genuinely exceptional circumstances exist). In 2020, less than 0.4% of employees had a mandatory learning non-compliance flag applied to their profiles as a result of becoming overdue for 30 days on their mandatory learning requirements. The remaining 99.6% of our employees completed their mandatory learning requirements within the required period.

7. NON-EXECUTIVE DIRECTOR (NED) REMUNERATION

7.1 REMUNERATION STRUCTURE

The HR Committee reviewed NED fees for 2020 and determined not to increase Chairman, NED or Committee fees except for the Digital Business and Technology Committee Chair fee (which increased from $35,000 to $45,000) in recognition of the significant increase in workload of the Committee Chair.

NEDs receive a base fee for being a Director of the Board, and additional fees for either chairing, or being a member of a Board Committee. The Chairman of the Board does not receive additional fees for serving on a Board Committee.

In setting Board and Committee fees, the Board considers: general industry practice, ASX Corporate Governance Principles and Recommendations, the responsibilities and risks attached to the NED role, the time commitment expected of NEDs on Group and Company matters, and fees paid to NEDs of comparable companies.

ANZ compares NED fees to a comparator group of Australian listed companies with a similar market capitalisation, with particular focus on the major financial services institutions. This is considered an appropriate group, given similarity in size and complexity, nature of work and time commitment by NEDs.

To maintain NED independence and impartiality:

- NED fees are not linked to the performance of the Group; and
- NEDs are not eligible to participate in any of the Group's variable remuneration arrangements.

The current aggregate fee pool for NEDs of $4 million was approved by shareholders at the 2012 AGM. The annual total of NEDs' fees, including superannuation contributions, is within this agreed limit.

This table shows the NED fee policy structure for 2020.

2020 NED FEE POLICY STRUCTURE

	Board[1,2]	Audit Committee	Risk Committee	HR Committee	Digital Business & Technology Committee	Ethics, Environment, Social & Governance Committee
Chair fee	$825,000	$65,000	$62,000	$57,000	$45,000	$35,000
Member fee	$240,000	$32,500	$31,000	$29,000	$15,000	$15,000

1. Including superannuation. **2.** The Chairman of the Board does not receive additional fees for serving on a Board Committee. The Chairman of the Board and NEDs do not receive a fee for serving on the Nomination and Board Operations Committee.

NED shareholding guidelines

We expect our NEDs to hold ANZ shares. NEDs are required:

- to accumulate shares – over a five-year period from their appointment – to the value of 100% (200% for the Chairman) of the NED member fee; and
- to maintain this shareholding while they are a Director of ANZ.

Based on the ANZ share price as at 30 September 2020, all NEDs who have served five years met the holding requirement. NEDs appointed within the last five years have either met or are building towards their shareholding requirement.

7.2 2020 STATUTORY REMUNERATION – NEDS

2020 STATUTORY REMUNERATION – NEDS

	Financial year	Short-term NED benefits		Post-employment	
		Fees[1] $	Non monetary benefits $	Super contributions[1] $	Total remuneration[2] $
Current Non-Executive Directors					
D Gonski[1]	**2020**	**803,824**	**-**	**21,176**	**825,000**
	2019	639,351	-	20,649	660,000
I Atlas[1]	**2020**	**323,324**	**-**	**21,176**	**344,500**
	2019	275,851	-	20,649	296,500
P Dwyer[1]	**2020**	**354,326**	**-**	**10,674**	**365,000**
	2019	296,351	-	20,649	317,000
J Halton[1]	**2020**	**307,824**	**-**	**21,176**	**329,000**
	2019	246,058	-	20,649	266,707
J Key[1, 3]	**2020**	**279,824**	**-**	**21,176**	**301,000**
	2019	229,131	-	20,649	249,780
G Liebelt[1]	**2020**	**342,324**	**-**	**21,176**	**363,500**
	2019	294,851	-	20,649	315,500
J Macfarlane[1]	**2020**	**297,324**	**-**	**21,176**	**318,500**
	2019	249,851	-	20,649	270,500
P O'Sullivan[4]	**2020**	**243,331**	**-**	**19,207**	**262,538**
Total of all Non-Executive Directors	**2020**	**2,952,101**	**-**	**156,937**	**3,109,038**
	2019	2,231,444	-	144,543	2,375,987

1. Year-on-year differences in fees relate to the 20% reduction to the Chairman fee and the NED member fees in 2019 (as a consequence of a decision taken by the Directors that their fees should reflect shared accountability for the failures highlighted by the Royal Commission), changes in Committee memberships and changes to the superannuation Maximum Contribution Base. From 1 January 2020 to 30 June 2020, P Dwyer elected to receive all payments in fees and therefore did not receive superannuation contributions during this period. **2.** Long-term benefits and share-based payments do not apply for the NEDs. **3.** In addition to the fees shown above that J Key received as a NED for Australia and New Zealand Banking Group Limited (ANZBGL), as Chairman for ANZ Bank New Zealand Limited J Key also received a total of NZD 391,000 in 2020 and NZD 382,950 in 2019. **4.** P O'Sullivan commenced as a NED on 4 November 2019, so 2020 remuneration reflects a partial service year.

8. REMUNERATION GOVERNANCE

8.1 THE HUMAN RESOURCES (HR) COMMITTEE

8.1.1 Role of the HR Committee

The HR Committee supports the Board on remuneration and other HR matters. It reviews the remuneration policies and practices of the Group, and monitors market practice and regulatory and compliance requirements in Australia and overseas.

During the year the HR Committee met on six occasions[1] and reviewed and approved, or made recommendations to the Board on matters including:

- remuneration for the CEO and other key executives (broader than those disclosed in the Remuneration Report) covered by the ANZBGL Remuneration Policy, and fees for the NEDs;
- reward structure changes (including the Reimagining Reward initiative);
- ANZ's response to the industry-wide Retail Remuneration Review by Stephen Sedgwick AO;
- updates on APRA's draft Prudential Standard CPS 511 Remuneration, the BEAR Thematic Review, Treasury's Financial Accountability Regime (FAR), and ASIC's review of governance practices in the exercise of board discretion on executive variable pay;
- the ANZ Group Performance Framework (annual objectives setting and assessment) and annual variable remuneration spend;
- performance and reward outcomes for key senior executives, including the consideration of material risk events that have either occurred or came to light in the year, and malus/downward adjustment;
- key senior executive appointments and terminations;
- the effectiveness of the ANZBGL Remuneration Policy;
- succession plans for key senior executives;
- culture and governance including updates on the strengthened Accountability and Consequence Framework (A&CF); and
- diversity, inclusion, and employee engagement.

More details about the role of the HR Committee, including its Charter, can be found on our website. Go to anz.com > Our company > Strong governance framework > ANZ Human Resources Committee Charter.

1. A subset of the HR Committee also met on a number of occasions during the year to discuss regulatory developments and 2020 outcomes.

8.1.2 Link between remuneration and risk

The HR Committee has a strong focus on the relationship between business performance, risk management and remuneration, aligned with our business strategy. The chairs of the Risk and Audit Committees are members of the HR Committee and the full Board is in attendance for specific HR Committee meetings.

To further reflect the importance of the link between remuneration and risk:

- the Board had three NEDs (in addition to the Chairman) in 2020 who served on both the HR Committee and the Risk Committee;
- the HR Committee has free and unfettered access to risk and financial control personnel (the CRO and CFO attend HR Committee meetings for specific agenda items);
- the CRO provides an independent report to the HR Committee on material risk events to help inform considerations of performance and remuneration, and accountability and consequences at the Group, Divisional and individual level; and
- the chairs of the Audit and Risk Committees are asked to provide input to the HR Committee to ensure appropriate consideration of all relevant risk and internal audit issues.

8.1.3 Conflict of interest

To help mitigate potential conflicts of interest:

- management are not in attendance when their own performance or remuneration is being discussed by the HR Committee or Board;
- the CEO's AVR is funded and determined separately from the ANZIP pool;
- the CRO's remuneration arrangements differ to other Disclosed Executives to preserve the independence of the role; and
- the HR Committee seeks input from a number of sources to inform their consideration of performance and remuneration outcomes for the CEO and Disclosed Executives including:
  - independent reports from Risk, Finance, Talent and Culture and Internal Audit;
  - material risk event data provided by the CRO;
  - input from both the Audit Committee and the Risk Committee of the Board.

8.1.4 External advisors provided information but not recommendations

The HR Committee can engage independent external advisors as needed.

Throughout the year, the HR Committee and management received information from the following external providers: Aon, Ashurst, EY, Mercer Consulting (Australia) Pty Ltd and PricewaterhouseCoopers. This information related to market data, market practices, legislative requirements and the interpretation of governance and regulatory requirements.

During the year, ANZ did not receive any remuneration recommendations from external consultants about the remuneration of KMP.

ANZ employs in-house remuneration professionals who provide recommendations to the HR Committee and the Board. The Board made its decisions independently, using the information provided and with careful regard to ANZ's strategic objectives, purpose and values, risk appetite and the ANZBGL Remuneration Policy and Principles.

8.2 INTERNAL GOVERNANCE

8.2.1 Hedging prohibition

All deferred equity must remain at risk until it has fully vested. Accordingly, executives and their associated persons must not enter into any schemes that specifically protect the unvested value of equity allocated. If they do so, then they forfeit the relevant equity.

8.2.2 CEO and Disclosed Executives' shareholding guidelines

We expect the CEO and each Disclosed Executive to, over a five-year period:

- accumulate ANZ shares to the value of 200% of their fixed remuneration; and
- maintain this shareholding level while they are an executive of ANZ.

For this purpose, shareholdings include all vested and unvested equity that is not subject to performance hurdles.

CEO

While the CEO is still within his five-year accumulation period his shareholdings are above the holding guideline and we note that he has not sold any ANZ shares since his commencement as CEO.

Disclosed Executives

All but one Disclosed Executive are still within their five-year accumulation period and are building their holdings. One Disclosed Executive has passed the five-year period and their shareholding (based on 30 September 2020 share price) was below the holding guideline. The impact of COVID-19 on ANZ's share price has resulted in the overall value of the executive's holding reducing and the Board has exercised its discretion and is not requiring the executive to purchase additional shares at this time.

8.2.3 CEO and Disclosed Executives' contract terms and equity treatment

The details of the contract terms and also the equity treatment on termination (in accordance with the Conditions of Grant) relating to the CEO and Disclosed Executives are below. Although they are similar, they vary in some cases to suit different circumstances.

Type of contract	Permanent ongoing employment contract.
Notice on resignation	• 12 months by CEO; • 6 months by Disclosed Executives.
Notice on termination by ANZ[1]	• 12 months by ANZ for CEO and Disclosed Executives. However, ANZ may immediately terminate an individual's employment at any time in the case of serious misconduct. In that case, the individual will be entitled only to payment of fixed remuneration up to the date of their termination and their statutory entitlements.
How unvested equity is treated on leaving ANZ	Executives who resign or are terminated will forfeit all their unvested deferred equity – unless the Board determines otherwise. If an executive is terminated due to redundancy or they are classified as a 'good leaver', then: • their deferred shares/share rights are released at the original vesting date; and • their performance rights[2] are prorated for service to the full notice termination date and released at the original vesting date (to the extent that the performance hurdles are met). On an executive's death or total and permanent disablement, their deferred equity vests. Unvested equity remains subject to malus post termination.
Change of control (applies to the CEO only)	If a change of control or other similar event occurs, then we will test the performance conditions applying to the CEO's performance rights. They will vest to the extent that the performance conditions are satisfied.

1. For K Corbally and M Hand, their contracts state that in particular circumstances they may be eligible for a retrenchment benefit in accordance with the relevant ANZ policy, as varied from time to time. For A Watson, notice on retrenchment is 6 weeks and compensation on retrenchment is calculated on a scale up to a maximum of 79 weeks after 25 years' service. **2.** Or deferred share rights granted to the CRO instead of performance rights.

9. OTHER INFORMATION

9.1 2020 STATUTORY REMUNERATION – CEO AND DISCLOSED EXECUTIVES

The following table outlines the statutory remuneration disclosed in accordance with Australian Accounting Standards. While it shows the fixed remuneration awarded (cash and superannuation contributions) and also the cash component of the 2020 variable remuneration award, **it does not show the actual variable remuneration awarded or received in 2020** (see sections 4.1 and 4.2), but instead shows the amortised accounting value for this financial year of deferred remuneration (including prior year awards).

2020 STATUTORY REMUNERATION – CEO AND DISCLOSED EXECUTIVES

		Short-term employee benefits			Post-employment	
	Financial year	Cash salary[1] $	Non monetary benefits[2] $	Total cash incentive[3] $	Super contributions[4] $	Retirement benefit accrued during year[5] $
CEO and Current Disclosed Executives						
S Elliott	**2020**	**2,478,824**	**15,089**	**625,000**	**21,176**	**-**
	2019	2,079,351	19,383	750,000	20,649	-
M Carnegie	**2020**	**1,178,824**	**20,646**	**409,200**	**21,676**	**-**
	2019	979,351	32,221	495,000	21,149	-
K Corbally[10]	**2020**	**1,078,824**	**9,589**	**429,000**	**21,176**	**-**
	2019	929,351	16,633	478,500	20,649	-
G Florian	**2020**	**1,053,824**	**20,646**	**371,250**	**21,176**	**-**
A George	**2020**	**1,078,824**	**26,146**	**363,000**	**21,676**	**-**
	2019	979,351	37,721	528,000	21,149	-
M Hand[11]	**2020**	**1,178,824**	**9,589**	**462,000**	**21,176**	**25,177**
	2019	710,307	10,868	198,000	15,693	17,851
M Jablko[12]	**2020**	**1,078,824**	**9,589**	**363,000**	**21,676**	**-**
	2019	979,351	17,083	544,500	21,149	-
K van der Merwe	**2020**	**828,824**	**15,089**	**330,000**	**21,676**	**-**
A Watson[13]	**2020**	**975,974**	**11,176**	**334,681**	**39,625**	**-**
	2019	214,999	273	170,255	4,441	-
M Whelan	**2020**	**1,178,824**	**9,589**	**363,000**	**21,176**	**-**
	2019	1,179,351	13,883	874,500	20,649	-

1. Cash salary includes any adjustments required to reflect the use of ANZ's Lifestyle Leave Policy for the period in the KMP role. **2.** Non monetary benefits generally consist of company-funded benefits (and the associated Fringe Benefits Tax) such as car parking, taxation services and costs met by the Company in relation to in-country benefits. **3.** The total cash incentive relates to the cash component only. The relevant amortisation of the AVR/VR deferred components is included in share-based payments and has been amortised over the vesting period. The total AVR/VR was approved by the Board on 21 October 2020. 100% of the cash component of the AVR/VR awarded for the 2019 and 2020 years vested to the executive in the applicable financial year. **4.** For all Australian based executives, the 2019 and 2020 superannuation contributions reflect the Superannuation Guarantee Contribution based on the Maximum Contribution Base. A Watson participates in KiwiSaver where ANZ provides an employer superannuation contribution matching member contributions up to 4% of total gross pay (less employer superannuation contribution tax). **5.** Accrual relates to Retirement Allowance. As a result of being employed with ANZ before November 1992, M Hand is eligible to receive a Retirement Allowance on retirement, retrenchment, death, or resignation for illness, incapacity or domestic reasons. The Retirement Allowance is calculated as three months of preserved notional salary (which is 65% of fixed remuneration) plus an additional 3% of notional salary for each year of full-time service above 10 years less the total accrual value of long service leave (including taken and untaken). **6.** Long service leave accrued during the year increased year-on-year for S Elliott, M Carnegie, A George, K Corbally, M Hand, M Jablko and A Watson as a result of their fixed remuneration increases. **7.** As required by AASB 2 Share-based payments, the amortisation value includes a proportion of the fair value (taking into account market-related vesting conditions) of all equity that had not yet fully vested as at the commencement of the financial year. The fair value is determined at grant date and is allocated on a straight-line basis over the relevant vesting period. The amount included as remuneration neither relates to, nor indicates, the benefit (if any) that the executive may ultimately realise if the equity becomes exercisable. No terms of share-based payments have been altered or modified during the financial year.

Long-term employee benefits	Share-based payments[7]					
	Total amortisation value of					
	Variable remuneration			Other equity allocations[8]		
Long service leave accrued during the year[6] $	Shares $	Share rights $	Performance rights $	Shares $	Termination benefits[9] $	Total remuneration $
100,651	**828,507**	**-**	**1,156,061**	**-**	**-**	**5,225,308**
31,819	830,753	-	1,449,384	-	-	5,181,339
28,120	**502,572**	**-**	**196,150**	**-**	**-**	**2,357,188**
15,152	470,209	-	344,501	-	-	2,357,583
32,255	**378,884**	**258,090**	**16,398**	**-**	**-**	**2,224,216**
29,179	340,108	171,583	35,455	194,492	-	2,215,950
24,403	**333,927**	**-**	**238,329**	**-**	**-**	**2,063,555**
25,551	**430,514**	**-**	**219,525**	**-**	**-**	**2,165,236**
15,152	392,589	-	260,314	-	-	2,234,276
112,623	**367,507**	**-**	**203,224**	**-**	**-**	**2,380,120**
80,949	259,006	-	129,198	-	-	1,421,872
21,570	**535,573**	**-**	**307,228**	**50,316**	**-**	**2,387,776**
15,152	539,647	-	400,011	133,552	-	2,650,445
16,580	**358,605**	**-**	**229,707**	**-**	**-**	**1,800,481**
17,383	**237,502**	**82,845**	**93,742**	**711**	**-**	**1,793,639**
3,580	35,358	83,500	11,290	141	-	523,837
18,232	**754,535**	**-**	**417,161**	**-**	**-**	**2,762,517**
18,182	839,283	-	717,098	-	-	3,662,946

8. Other equity allocations relate to employment arrangements such as compensation for bonus opportunity foregone and deferred remuneration forfeited, retention awards, and shares received in relation to the Employee Share Offer. **9.** No 2020 Disclosed Executive received a termination benefit. Whilst F Ohlsson (former Group Executive, Australia and 2019 Disclosed Executive) concluded in a Disclosed Executive role on 28 December 2018, he ceased employment 15 November 2019 while on career break. Termination benefits paid on cessation (relating to accrued annual and long service leave, and pay in lieu of notice in accordance with his contract), annual leave and long service leave taken at the commencement of his career break, and non monetary benefits relating to cessation totalled $1,303,863. **10.** In relation to K Corbally's role before his appointment to the ExCo, in August 2016 the Board approved an equity retention award of $600,000 vesting in August 2019. Other equity allocations relate to this award. **11.** M Hand's 2019 remuneration reflects a partial service year as he commenced in a Disclosed Executive role on 29 December 2018. **12.** Other cash and other equity allocations for M Jablko relate to previously disclosed compensation for bonus opportunity foregone and deferred remuneration forfeited. **13.** A Watson's 2019 remuneration reflects a partial service year as she commenced in a Disclosed Executive role on 17 June 2019 as Acting Group Executive and CEO, NZ. A Watson's fixed remuneration is paid in NZD and converted to AUD. In 2018, 2019 and 2020 A Watson was eligible to receive shares under the Employee Share Offer. That offer provided a grant of ANZ shares in each financial year to eligible employees subject to Board approval. See Note 31 Employee Share and Option Plans for further details on the Employee Share Offer.

9.2 EQUITY HOLDINGS

For the equity granted to the CEO and Disclosed Executives in November/December 2019, all deferred shares were purchased on the market. For deferred share rights and performance rights, we will determine our approach to satisfying awards closer to the time of vesting.

9.2.1 CEO and Disclosed Executives equity granted, vested, exercised/sold and lapsed/forfeited

The table below sets out details of deferred shares and rights that we granted to the CEO and Disclosed Executives:

- during the 2020 year; or
- in prior years and that then vested, were exercised/sold or which lapsed/were forfeited during the 2020 year.

EQUITY GRANTED VESTED, EXERCISED/SOLD AND LAPSED/FORFEITED – CEO AND DISCLOSED EXECUTIVES

							Vested			Lapsed/ Forfeited			Exercised/Sold				
Name	Type of equity	Number granted[1]	Equity fair value at grant (for 2020 grants only) $	Grant date	First date exercisable	Date of expiry	Number	%	Value[2] $	Number	%	Value[2] $	Number	%	Value[2] $	Vested and exercisable as at 30 Sep 2020[3]	Unexercisable as at 30 Sep 2020[4]
CEO and Current Disclosed Executives																	
S Elliott	Deferred shares	6,941		22-Nov-16	22-Nov-19	-	6,941	100	172,095	-	-	-	(6,941)	100	173,814	-	-
	Deferred shares	8,529		22-Nov-17	22-Nov-19	-	8,529	100	211,468	-	-	-	(8,529)	100	213,581	-	-
	Deferred shares	8,623		22-Nov-18	22-Nov-19	-	8,623	100	213,799	-	-	-	(8,623)	100	215,935	-	-
	Deferred shares	12,006	24.79	22-Nov-19	22-Nov-20	-	-	-	-	-	-	-	-	-	-	-	12,006
	Deferred shares	9,003	24.79	22-Nov-19	22-Nov-21	-	-	-	-	-	-	-	-	-	-	-	9,003
	Deferred shares	6,002	24.79	22-Nov-19	22-Nov-22	-	-	-	-	-	-	-	-	-	-	-	6,002
	Deferred shares	3,001	24.79	22-Nov-19	22-Nov-23	-	-	-	-	-	-	-	-	-	-	-	3,001
	Performance rights	112,862		16-Dec-16	16-Dec-19	16-Dec-21	-	-	-	(112,862)	100	(2,826,313)	-	-	-	-	-
	Performance rights	37,620		16-Dec-16	16-Dec-19	16-Dec-21	-	-	-	(37,620)	100	(942,088)	-	-	-	-	-
	Performance rights	126,050	10.25	17-Dec-19	17-Dec-23	17-Dec-25	-	-	-	-	-	-	-	-	-	-	126,050
	Performance rights	42,016	5.03	17-Dec-19	17-Dec-23	17-Dec-25	-	-	-	-	-	-	-	-	-	-	42,016
M Carnegie	Deferred shares	1,182		22-Nov-16	22-Nov-19	-	1,182	100	29,307	-	-	-	-	-	-	1,182	-
	Deferred shares	4,785		22-Nov-17	22-Nov-19	-	4,785	100	118,639	-	-	-	-	-	-	4,785	-
	Deferred shares	5,205		22-Nov-18	22-Nov-19	-	5,205	100	129,053	-	-	-	-	-	-	5,205	-
	Deferred shares	7,924	24.79	22-Nov-19	22-Nov-20	-	-	-	-	-	-	-	-	-	-	-	7,924
	Deferred shares	5,942	24.79	22-Nov-19	22-Nov-21	-	-	-	-	-	-	-	-	-	-	-	5,942
	Deferred shares	3,961	24.79	22-Nov-19	22-Nov-22	-	-	-	-	-	-	-	-	-	-	-	3,961
	Deferred shares	1,980	24.79	22-Nov-19	22-Nov-23	-	-	-	-	-	-	-	-	-	-	-	1,980
	Performance rights	7,309		22-Nov-16	22-Nov-19	22-Nov-21	-	-	-	(7,309)	100	(181,219)	-	-	-	-	-
	Performance rights	2,436		22-Nov-16	22-Nov-19	22-Nov-21	-	-	-	(2,436)	100	(60,398)	-	-	-	-	-
	Performance rights	30,612	10.45	22-Nov-19	22-Nov-23	22-Nov-25	-	-	-	-	-	-	-	-	-	-	30,612
	Performance rights	10,204	5.14	22-Nov-19	22-Nov-23	22-Nov-25	-	-	-	-	-	-	-	-	-	-	10,204
K Corbally	Deferred shares	21,497		22-Nov-16	20-Aug-19	-	-	-	-	-	-	-	(21,497)	100	526,105	-	-
	Deferred shares	2,758		22-Nov-16	22-Nov-19	-	2,758	100	68,382	-	-	-	(2,758)	100	67,498	-	-
	Deferred shares	4,230		22-Nov-17	22-Nov-19	-	4,230	100	104,879	-	-	-	(4,230)	100	103,522	-	-
	Deferred shares	3,010		22-Nov-18	22-Nov-19	-	3,010	100	74,630	-	-	-	(3,010)	100	73,665	-	-
	Deferred shares	5,745	24.79	22-Nov-19	22-Nov-20	-	-	-	-	-	-	-	-	-	-	-	5,745
	Deferred shares	5,744	24.79	22-Nov-19	22-Nov-21	-	-	-	-	-	-	-	-	-	-	-	5,744
	Deferred shares	3,829	24.79	22-Nov-19	22-Nov-22	-	-	-	-	-	-	-	-	-	-	-	3,829
	Deferred shares	3,829	24.79	22-Nov-19	22-Nov-23	-	-	-	-	-	-	-	-	-	-	-	3,829
	Deferred share rights	19,727	24.99	22-Nov-19	22-Nov-23	29-Nov-23	-	-	-	-	-	-	-	-	-	-	19,727
	Performance rights	5,445		22-Nov-16	22-Nov-19	22-Nov-21	-	-	-	(5,445)	100	(135,003)	-	-	-	-	-

Name	Type of equity	Number granted[1]	Equity fair value at grant (for 2020 grants only) $	Grant date	First date exercisable	Date of expiry	Vested Number	Vested %	Vested Value[2] $	Lapsed/ Forfeited Number	Lapsed/ Forfeited %	Lapsed/ Forfeited Value[2] $	Exercised/Sold Number	Exercised/Sold %	Exercised/Sold Value[2] $	Vested and exercisable as at 30 Sep 2020[3]	Unexercisable as at 30 Sep 2020[4]
CEO and Current Disclosed Executives																	
G Florian	Deferred shares	2,462		22-Nov-17	22-Nov-19	-	2,462	100	61,043	-	-	-	-	-	-	2,462	-
	Deferred shares	3,254		22-Nov-18	22-Nov-19	-	3,254	100	80,680	-	-	-	-	-	-	3,254	-
	Deferred shares	4,491	24.79	22-Nov-19	22-Nov-20	-	-	-	-	-	-	-	-	-	-	-	4,491
	Deferred shares	3,367	24.79	22-Nov-19	22-Nov-21	-	-	-	-	-	-	-	-	-	-	-	3,367
	Deferred shares	2,244	24.79	22-Nov-19	22-Nov-22	-	-	-	-	-	-	-	-	-	-	-	2,244
	Deferred shares	1,122	24.79	22-Nov-19	22-Nov-23	-	-	-	-	-	-	-	-	-	-	-	1,122
	Performance rights	17,346	10.45	22-Nov-19	22-Nov-23	22-Nov-25	-	-	-	-	-	-	-	-	-	-	17,346
	Performance rights	5,782	5.14	22-Nov-19	22-Nov-23	22-Nov-25	-	-	-	-	-	-	-	-	-	-	5,782
A George	Deferred shares	2,400		22-Nov-16	22-Nov-19	-	2,400	100	59,506	-	-	-	-	-	-	2,400	-
	Deferred shares	3,096		22-Nov-17	22-Nov-19	-	3,096	100	76,762	-	-	-	-	-	-	3,096	-
	Deferred shares	3,498		22-Nov-18	22-Nov-19	-	3,498	100	86,729	-	-	-	-	-	-	3,498	-
	Deferred shares	8,453	24.79	22-Nov-19	22-Nov-20	-	-	-	-	-	-	-	-	-	-	-	8,453
	Deferred shares	6,338	24.79	22-Nov-19	22-Nov-21	-	-	-	-	-	-	-	-	-	-	-	6,338
	Deferred shares	4,225	24.79	22-Nov-19	22-Nov-22	-	-	-	-	-	-	-	-	-	-	-	4,225
	Deferred shares	2,112	24.79	22-Nov-19	22-Nov-23	-	-	-	-	-	-	-	-	-	-	-	2,112
	Performance rights	2,746		18-Nov-15	18-Nov-18	18-Nov-20	-	-	-	-	-	-	(1,793)	65	46,678	-	-
	Performance rights	4,738		22-Nov-16	22-Nov-19	22-Nov-21	-	-	-	(4,738)	100	(117,474)	-	-	-	-	-
	Performance rights	32,653	10.45	22-Nov-19	22-Nov-23	22-Nov-25	-	-	-	-	-	-	-	-	-	-	32,653
	Performance rights	10,884	5.14	22-Nov-19	22-Nov-23	22-Nov-25	-	-	-	-	-	-	-	-	-	-	10,884
M Hand	Deferred shares	4,012		22-Nov-16	22-Nov-19	-	4,012	100	99,474	-	-	-	(4,012)	100	99,242	-	-
	Deferred shares	6,277		22-Nov-17	22-Nov-19	-	6,277	100	155,632	-	-	-	(6,277)	100	155,270	-	-
	Deferred shares	3,254		22-Nov-18	22-Nov-19	-	3,254	100	80,680	-	-	-	(3,254)	100	80,492	-	-
	Deferred shares	4,755	24.79	22-Nov-19	22-Nov-20	-	-	-	-	-	-	-	-	-	-	-	4,755
	Deferred shares	3,565	24.79	22-Nov-19	22-Nov-21	-	-	-	-	-	-	-	-	-	-	-	3,565
	Deferred shares	2,376	24.79	22-Nov-19	22-Nov-22	-	-	-	-	-	-	-	-	-	-	-	2,376
	Deferred shares	1,188	24.79	22-Nov-19	22-Nov-23	-	-	-	-	-	-	-	-	-	-	-	1,188
	Performance rights	7,920		22-Nov-16	22-Nov-19	22-Nov-21	-	-	-	(7,920)	100	(196,368)	-	-	-	-	-
	Performance rights	18,367	10.45	22-Nov-19	22-Nov-23	22-Nov-25	-	-	-	-	-	-	-	-	-	-	18,367
	Performance rights	6,122	5.14	22-Nov-19	22-Nov-23	22-Nov-25	-	-	-	-	-	-	-	-	-	-	6,122
M Jablko	Deferred shares	3,153		20-Aug-16	20-Aug-17	-	-	-	-	-	-	-	(3,153)	100	80,580	-	-
	Deferred shares	3,153		20-Aug-16	20-Aug-18	-	-	-	-	-	-	-	(3,153)	100	80,580	-	-
	Deferred shares	7,617		20-Aug-16	27-Feb-20	-	7,617	100	195,305	-	-	-	-	-	-	7,617	-
	Deferred shares	1,182		22-Nov-16	22-Nov-17	-	-	-	-	-	-	-	(1,182)	100	30,208	-	-
	Deferred shares	1,182		22-Nov-16	22-Nov-18	-	-	-	-	-	-	-	(1,182)	100	30,208	-	-
	Deferred shares	1,182		22-Nov-16	22-Nov-19	-	1,182	100	29,307	-	-	-	-	-	-	1,182	-
	Deferred shares	6,305		22-Nov-17	22-Nov-18	-	-	-	-	-	-	-	(6,305)	100	161,135	-	-
	Deferred shares	6,305		22-Nov-17	22-Nov-19	-	6,305	100	156,326	-	-	-	-	-	-	6,305	-
	Deferred shares	5,693		22-Nov-18	22-Nov-19	-	5,693	100	141,152	-	-	-	-	-	-	5,693	-
	Deferred shares	8,717	24.79	22-Nov-19	22-Nov-20	-	-	-	-	-	-	-	-	-	-	-	8,717
	Deferred shares	6,536	24.79	22-Nov-19	22-Nov-21	-	-	-	-	-	-	-	-	-	-	-	6,536
	Deferred shares	4,357	24.79	22-Nov-19	22-Nov-22	-	-	-	-	-	-	-	-	-	-	-	4,357
	Deferred shares	2,178	24.79	22-Nov-19	22-Nov-23	-	-	-	-	-	-	-	-	-	-	-	2,178
	Performance rights	7,309		22-Nov-16	22-Nov-19	22-Nov-21	-	-	-	(7,309)	100	(181,219)	-	-	-	-	-
	Performance rights	2,436		22-Nov-16	22-Nov-19	22-Nov-21	-	-	-	(2,436)	100	(60,398)	-	-	-	-	-
	Performance rights	33,673	10.45	22-Nov-19	22-Nov-23	22-Nov-25	-	-	-	-	-	-	-	-	-	-	33,673
	Performance rights	11,224	5.14	22-Nov-19	22-Nov-23	22-Nov-25	-	-	-	-	-	-	-	-	-	-	11,224

Name	Type of equity	Number granted[1]	Equity fair value at grant (for 2020 grants only) $	Grant date	First date exercisable	Date of expiry	Vested Number	Vested %	Vested Value[2] $	Lapsed/ Forfeited Number	Lapsed/ Forfeited %	Lapsed/ Forfeited Value[2] $	Exercised/Sold Number	Exercised/Sold %	Exercised/Sold Value[2] $	Vested and exercisable as at 30 Sep 2020[3]	Unexercisable as at 30 Sep 2020[4]
CEO and Current Disclosed Executives																	
K van der Merwe	Deferred shares	1,477		22-Nov-17	22-Nov-19	-	1,477	100	36,621	-	-	-	-	-	-	1,477	-
	Deferred shares	3,577		22-Nov-18	22-Nov-19	-	3,577	100	88,688	-	-	-	-	-	-	3,577	-
	Deferred shares	6,604	24.79	22-Nov-19	22-Nov-20	-	-	-	-	-	-	-	-	-	-	-	6,604
	Deferred shares	4,951	24.79	22-Nov-19	22-Nov-21	-	-	-	-	-	-	-	-	-	-	-	4,951
	Deferred shares	3,301	24.79	22-Nov-19	22-Nov-22	-	-	-	-	-	-	-	-	-	-	-	3,301
	Deferred shares	1,650	24.79	22-Nov-19	22-Nov-23	-	-	-	-	-	-	-	-	-	-	-	1,650
	Performance rights	25,510	10.45	22-Nov-19	22-Nov-23	22-Nov-25	-	-	-	-	-	-	-	-	-	-	25,510
	Performance rights	8,503	5.14	22-Nov-19	22-Nov-23	22-Nov-25	-	-	-	-	-	-	-	-	-	-	8,503
A Watson	Deferred shares	3,904	24.79	22-Nov-19	22-Nov-20	-	-	-	-	-	-	-	-	-	-	-	3,904
	Deferred shares	3,901	24.79	22-Nov-19	22-Nov-21	-	-	-	-	-	-	-	-	-	-	-	3,901
	Deferred shares	3,901	24.79	22-Nov-19	22-Nov-22	-	-	-	-	-	-	-	-	-	-	-	3,901
	Deferred shares	4,541	24.79	22-Nov-19	22-Nov-23	-	-	-	-	-	-	-	-	-	-	-	4,541
	Employee share offer	32	25.05	02-Dec-19	02-Dec-22	-	-	-	-	-	-	-	-	-	-	-	32
	Deferred share rights	2,237		22-Nov-16	22-Nov-19	22-Nov-21	2,237	100	55,464	-	-	-	(2,237)	100	55,277	-	-
	Deferred share rights	4,409		22-Nov-17	22-Nov-19	22-Nov-21	4,409	100	109,317	-	-	-	(4,409)	100	108,948	-	-
	Deferred share rights	5,016		22-Nov-18	22-Nov-19	22-Nov-21	5,016	100	124,367	-	-	-	(5,016)	100	123,947	-	-
	Performance rights	3,649		22-Nov-16	22-Nov-19	22-Nov-21	-	-	-	(3,649)	100	(90,473)	-	-	-	-	-
M Whelan	Deferred shares	6,724		22-Nov-16	22-Nov-19	-	6,724	100	166,715	-	-	-	(6,724)	100	166,715	-	-
	Deferred shares	9,218		22-Nov-17	22-Nov-19	-	9,218	100	228,551	-	-	-	(9,218)	100	228,551	-	-
	Deferred shares	7,075		22-Nov-18	22-Nov-19	-	7,075	100	175,418	-	-	-	(7,075)	100	175,418	-	-
	Deferred shares	13,998	24.79	22-Nov-19	22-Nov-20	-	-	-	-	-	-	-	-	-	-	-	13,998
	Deferred shares	10,498	24.79	22-Nov-19	22-Nov-21	-	-	-	-	-	-	-	-	-	-	-	10,498
	Deferred shares	6,998	24.79	22-Nov-19	22-Nov-22	-	-	-	-	-	-	-	-	-	-	-	6,998
	Deferred shares	3,499	24.79	22-Nov-19	22-Nov-23	-	-	-	-	-	-	-	-	-	-	-	3,499
	Performance rights	41,571		22-Nov-16	22-Nov-19	22-Nov-21	-	-	-	(41,571)	100	(1,030,711)	-	-	-	-	-
	Performance rights	13,857		22-Nov-16	22-Nov-19	22-Nov-21	-	-	-	(13,857)	100	(343,570)	-	-	-	-	-
	Performance rights	54,081	10.45	22-Nov-19	22-Nov-23	22-Nov-25	-	-	-	-	-	-	-	-	-	-	54,081
	Performance rights	18,027	5.14	22-Nov-19	22-Nov-23	22-Nov-25	-	-	-	-	-	-	-	-	-	-	18,027

1. For the purpose of the five highest paid executive disclosures, Executives are defined as Disclosed Executives or other members of the ExCo. For the 2020 financial year the five highest paid executives include four Disclosed Executives and the Group Executive, International (F Faruqui). Rights granted to Disclosed Executives as remuneration in 2020 are included in the table. Rights granted to F Faruqui as remuneration in 2020 include four tranches of deferred share rights and two tranches of performance rights granted on 22 Nov 2019. (14,298 (tranche 1) deferred share rights first exercisable 22 Nov 2020, expiring 29 Nov 2020; 11,363 (tranche 2) deferred share rights first exercisable 22 Nov 2021, expiring 29 Nov 2021; 8,033 (tranche 3) deferred share rights first exercisable 22 Nov 2022, expiring 29 Nov 2022; 4,257 (tranche 4) deferred share rights first exercisable 22 Nov 2023, expiring 29 Nov 2023; 51,839 (tranche 1) and 17,279 (tranche 2) performance rights first exercisable 22 Nov 2023 subject to meeting performance hurdles, expiring 22 Nov 2025). No rights have been granted to the CEO, Disclosed Executives or the five highest paid executives since the end of 2020 up to the Directors' Report sign-off date. **2.** The point in time value of shares/share rights and/or performance rights is based on the one day VWAP of the Company's shares traded on the ASX on the date of vesting, lapsing/forfeiture or exercising/sale/transfer out of trust, multiplied by the number of shares/share rights and/or performance rights. The exercise price for all share rights/performance rights is $0.00. No terms of share-based payment transactions have been altered or modified during the reporting period. **3.** The number vested and exercisable is the number of shares, options and rights that remain vested at the end of the reporting period. No shares, options and rights were vested and unexercisable.

4. Performance rights granted in prior years (by grant date) that remained unexerciseable at 30 Sep 2020 include:

	Nov-17	Nov-18	Nov-19
S Elliott	143,294	110,365	168,066
M Carnegie	39,440	42,884	40,816
K Corbally	4,230	-	-
G Florian	20,300	26,802	23,128
A George	25,520	28,813	43,537
M Hand	6,277	26,802	24,489
M Jablko	51,968	46,905	44,897
K van der Merwe	12,180	29,482	34,013
A Watson	3,934	4,802	-
M Whelan	75,980	58,296	72,108

Performance rights granted to S Elliott in 2020 were approved by shareholders at the 2019 AGM in accordance with ASX Listing Rule 10.14.

9.2.2 NED, CEO and Disclosed Executives equity holdings

The table below sets out details of equity held directly, indirectly or beneficially by each NED, the CEO and each Disclosed Executive, including their related parties.

EQUITY HOLDINGS – NED, CEO AND DISCLOSED EXECUTIVES

Name	Type of equity	Opening balance at 1 Oct 2019	Granted during the year as remuneration[1]	Received during the year on exercise of options or rights	Resulting from any other changes during the year[2]	Closing balance at 30 Sep 2020[3,4]
Current Non-Executive Directors						
D Gonski	Ordinary shares	31,488	-	-	-	**31,488**
I Atlas	Ordinary shares	14,360	-	-	-	**14,360**
P Dwyer	Ordinary shares	17,500	-	-	-	**17,500**
J Halton	Ordinary shares	9,049	-	-	-	**9,049**
J Key	Ordinary shares	3,000	-	-	-	**3,000**
G Liebelt	Ordinary shares	20,315	-	-	-	**20,315**
	Capital notes 1	1,500	-	-	-	**1,500**
	Capital notes 2	2,500	-	-	-	**2,500**
J Macfarlane	Ordinary shares	17,851	-	-	-	**17,851**
	Capital notes 2	2,000	-	-	-	**2,000**
	Capital notes 3	5,000	-	-	-	**5,000**
P O'Sullivan[5]	Ordinary shares	4,078	-	-	-	**4,078**
	Capital notes 2	9,250	-	-	-	**9,250**
CEO and Current Disclosed Executives						
S Elliott	Deferred shares	73,958	30,012	-	(24,093)	**79,877**
	Ordinary shares	189,258	-	-	27,563	**216,821**
	Performance rights	438,874	168,066	-	(150,482)	**456,458**
M Carnegie	Deferred shares	54,732	19,807	-	-	**74,539**
	Ordinary shares	3,071	-	-	2,420	**5,491**
	Performance rights	92,069	40,816	-	(9,745)	**123,140**
K Corbally	Deferred shares	42,631	19,147	-	(31,495)	**30,283**
	Ordinary shares	1,350	-	-	(255)	**1,095**
	Deferred share rights	14,546	19,727	-	-	**34,273**
	Performance rights	9,675	-	-	(5,445)	**4,230**
G Florian	Deferred shares	23,141	11,224	-	-	**34,365**
	Ordinary shares	978	-	-	1,216	**2,194**
	Performance rights	47,102	23,128	-	-	**70,230**
A George	Deferred shares	58,962	21,128	-	-	**80,090**
	Ordinary shares	5,614	-	1,793	2,882	**10,289**
	Capital notes 1	802	-	-	-	**802**
	Performance rights	60,864	43,537	(1,793)	(4,738)	**97,870**
M Hand	Deferred shares	26,434	11,884	-	(13,543)	**24,775**
	Ordinary shares	760	-	-	429	**1,189**
	Performance rights	40,999	24,489	-	(7,920)	**57,568**
M Jablko	Deferred shares	84,494	21,788	-	(16,851)	**89,431**
	Ordinary shares	2,925	-	-	2,319	**5,244**
	Performance rights	108,618	44,897	-	(9,745)	**143,770**
K van der Merwe	Deferred shares	20,388	16,506	-	-	**36,894**
	Ordinary shares	774	-	-	1,162	**1,936**
	Performance rights	41,662	34,013	-	-	**75,675**
A Watson	Deferred shares	-	16,247	-	-	**16,247**
	Employee share offer	102	32	-	-	**134**
	Ordinary shares	-	-	11,662	386	**12,048**
	Deferred share rights	22,129	-	(11,662)	-	**10,467**
	Performance rights	12,385	-	-	(3,649)	**8,736**
M Whelan	Deferred shares	69,393	34,993	-	(23,017)	**81,369**
	Ordinary shares	-	-	-	1,126	**1,126**
	Performance rights	189,704	72,108	-	(55,428)	**206,384**

1. Details of options/rights granted as remuneration during 2020 are provided in the previous table. **2.** Shares resulting from any other changes during the year include the net result of any shares purchased (including under the ANZ Share Purchase Plan), forfeited, sold or acquired under the Dividend Reinvestment Plan. **3.** The following shares (included in the holdings above) were held on behalf of the NEDs, CEO and Disclosed Executives (i.e. indirect beneficially held shares) as at 30 September 2020: D Gonski – 31,488, I Atlas – 14,360, P Dwyer – 17,500, J Halton – 0, J Key – 3,000, G Liebelt – 8,158, J Macfarlane – 24,851, P O'Sullivan – 0, S Elliott – 291,099, M Carnegie – 74,539, K Corbally – 30,283, G Florian – 34,365, A George – 83,570, M Hand – 24,775, M Jablko – 89,431, K van der Merwe – 36,894, A Watson – 16,381 and M Whelan – 81,369. **4.** 34,733 rights were vested and exercisable, and zero options/rights were vested and unexerciseable as at 30 September 2020. There was no change in the balance as at the Directors' Report sign-off date. **5.** Commencing balance is based on holdings as at the date of commencement as a KMP.

9.3 LOANS

9.3.1 Overview

When we lend to NEDs, the CEO or Disclosed Executives, we do so in the ordinary course of business and on normal commercial terms and conditions that are no more favourable than those given to other employees or customers – this includes the term of the loan, the security required and the interest rate. Details of the terms and conditions of lending products can be found on anz.com. No amounts have been written off during the period, or individual provisions raised in respect of these balances.

The table below sets out details of loans outstanding to NEDs, the CEO and Disclosed Executives including their related parties, if – at any time during the year – the individual's aggregate loan balance exceeded $100,000.

Total loans to NEDs, the CEO and Disclosed Executives, including their related parties at 30 September 2020 (including those with balances less than $100,000) was $31,807,543 (2019: $29,359,432) with interest paid of $888,019 (2019: $731,353) during the period.

9.3.2 NED, CEO and Disclosed Executives loan transactions

LOAN TRANSACTIONS – NED, CEO AND DISCLOSED EXECUTIVES

Name	Opening balance at 1 October 2019 $	Closing balance at 30 September 2020 $	Interest paid and payable in the reporting period[1] $	Highest balance in the reporting period $
Current Non-Executive Directors				
I Atlas	-	1,608,028	8,021	2,308,028
J Key	-	-	23,206	4,000,000
J Macfarlane	13,330,653	13,280,942	370,053	15,470,727
P O'Sullivan[2]	1,005,057	888,916	2,348	1,022,409
CEO and Current Disclosed Executives				
S Elliott	2,926,267	2,782,319	68,358	2,938,399
G Florian	2,362,366	2,306,807	62,602	2,389,584
A George[3]	1,612,899	1,535,414	51,538	1,618,459
M Hand	4,437,179	4,226,595	149,695	4,444,867
K van der Merwe	1,982,996	3,584,607	101,228	3,818,341
M Whelan[4]	1,653,414	1,575,953	50,263	1,696,126
Total	29,310,831	31,789,581	887,312	39,706,940

1. Actual interest paid after considering offset accounts. The loan balance is shown gross, however the interest paid takes into account the impact of offset amounts. **2.** Opening balance is at the date of commencement as KMP. **3.** Opening balance has been restated to include a credit card balance. **4.** Opening balance has been adjusted to take account of a minor timing variance.

9.4 OTHER TRANSACTIONS

Other transactions with NEDs, the CEO and Disclosed Executives, and their related parties included deposits.

OTHER TRANSACTIONS – NED, CEO AND DISCLOSED EXECUTIVES

	Opening balance at 1 October 2019[1] $	Closing balance at 30 September 2020[2, 3] $
Total KMP deposits	48,951,515	48,364,383

1. Opening balance is at 1 October 2019 or the date of commencement as KMP if part way through the year. **2.** Closing balance is at 30 September 2020 or at the date of cessation as KMP if part way through the year. **3.** Interest paid on deposits for 2020 was $498,931 (2019: $682,040).

Other transactions with KMP and their related parties included amounts paid to the Group in respect of investment management service fees, brokerage, bank fees and charges. The Group has reimbursed KMP for the costs incurred for security and secretarial services associated with the performance of their duties. These transactions are conducted on normal commercial terms and conditions are no more favourable than those given to other employees or customers.

Directors' report

The Directors' Report for the financial year ended 30 September 2020 has been prepared in accordance with the requirements of the *Corporations Act 2001*. The information below forms part of this Directors' Report:

- Principal activities on page 10
- Operating and financial review on pages 54 to 71
- Dividends on page 70
- Information on the Directors, Company Secretaries and Directors' meetings on pages 38 to 48
- Remuneration report on pages 74 to 108

Significant changes in state of affairs

There have been no significant changes in the Group's state of affairs.

Events since the end of the financial year

There have been no significant events from 30 September 2020 to the date of signing this report.

Political donations

Our policy is that we will make an annual donation to the two major federal parties to support the democratic process in Australia. In the 2020 calendar year, we donated $100,000 to the Liberal Party of Australia and $100,000 to the Australian Labor Party.

Environmental regulation

ANZ recognises the expectations of its stakeholders – customers, shareholders, staff and the community – to operate in a way that mitigates its environmental impact.

In Australia, ANZ meets the requirements of the ***National Greenhouse and Energy Reporting Act 2007*** (Cth), which imposes reporting obligations where energy production, usage or greenhouse gas emissions trigger specified thresholds.

The Group does not believe that its operations are subject to any other particular and significant environmental regulation under a law of the Commonwealth of Australia or of an Australian State or Territory. It may become subject to environmental regulation as a result of its lending activities in the ordinary course of business and has developed policies to identify and manage such environmental matters.

Having made due enquiry, and to the best of ANZ's knowledge, no entity of the Group has incurred any material environmental liability during the year.

Further details of ANZ's environmental performance, including progress against its targets and details of its emissions profile, are available on **anz.com.au/about-us/sustainability-framework/environmental-sustainability/**.

Corporate Governance Statement

ANZ is committed to maintaining a high standard in its governance framework. ANZ confirms it has followed the *ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (3rd edition)* during the 2020 financial year. ANZ's Corporate Governance Statement, together with the ASX Appendix 4G which relates to the Corporate Governance Statement, can be viewed at **anz.com/corporategovernance** and has been lodged with the ASX.

Pillar 3 information

ANZ provides information required by APS 330: *Public Disclosure* in the *Regulatory Disclosures* section at **anz.com/shareholder/centre/reporting/regulatory-disclosure/**.

Non-audit services

The Group's Stakeholder Engagement Model for Relationship with the External Auditor (the Policy), which incorporates requirements of the *Corporations Act 2001* and industry best practice, prevents the external auditor from providing services that are perceived to be in conflict with the role of the external auditor or breach independence requirements. This includes consulting advice and sub-contracting of operational activities normally undertaken by management, and engagements where the external auditor may ultimately be required to express an opinion on its own work.

Specifically the Policy:

- limits the scope of non-audit services that may be provided;
- requires that audit, audit-related and permitted non-audit services be considered in light of independence requirements and for any potential conflicts of interest before they are approved by the Audit Committee, or approved by the Chair of the Audit Committee (or delegate) and notified to the Audit Committee; and
- requires pre-approval before the external auditor can commence any engagement for the Group.

Further details about the Policy can be found in the Corporate Governance Statement.

The external auditor has confirmed to the Audit Committee that it has:

- implemented procedures to ensure it complies with independence rules in applicable jurisdictions; and
- complied with applicable policies and regulations in those jurisdictions regarding the provision of non-audit services, and the Policy.

The Audit Committee has reviewed the non-audit services provided by the external auditor during the 2020 financial year, and has confirmed that the provision of these services is consistent with

the Policy, compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001* and did not compromise the auditor independence requirements of the *Corporations Act 2001*. This has been formally advised by the Audit Committee to the Board of Directors.

The categories of non-audit services supplied to the Group during the year ended 30 September 2020 by the external auditor, KPMG, or by another person or firm on KPMG's behalf, and the amounts paid or payable (including GST) by the Group are as follows:

	Amount paid/payable $'000	
Non-audit services	2020	2019
Training related services	16	106
Methodology and procedural reviews	107	10
Total	123	116

Further details on the compensation paid to KPMG is provided in Note 34 Auditor Fees to the financial statements including details of audit-related services provided during the year of $5.37 million (2019: $5.71 million).

For the reasons set out above, the Directors are satisfied that the provision of non-audit services by the external auditor during the year ended 30 September 2020 is compatible with the general standard of independence for external auditors imposed by the *Corporations Act 2001* and did not compromise the auditor independence requirements of the *Corporations Act 2001*.

Directors' and officers' indemnity

The Company's Constitution (Rule 11.1) permits the Company to:

- indemnify any officer or employee of the Company, or its auditor, against liabilities (so far as may be permitted under applicable law) incurred as such by an officer, employee or auditor, including liabilities incurred as a result of appointment or nomination by the Company as a trustee or as an officer or employee of another corporation; and
- make payments in respect of legal costs incurred by an officer, employee or auditor in defending an action for a liability incurred as such by an officer, employee or auditor, or in resisting or responding to actions taken by a government agency, a duly constituted Royal Commission or other official inquiry, a liquidator, administrator, trustee in bankruptcy or other authorised official.

It is the Company's policy that its employees should be protected from any liability they incur as a result of acting in the course of their employment, subject to appropriate conditions.

Under the policy, the Company will indemnify employees and former employees against any liability they incur to any third party as a result of acting in the course of their employment with the Company or a subsidiary of the Company and this extends to liability incurred as a result of their appointment/nomination by or at the request of the Group as an officer or employee of another corporation or body or as trustee.

The indemnity is subject to applicable law and certain exceptions.

In accordance with the employee indemnity policy, the Company has during or since the year ended 30 September 2020 paid legal expenses totalling $1,233,965.13 incurred by Mr Richard Moscati in relation to legal proceedings brought against him and the Company by a third party.

The Company has entered into Indemnity Deeds with each of its Directors, with certain secretaries and former Directors of the Company, and with certain employees and other individuals who act as directors or officers of related bodies corporate or of another company, to indemnify them against liabilities and legal costs of the kind mentioned in the Company's Constitution.

During the financial year, the Company has paid premiums for insurance for the benefit of the Directors and employees of the Company and related bodies corporate of the Company. In accordance with common commercial practice, the insurance prohibits disclosure of the nature of the liability insured against and the amount of the premium.

Key management personnel and employee share and option plans

The Remuneration Report contains details of Non-Executive Directors, Chief Executive Officer and Disclosed Executives' equity holdings and options/rights issued during the 2020 financial year and as at the date of this report.

Note 31 Employee Share and Option Plans to the 2020 Financial Report contains details of the 2020 financial year and as at the date of this report:

- Options/rights issued over shares granted to employees;
- Shares issued as a result of the exercise of options/rights granted to employees; and
- Other details about share options/rights issued, including any rights to participate in any share issues of the Company.

The names of all persons who currently hold options/rights are entered in the register kept by the Company pursuant to section 170 of the *Corporations Act 2001*. This register may be inspected free of charge.

Rounding of amounts

The Company is a company of the kind referred to in Australian Securities and Investments Commission Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 dated 24 March 2016 and, in accordance with that Instrument, amounts in the consolidated financial statements and this Directors' Report have been rounded to the nearest million dollars unless specifically stated otherwise.

This report is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the Directors.

Paul D O'Sullivan Chairman 4 November 2020	**Shayne C Elliott** Managing Director

Lead Auditor's Independence Declaration

The Lead Auditors Independence Declaration given under Section 307C of the *Corporations Act 2001* is set out below and forms part of the Directors' Report for the year ended 30 September 2020.

To: the Directors of Australia and New Zealand Banking Group Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Australia and New Zealand Banking Group Limited for the financial year ended 30 September 2020, there have been:

- no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG	**Alison Kitchen** Partner

Financial report

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INCOME STATEMENT

For the year ended 30 September	Note	2020 $m	2019 $m
Interest income[1]		24,426	31,077
Interest expense		(10,377)	(16,738)
Net interest income	2	14,049	14,339
Other operating income	2	3,355	4,058
Net income from insurance business	2	78	126
Share of associates' profit	2	155	262
Operating income		17,637	18,785
Operating expenses	3	(9,383)	(9,071)
Profit before credit impairment and income tax		8,254	9,714
Credit impairment charge	13	(2,738)	(794)
Profit before income tax		5,516	8,920
Income tax expense	4	(1,840)	(2,609)
Profit after tax from continuing operations		3,676	6,311
Profit/(Loss) after tax from discontinued operations	29	(98)	(343)
Profit for the year		3,578	5,968
Comprising:			
Profit attributable to shareholders of the Company		3,577	5,953
Profit attributable to non-controlling interests		1	15
Earnings per ordinary share (cents) including discontinued operations			
Basic	6	126.4	210.0
Diluted	6	118.0	201.9
Earnings per ordinary share (cents) from continuing operations			
Basic	6	129.8	222.1
Diluted	6	121.1	213.0
Dividend per ordinary share (cents)	5	60	160

1. Includes interest income calculated using the effective interest method of $23,837 million on financial assets measured at amortised cost or fair value through other comprehensive income (2019: $30,224 million).

The notes appearing on pages 117 to 225 form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 September	2020 $m	2019 $m
Profit for the year from continuing operations	3,676	6,311
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss		
Investment securities - equity securities at FVOCI	(157)	45
Other reserve movements	13	67
Items that may be reclassified subsequently to profit or loss		
Foreign currency translation reserve[1]	(550)	697
Other reserve movements	712	909
Income tax attributable to the above items	(180)	(288)
Share of associates' other comprehensive income[2]	51	26
Other comprehensive income after tax from continuing operations	(111)	1,456
Profit/(Loss) after tax from discontinued operations	(98)	(343)
Other comprehensive income/(loss) after tax from discontinued operations	-	(97)
Total comprehensive income for the year	3,467	7,327
Comprising total comprehensive income attributable to:		
Shareholders of the Company	3,467	7,307
Non-controlling interests	-	20

1. Includes foreign currency translation differences attributable to non-controlling interests of a $1 million loss (2019: $5 million gain).
2. Share of associates' Other comprehensive income includes a FVOCI reserve gain of $48 million (2019: $20 million gain), defined benefits gain of $3 million (2019: $7 million gain), cash flow hedge reserve loss of $1 million (2019: $2 million loss) and a foreign currency translation reserve gain of $1 million (2019: $1 million gain) that may be reclassified subsequently to profit or loss.

The notes appearing on pages 117 to 225 form an integral part of these financial statements.

BALANCE SHEET

As at 30 September	Note	2020 $m	2019 $m
Assets			
Cash and cash equivalents	8	107,923	81,621
Settlement balances owed to ANZ		7,541	3,739
Collateral paid		14,308	15,006
Trading securities	9	50,913	43,169
Derivative financial instruments	10	135,331	120,667
Investment securities	11	93,391	83,709
Net loans and advances	12	617,093	615,258
Regulatory deposits		801	879
Assets held for sale	29	-	1,831
Investments in associates	26	2,164	2,957
Current tax assets		161	265
Deferred tax assets[1]		2,124	1,356
Goodwill and other intangible assets	20	4,379	4,861
Premises and equipment[1]		3,013	1,924
Other assets		3,144	3,895
Total assets		1,042,286	981,137
Liabilities			
Settlement balances owed by ANZ		22,241	10,867
Collateral received		9,304	7,929
Deposits and other borrowings	14	682,333	637,677
Derivative financial instruments	10	134,711	120,951
Current tax liabilities		349	260
Deferred tax liabilities		80	67
Liabilities held for sale	29	-	2,121
Payables and other liabilities[1]		9,128	7,968
Employee entitlements		596	589
Other provisions	21	2,579	2,223
Debt issuances	15	119,668	129,691
Total liabilities		980,989	920,343
Net assets		61,297	60,794
Shareholders' equity			
Ordinary share capital	22	26,531	26,490
Reserves	22	1,501	1,629
Retained earnings[1]	22	33,255	32,664
Share capital and reserves attributable to shareholders of the Company	22	61,287	60,783
Non-controlling interests	22	10	11
Total shareholders' equity	22	61,297	60,794

1. On adoption of AASB 16 on 1 October 2019, the Group recognised right-of-use assets of $1.6 billion presented within Premises and equipment and lease liabilities of $1.7 billion presented within Payables and other liabilities. This resulted in a reduction to opening retained earnings of $88 million and an increase in deferred tax assets of $37 million. Comparative information has not been restated. Refer to Note 1 for further details.

The notes appearing on pages 117 to 225 form an integral part of these financial statements.

CASH FLOW STATEMENT

The Consolidated Cash Flow Statement includes discontinued operations. Please refer to Note 29 for cash flows associated with discontinued operations and cash and cash equivalents reclassified as held for sale.

For the year ended 30 September	2020 $m	2019 $m
Profit after income tax	3,578	5,968
Adjustments to reconcile to net cash provided by/(used in) operating activities:		
Allowance for expected credit losses	2,738	794
Impairment of investment in associates	815	-
Depreciation and amortisation[1, 2]	1,391	871
Goodwill impairment	77	-
(Profit)/loss on sale of premises and equipment	(8)	(5)
Net derivatives/foreign exchange adjustment	(3,046)	4,940
(Gain)/loss on sale from divestments	25	(137)
Other non-cash movements	(80)	(356)
Net (increase)/decrease in operating assets:		
Collateral paid	283	(3,493)
Trading securities	(1,803)	(7,941)
Net loans and advances	(7,119)	(10,268)
Investments backing policy liabilities	-	(3,542)
Other assets	(76)	(454)
Net increase/(decrease) in operating liabilities:		
Deposits and other borrowings	51,875	7,006
Settlement balances owed by ANZ	11,476	(1,077)
Collateral received	1,739	1,004
Other liabilities	(9,581)	2,140
Total adjustments	48,706	(10,518)
Net cash (used in)/provided by operating activities[3]	52,284	(4,550)
Cash flows from investing activities		
Investment securities assets:		
Purchases	(40,029)	(23,847)
Proceeds from sale or maturity	28,642	21,228
Proceeds from divestments, net of cash disposed	1,309	2,121
Proceeds from/(Repayment of) IOOF secured notes	(800)	800
Other assets	(587)	(508)
Net cash (used in)/provided by investing activities	(11,465)	(206)
Cash flows from financing activities		
Debt issuances:[4]		
Issue proceeds	12,260	25,900
Redemptions	(21,430)	(22,958)
Dividends paid[5]	(2,861)	(4,471)
On market purchase of treasury shares	(122)	(112)
Repayment of lease liabilities[6]	(281)	-
Share buyback	-	(1,120)
Net cash (used in)/provided by financing activities	(12,434)	(2,761)
Net (decrease)/increase in cash and cash equivalents	28,385	(7,517)
Cash and cash equivalents at beginning of year	81,621	84,964
Effects of exchange rate changes on cash and cash equivalents	(2,083)	4,174
Cash and cash equivalents at end of year[7]	107,923	81,621

1. Includes depreciation of right-of-use assets recognised on 1 October 2019 following the adoption of AASB 16. Comparatives have not been restated.
2. Includes accelerated amortisation of $197 million following the Group's change in the application of its software amortisation policy to reflect the shorter useful life of software caused by rapidly changing technology and business requirements. Refer to Note 20 Goodwill and Other Intangible Assets for further details.
3. Net cash inflows/(outflows) from operating activities includes income taxes paid of $2,348 million (2019: $3,129 million).
4. Non-cash changes in debt issuances includes fair value hedging loss of $1,127 million (2019: $2,437 million loss) and foreign exchange gains of $1,623 million (2019: $3,815 million loss).
5. Cash outflow for shares purchased to satisfy the dividend reinvestment plan are classified in Dividends paid.
6. Relates to repayments of lease liabilities which the Group commenced recognising on 1 October 2019 following the adoption of AASB 16. Comparative information has not been restated.
7. Includes cash and cash equivalents recognised on the face of balance sheet of $107,923 million (2019: $81,621 million) with no amounts recorded as part of assets held for sale. (2019: nil).

The notes appearing on pages 117 to 225 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

	Ordinary share capital $m	Reserves $m	Retained earnings $m	Share capital and reserves attributable to shareholders of the Company $m	Non-controlling interests $m	Total shareholders' equity $m
As at 1 October 2018	27,205	323	31,737	59,265	140	59,405
Impact on transition to AASB 9	-	14	(624)	(610)	-	(610)
Profit or loss from continuing operations	-	-	6,296	6,296	15	6,311
Profit or loss from discontinued operations	-	-	(343)	(343)	-	(343)
Other comprehensive income for the year from continuing operations	-	1,393	58	1,451	5	1,456
Other comprehensive income for the year from discontinued operations	-	(97)	-	(97)	-	(97)
Total comprehensive income for the year	-	1,296	6,011	7,307	20	7,327
Transactions with equity holders in their capacity as equity holders:						
Dividends paid	-	-	(4,481)	(4,481)	(2)	(4,483)
Dividend income on treasury shares held within the Group's life insurance statutory funds	-	-	12	12	-	12
Group share buy-back[2]	(1,120)	-	-	(1,120)	-	(1,120)
Other equity movements:						
Treasury shares Wealth Australia discontinued operations adjustment[3]	405	-	-	405	-	405
Other items	-	(4)	9	5	(147)	(142)
As at 30 September 2019	26,490	1,629	32,664	60,783	11	60,794
Impact on transition to AASB 16	-	-	(88)	(88)	-	(88)
Profit or loss from continuing operations	-	-	3,675	3,675	1	3,676
Profit or loss from discontinued operations	-	-	(98)	(98)	-	(98)
Other comprehensive income for the year from continuing operations	-	(124)	14	(110)	(1)	(111)
Total comprehensive income for the year	-	(124)	3,591	3,467	-	3,467
Transactions with equity holders in their capacity as equity holders:						
Dividends paid	-	-	(2,922)	(2,922)	-	(2,922)
Dividend Reinvestment Plan[1]	61	-	-	61	-	61
Other equity movements:						
Group employee share acquisition scheme	(20)	-	-	(20)	-	(20)
Other items	-	(4)	10	6	(1)	5
As at 30 September 2020	26,531	1,501	33,255	61,287	10	61,297

1 3.4 million shares were issued under the Dividend Reinvestment Plan (DRP) for the 2020 interim dividend (nil shares for the 2019 final Dividend; nil shares for the 2019 interim dividend as the shares were purchased on-market and provided directly to shareholders participating in the DRP). On-market share purchases for the DRP in 2020 were $185 million (2019: $432 million).

2 The Company completed a $3.0 billion on-market share buy-back of ANZ ordinary shares purchasing $1,120 million worth of shares in 2019 resulting in 42.0 million shares being cancelled.

3 The successor funds transfer performed in preparation for the sale of the Group's wealth business to Zurich and IOOF completed on 13 April 2019. As a result, the Group no longer eliminates the ANZ shares previously held in Wealth Australia discontinued operations (treasury shares).

The notes appearing on pages 117 to 225 form an integral part of these financial statements.

Notes to the consolidated financial statements

1. ABOUT OUR FINANCIAL STATEMENTS

These are the financial statements for Australia and New Zealand Banking Group Limited (the Company) and its controlled entities (together, 'the Group' or 'ANZ') for the year ended 30 September 2020. The Company is incorporated and domiciled in Australia. The address of the Company's registered office and its principal place of business is ANZ Centre, 833 Collins Street, Docklands, Victoria, Australia 3008. The Group provides banking and financial services to individuals and business customers and operates in and across 33 markets.

On 4 November 2020, the Directors resolved to authorise the issue of these financial statements.

Information in the financial statements is included only to the extent we consider it material and relevant to the understanding of the financial statements. A disclosure is considered material and relevant if, for example:

- the amount is significant in size (quantitative factor);
- the information is significant by nature (qualitative factor);
- the user cannot understand the Group's results without the specific disclosure (qualitative factor);
- the information is critical to a user's understanding of the impact of significant changes in the Group's business during the period - for example, business acquisitions or disposals (qualitative factor);
- the information relates to an aspect of the Group's operations that is important to its future performance (qualitative factor); and
- the information is required under legislative requirements of the *Corporations Act 2001*, the *Banking Act 1959 (Cth)* or by the Group's principal regulators, including the Australian Securities and Investments Commission (ASIC) and the Australian Prudential Regulation Authority (APRA).

This section of the financial statements:

- outlines the basis upon which the Group's financial statements have been prepared; and
- discusses any new accounting standards or regulations that directly impact the financial statements.

BASIS OF PREPARATION

This financial report is a general purpose (Tier 1) financial report prepared by a 'for profit' entity, in accordance with Australian Accounting Standards (AASs) and other authoritative pronouncements of the Australian Accounting Standards Board (AASB), the *Corporations Act 2001*, and International Financial Reporting Standards (IFRS) and interpretations published by the International Accounting Standards Board (IASB).

We present the financial statements of the Group in Australian dollars, which is the Company's functional and presentation currency. We have rounded values to the nearest million dollars ($m), unless otherwise stated, as allowed under the *ASIC Corporations (Rounding in Financial/Directors Report) Instrument 2016/191*. We measure the financial statements of each entity in the Group using the currency of the primary economic environment in which that entity operates (the functional currency).

BASIS OF MEASUREMENT

We have prepared the financial information in accordance with the historical cost basis - except the following assets and liabilities which we have stated at their fair value:

- derivative financial instruments and in the case of fair value hedging, a fair value adjustment made to the underlying hedged exposure;
- financial instruments held for trading;
- financial assets and financial liabilities designated at fair value through profit or loss;
- financial assets at fair value through other comprehensive income; and
- assets and liabilities classified as held for sale (except those at their carrying value as per Note 29).

In accordance with AASB 1038 *Life Insurance Contracts* (AASB 1038) we have measured life insurance liabilities using the Margin on Services (MoS) model. In accordance with AASB 119 *Employee Benefits* (AASB 119) we have measured defined benefit obligations using the Projected Unit Credit Method.

DISCONTINUED OPERATIONS

The aligned dealer groups business sold to IOOF Holdings Limited (IOOF) completed on 1 October 2018; the life insurance business sold to Zurich Financial Services Australia Limited completed on 31 May 2019; and the Wealth Australia pensions and investments business sold to IOOF was completed on 31 January 2020. As a result of these sale transactions, the associated Group reclassification and consolidation impacts are treated as discontinued operations from a financial reporting perspective.

1. ABOUT OUR FINANCIAL STATEMENTS (continued)

BASIS OF CONSOLIDATION

The consolidated financial statements of the Group comprise the financial statements of the Company and all its subsidiaries. An entity, including a structured entity, is considered a subsidiary of the Group when we determine that the Company has control over the entity. Control exists when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. We assess power by examining existing rights that give the Group the current ability to direct the relevant activities of the entity. We have eliminated, on consolidation, the effect of all transactions between entities in the Group.

FOREIGN CURRENCY TRANSLATION

TRANSACTIONS AND BALANCES

Foreign currency transactions are translated into the relevant functional currency at the exchange rate prevailing at the date of the transaction. At the reporting date, monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the relevant spot rate. Any foreign currency translation gains or losses that arise are included in profit or loss in the period they arise.

We measure translation differences on non-monetary items at fair value through profit or loss and report them as part of the fair value gain or loss on these items. For non-monetary items classified as investment securities measured at fair value through other comprehensive income translation differences are included in Other comprehensive income.

FINANCIAL STATEMENTS OF FOREIGN OPERATIONS THAT HAVE A FUNCTIONAL CURRENCY THAT IS NOT AUSTRALIAN DOLLARS

The financial statements of our foreign operations are translated into Australian dollars for consolidation into the Group financial statements using the following method:

Foreign currency item	Exchange rate used
Assets and liabilities	The reporting date rate
Equity	The initial investment date rate
Income and expenses	The average rate for the period – but if for a significant transaction we believe the average rate is not reasonable, then we use the rate at the date of the transaction

Exchange differences arising from the translation of financial statements of foreign operations are recognised in the foreign currency translation reserve in equity. When we dispose of a foreign operation, the cumulative exchange differences are transferred to profit or loss as part of the gain or loss on sale.

FIDUCIARY ACTIVITIES

The Group provides fiduciary services to third parties including custody, nominee and trustee services. This involves the Group holding assets on behalf of third parties and making decisions regarding the purchase and sale of financial instruments. If ANZ is not the beneficial owner or does not control the assets, then we do not recognise these transactions in these financial statements, except when required by accounting standards or another legislative requirement.

1. ABOUT OUR FINANCIAL STATEMENTS (continued)

KEY JUDGEMENTS AND ESTIMATES

In the process of applying the Group's accounting policies, management has made a number of judgements and applied estimates and assumptions about past and future events. Further information on the key judgements and estimates that we consider material to the financial statements are contained within each relevant note to the financial statements.

Coronavirus (COVID-19) pandemic

The COVID-19 pandemic and its effect on the global economy have impacted our customers, operations and Group performance. The outbreak necessitated governments to respond at unprecedented levels to protect the health of the population, local economies and livelihoods. It has affected different regions at different times and at varying degrees and there remains a risk of subsequent waves of infection. Thus the pandemic has significantly increased the estimation uncertainty in the preparation of these financial statements including:

- the extent and duration of the disruption to business arising from the actions of governments, businesses and consumers to contain the spread of the virus;
- the extent and duration of the expected economic downturn, and subsequent recovery. This includes the impacts on capital markets and liquidity, credit quality, increasing unemployment, declines in consumer spending, reductions in production, and other restructuring activities; and
- the effectiveness of government and central bank measures to support businesses and consumers through this disruption and economic downturn.

The Group has made various accounting estimates in these financial statements based on forecasts of economic conditions which reflect expectations and assumptions as at 30 September 2020 about future events that the Directors believe are reasonable in the circumstances. There is a considerable degree of judgement involved in preparing these estimates. The underlying assumptions are also subject to uncertainties which are often outside the control of the Group. Accordingly, actual economic conditions are likely to be different from those forecast since anticipated events frequently do not occur as expected, and the effect of those differences may significantly impact accounting estimates included in these financial statements.

The significant accounting estimates impacted by these forecasts and associated uncertainties are predominantly related to expected credit losses, fair value measurement, and the assessment of the recoverable amount of non-financial assets.

The impact of the COVID-19 pandemic on each of these estimates is discussed further in the relevant note of these financial statements. Readers should carefully consider these disclosures in light of the inherent uncertainty described above.

ACCOUNTING STANDARDS ADOPTED IN THE PERIOD

AASB 16 Leases (AASB 16)

AASB 16 became effective for the Group from 1 October 2019 and replaced the previous standard AASB 117 *Leases* (AASB 117). AASB 16 primarily impacts the Group's property and technology leases which were previously classified as operating leases. Under AASB 117, operating leases were not recognised on balance sheet and rent payments were expensed over the lease term.

Under AASB 16, the Group recognises all leases (except for leases of low value assets and short term leases) on balance sheet under a single accounting model. Accordingly, the Group recognises its right to use an underlying leased asset over the lease term as a right-of-use (ROU) asset, and its obligation to make lease payments as a lease liability. In the income statement, the Group recognises depreciation expense on the ROU asset and interest expense on the lease liability. As a result, lease expenses will be higher in the early periods of a lease and lower in the later periods of the lease compared to the previous standard where expenses were constant over the lease term. Cumulative expenses over the life of a lease will not change.

As permitted by the standard, the Group does not recognise ROU assets and lease liabilities for leases of low value items and short term leases (less than 12 months). Instead, the lease payments associated with these leases are recognised as an operating expense in the income statement on a straight-line basis over the lease term.

The Group has applied the modified retrospective transition approach whereby initial lease liabilities are recognised based on the present value of remaining lease payments as of the transition date. The initial ROU asset recognised for certain large commercial and retail leases was measured as if AASB 16 had always been applied to the leases. For all other leases, the initial ROU asset was measured as equal to the initial lease liability.

The implementation of AASB 16 requires management to make certain key judgements including the determination of lease terms, discount rates and identifying arrangements that contain a lease. Extension options are included in the lease term if the Group is reasonably certain the option will be exercised. This assessment includes consideration of facts and circumstances that create an economic incentive for the Group to exercise the option.

Based on the modified retrospective transition approach, the Group recognised lease liabilities of $1.7 billion presented within Payables and other liabilities and ROU assets of $1.6 billion presented within Premises and equipment. This resulted in a reduction to opening retained earnings of $88 million and an increase in deferred tax assets of $37 million as of 1 October 2019. Comparatives have not been restated.

1. ABOUT OUR FINANCIAL STATEMENTS (continued)

ACCOUNTING STANDARDS ADOPTED IN THE PERIOD (continued)

In addition, the Group elected to apply the following practical expedients as permitted under the modified retrospective transition approach:

a) Impairment of ROU assets at the transition date was assessed by relying on onerous lease provisions previously recognised as of 30 September 2019 under AASB 117;

b) Initial direct costs associated with entering leases prior to the transition date were excluded from the carrying value of ROU assets recognised at transition;

c) No ROU assets or lease liabilities were recognised for certain leases with less than 12 months remaining as of the transition date; these leases were treated as short-term leases with all lease payments recognised in rent expense as incurred; and

d) Hindsight was used to determine the lease term of contracts that contained options to extend the lease.

The following table reconciles the operating lease commitments disclosed under AASB 117 as at 30 September 2019 to the opening lease liabilities recognised under AASB 16 as at 1 October 2019.

	$m
Operating Lease Commitments as at 30 September 2019	1,656
Increase in lease term for extension options	210
Exclusion of low value leases and leases of less than 12 months	(19)
Exclusion of service components	(10)
Other	(17)
Total Undiscounted Lease Payments	**1,820**
Effect of discounting at a weighted average incremental borrowing rate of 2.44%	(141)
Total lease liabilities under AASB 16 as at 1 October 2019	**1,679**

During the reporting period, the Group recognised the following amounts in the income statement

	$m
Depreciation expense on ROU assets	394
Interest expense on lease liabilities	37
Interest expense on makegood provisions	2
Rent expense in relation to low value leases and leases of less than 12 months	35
Other income in relation to subleases	21

The Group's accounting policies with respect to lease arrangements where it acts as lessor have not changed under AASB 16 except where the Group subleases certain leased properties. Where the Group acts as intermediate lessor, it classifies the sublease as either a finance lease or operating lease by reference to the ROU asset of the head lease. Income from operating subleases is recognised in Other operating income in the Income Statement.

1. ABOUT OUR FINANCIAL STATEMENTS (continued)

ACCOUNTING STANDARDS ADOPTED IN THE PERIOD (continued)

Interest Rate Benchmark Reform

Background

Interbank offered rates (IBORs), such as the London Interbank Offered Rate (LIBOR), play a critical role in global financial markets, serving as reference rates for derivatives, loans and securities, and as parameters in the valuation of financial instruments.

Uncertainty surrounding the integrity of IBOR rates has in recent years, led regulators, central banks and market participants to work towards a transition to alternative risk-free benchmark reference rates (RFRs) and market-led working groups in respective jurisdictions have recommended alternative risk-free reference rates, which are gradually being adopted. Progress in the transition to these new benchmarks has resulted in significant uncertainty in the future of IBOR benchmarks beyond 1 January 2022.

Accounting amendments

In response to the uncertainty about the long-term viability of these benchmark rates, and LIBOR in particular, the International Accounting Standards Board (IASB) has established a project to consider the financial reporting implications of the reform. The transition from IBORs is expected to have an impact on various elements of financial instrument accounting, including hedge accounting, as well as fair value methodologies and disclosures.

In October 2019, the AASB issued AASB 2019-3 *Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform*, which amends certain existing hedge accounting requirements to provide relief from potential effects of the uncertainty caused by the interest rate benchmark reform. The Group elected to early adopt the amendments from 1 October 2019 which have not had a significant impact on the Group. These amendments address the accounting effects of uncertainty in the period leading up to the reform arising from the Group's ability to satisfy the existing prospective hedge effectiveness requirements of AASB 139. This uncertainty arises as it is not known when the hedged items (such as debt issuances) and associated hedging instruments (such as interest rate swaps) will be changed to reference the RFRs, or if both the hedging item and the associated hedging instrument will move to the new rates at the same time. The Group has applied this amendment to all hedge accounted relationships (cash flow or fair value hedges) where the reform gives rise to uncertainties about the timing or amount of IBOR based cash flows of the hedged item or hedging instrument.

In September 2020, the AASB issued AASB 2020-8 *Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform – Phase 2* which is mandatory for the Group for the 2022 financial year. This standard addresses issues that may affect the Group at the point of transition from an existing IBOR rate to a RFR, including the effects of changes to contractual cash flows or hedging relationships. The standard includes amendments in respect of:

- Modification of a financial asset or a financial liability measured at amortised cost

  IBOR reform is expected to result in a change to the basis for determining contractual cash flows of impacted assets and liabilities of the Group. The amendments provide a practical expedient to account for a change in the basis for determining the contractual cash flows as a result of IBOR reform by updating the effective interest rate. As a result, no immediate gain or loss is recognised. This applies only when the change is necessary as a direct consequence of the reform, and the new basis for determining the contractual cash flows is economically equivalent to the previous basis.

- Additional relief for hedging relationships

  The Standard also amends a number of existing hedge accounting requirements that will assist the Group to maintain its existing hedge accounted relationships post IBOR transition. The Group will continue to record any ongoing hedge ineffectiveness, including that generated by changes as a result of interest rate reform, within the Income Statement.

The Group is in the process of assessing the impact of the new standard on its financial statements.

Impact of IBOR reform

The Group has exposure to IBOR through its issuance of debt, the structural interest rate risk position, holdings of investment securities, products denominated in foreign currencies and associated hedging activities in our treasury and markets businesses within the TSO and Group Centre and Institutional divisions respectively.

The Group has established an enterprise-wide Benchmark Transition Program to manage the transition. The program includes the assessment and actions necessary to accommodate the transition to RFRs as they apply to internal processes and systems including pricing, risk management, documentation and hedge arrangements. The program includes management of the impact on customers.

Impact of IBOR reform on the Group's hedging relationships

Certain IBOR rates are subject to replacement by RFRs. The Group has hedge accounted relationships referencing IBORs, with the most significant interest rate benchmarks to which the Group's hedging relationships are exposed to are USD LIBOR, Euro Interbank Offered Rate (EURIBOR), Bank Bill Swap Rate (BBSW) and Bank Bill Market (BKBM).

Of these benchmarks the Group expects BBSW, BKBM and EURIBOR to exist as benchmark rates for the foreseeable future and therefore does not believe its BBSW, BKBM or EURIBOR benchmark fair value or cash flow hedges will be directly impacted by IBOR reform.

1. About Our Financial Statements (continued)

ACCOUNTING STANDARDS ADOPTED IN THE PERIOD (continued)

Interest Rate Benchmark Reform (continued)

The table below details the carrying values of the Group's exposures designated in hedge accounting relationships that will be impacted by IBOR reform, principally USD LIBOR. The nominal value of the associated hedging instruments is also included:

Hedged items			As at 30 September 2020 USD LIBOR exposures $m
Investment securities at FVOCI			15,002
Net loans and advances			111
Debt issuances			32,235
Hedging instruments	**Notional designated up to 31 December 2021 $m**	**Notional designated beyond 31 December 2021 $m**	**Total Notional Amount $m**
Fair value hedges	12,778	32,250	45,028
Cash flow hedges	-	1,055	1,055

As at 30 September 2020 the Group also has GBP LIBOR, CHF LIBOR and JPY LIBOR exposures designated in hedge accounting relationships of $927 million, $975 million and $2,131 million respectively.

In addition to hedge accounted relationships that will be impacted by IBOR reform, the Group has exposures to other financial instruments referencing an IBOR rate that are also subject to reform. The Group is continuing to monitor market developments in relation to the transition to RFRs from IBOR rates and their impact on the Group's financial assets and liabilities to ensure that there are no unexpected consequences or disruption from the transition.

AASB INTERPRETATION 23 UNCERTAINTY OVER INCOME TAX TREATMENTS (AASB Interpretation 23)

AASB Interpretation 23 became effective for the Group from 1 October 2019. The interpretation clarifies application of recognition and measurement requirements in AASB 112 Income Taxes where there is uncertainty over income tax treatments. As the Group's existing policy aligned with the requirements of AASB Interpretation 23, the interpretation had no material impact on the Group.

ACCOUNTING STANDARDS NOT EARLY ADOPTED

A number of new standards, amendments to standards and interpretations have been published but are not mandatory for the financial statements for the year ended 30 September 2020, and have not been applied by the Group in preparing these financial statements. Further details of these are set out below.

GENERAL HEDGE ACCOUNTING

AASB 9 introduces new hedge accounting requirements which more closely align accounting with risk management activities undertaken when hedging both financial and non-financial risks. AASB 9 provides the Group with an accounting policy choice to continue to apply the AASB 139 hedge accounting requirements until the International Accounting Standards Board's ongoing project on macro hedge accounting is completed. The Group continues to apply the hedge accounting requirements of AASB 139.

AASB 17 *INSURANCE CONTRACTS* (AASB 17)

The final version of AASB 17 was issued in July 2017 and is not effective for the Group until 1 October 2023. It will replace AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*. AASB 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts.

The measurement, presentation and disclosure requirements under AASB 17 are significantly different from current accounting standards. Although the overall profit recognised in respect of insurance contracts will not change, it is expected that the timing of profit recognition will change.

AASB 17 is not expected to have material impact on the Group.

REVISED CONCEPTUAL FRAMEWORK

In June 2019 the AASB issued a revised Conceptual Framework for Financial Reporting. The new Framework includes updated definitions and criteria for the recognition and derecognition of assets and liabilities. Additionally, it introduces new concepts on measurement, including factors to consider when selecting a measurement basis. The revised Conceptual Framework will apply to the Group from 1 October 2020 and is not expected to have a material impact on the Group.

2. OPERATING INCOME

	2020 $m	2019 $m
Net interest income		
Interest income by type of financial asset		
Investment securities - FVOCI	1,162	1,624
Financial assets at amortised cost	22,675	28,600
Trading securities	584	848
Financial assets designated at FV through profit or loss	5	5
Interest income	24,426	31,077
Interest expense by type of financial liability		
Financial liabilities at amortised cost	(9,783)	(16,149)
Securities sold short	(95)	(110)
Financial liabilities designated at FV through profit or loss	(93)	(116)
Interest expense	(9,971)	(16,375)
Major bank levy	(406)	(363)
Net interest income	14,049	14,339
Other operating income		
i) Fee and commission income		
Lending fees[1]	579	602
Non-lending fees	2,687	3,059
Commissions	121	124
Funds management income	275	254
Fee and commission income	3,662	4,039
Fee and commission expense	(1,337)	(1,462)
Net fee and commission income	2,325	2,577
ii) Other income		
Net foreign exchange earnings and other financial instruments income[2]	1,809	1,278
Impairment of AmBank	(595)	-
Impairment of PT Panin	(220)	-
Sale of UDC	(7)	-
Sale of OnePath Life (NZ) Ltd (OPL NZ)	-	89
Sale of Paymark Limited (Paymark)	-	37
Sale of ANZ Royal Bank (Cambodia) Ltd (Cambodia JV)	-	10
Sale of PNG Retail, Commercial & SME	-	1
Dividend income on equity securities	26	28
Other	17	38
Other income	1,030	1,481
Other operating income	3,355	4,058
Net income from insurance business	78	126
Share of associates' profit	155	262
Operating income[3]	17,637	18,785

1. Lending fees exclude fees treated as part of the effective yield calculation in interest income.
2. Includes fair value movements (excluding realised and accrued interest) on derivatives not designated as accounting hedges entered into to manage interest rate and foreign exchange risk on funding instruments, ineffective portions of cash flow hedges, and fair value movements in financial assets and liabilities designated at fair value through profit or loss.
3. Includes charges for customer remediation of $174 million (2019: $212 million).

2. OPERATING INCOME (continued)

RECOGNITION AND MEASUREMENT

NET INTEREST INCOME

Interest Income and Expense

We recognise interest income and expense for all financial instruments, including those classified as held for trading, assets measured at fair value through other comprehensive income or designated at fair value through profit or loss in net interest income. We use the effective interest rate method to calculate the amortised cost of assets held at amortised cost and to recognise interest income on financial assets measured at fair value through other comprehensive income. The effective interest rate is the rate that discounts the stream of estimated future cash receipts or payments over the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or liability. For assets subject to prepayment, we determine their expected life on the basis of historical behaviour of the particular asset portfolio - taking into account contractual obligations and prepayment experience.

We recognise fees and costs, which form an integral part of the financial instrument (for example loan origination fees and costs), using the effective interest rate method. This is presented as part of interest income or expense depending on whether the underlying financial instrument is a financial asset or financial liability.

Major Bank Levy

The Major Bank Levy Act 2017 ('Levy' or 'Major bank levy') applies a rate of 0.06% to certain liabilities of the Company. The Group has determined that the levy represents a finance cost for the Group and $406 million (2019: $363 million) is presented as interest expense in the Income Statement.

OTHER OPERATING INCOME

Fee and Commission Revenue

We recognise fee and commission revenue arising from contracts with customers (a) over time when the performance obligation is satisfied across more than one reporting period or (b) at a point in time when the performance obligation is satisfied immediately or is satisfied within one reporting period.

- lending fees exclude fees treated as part of the effective yield calculation of interest income. Lending fees include certain guarantee and commitment fees where the loan or guarantee is not likely to be drawn upon, and other fees charged for providing customers a distinct good or service that are recognised separately from the underlying lending product (including annual package fees that provide benefits on other ANZ products).
- non-lending fees includes fees associated with deposit and credit card accounts, interchange fees and fees charged for specific customer transactions such as international money transfers. Where the Group provides multiple goods or services to a customer under the same contract, the Group allocates the transaction price of the contract to distinct performance obligations based on the relative stand-alone selling price of each performance obligation. Revenue is recognised as each performance obligation is satisfied.
- commissions represent fees from third parties where ANZ acts as an agent by arranging a third party (e.g. an insurance provider) to provide goods and services to a customer. In such cases, ANZ is not primarily responsible for providing the underlying good or service to the customer. If the Group collects funds on behalf of a third party when acting as an agent, the Group only recognises the net commission it retains as revenue. When the commission is variable based on factors outside the control of the Group (e.g. a trail commission), revenue is only recognised if it is highly probable that a significant reversal of the variable amount will not be required in future periods.
- funds management income represents fees earned from customers for providing financial advice and fees for asset management services and advice provided to investment funds. Revenue is recognised either at the point the financial advice is provided or over the period in which the asset management services are delivered. Performance fees associated with funds management activities are only recognised when it becomes highly probable the performance hurdle will be achieved.

Net Foreign Exchange Earnings and Other Financial Instruments Income

We recognise the following as net foreign exchange earnings and other financial instruments income:

- exchange rate differences arising on the settlement of monetary items and translation differences on monetary items translated at rates different to those at which they were initially recognised or included in a previous financial report;
- fair value movements (excluding realised and accrued interest) on derivatives that we use to manage interest rate and foreign exchange risk on funding instruments not designated as accounting hedges;
- the ineffective portions of fair value hedges, cash flow hedges and net investment hedges;

2. OPERATING INCOME (continued)

RECOGNITION AND MEASUREMENT (continued)

- immediately upon sale or repayment of a hedged item, the unamortised fair value adjustments in items designated as fair value hedges and amounts accumulated in equity related to designated cash flow hedges;
- fair value movements on financial assets and financial liabilities designated at fair value through profit or loss or held for trading;
- amounts released from the fair value through other comprehensive income (FVOCI) reserve when a debt instrument classified as FVOCI is sold; and
- the gain or loss on derecognition of financial assets or liabilities measured at amortised cost.

Gain or Loss on Disposal of Non-Financial Assets

The gain or loss on the disposal of assets is the difference between the carrying value of the asset and the proceeds of disposal net of costs. This is recognised in other income in the year in which the significant risks and rewards from the asset transfer to the buyer.

NET INCOME FROM INSURANCE BUSINESS

We recognise:

- premiums received (net of reinsurance premiums paid) based on an assessment of the likely pattern in which risk will emerge over the term of the policies written. This assessment is undertaken periodically and updated in accordance with the latest pattern of risk emergence; and
- claims incurred net of reinsurance, on an accruals basis once the liability to the policy owner has been established under the terms of the contract and through actuarial assumptions of future claims.

SHARE OF ASSOCIATES' PROFIT

The equity method is applied to accounting for associates. Under the equity method, the Group's share of the after tax results of associates is included in the Income Statement and the Statement of Comprehensive Income.

3. OPERATING EXPENSES

	2020 $m	2019[1] $m
Personnel		
Salaries and related costs	4,310	4,249
Superannuation costs	329	293
Other	239	223
Personnel[1]	4,878	4,765
Premises		
Rent	84	450
Depreciation	517	167
Other	188	178
Premises[2]	789	795
Technology		
Depreciation and amortisation[2,3]	858	694
Subscription licences and outsourced services	780	672
Other	186	168
Technology (excluding personnel)[1]	1,824	1,534
Restructuring	161	77
Other		
Advertising and public relations	177	226
Professional fees	667	537
Freight, stationery, postage and communication	205	216
Royal Commission legal costs	-	15
Other[4]	682	906
Other[1]	1,731	1,900
Operating expenses[1]	9,383	9,071

1. Includes customer remediation expenses of $209 million in 2020 (2019: $373 million).
2. Following the adoption of AASB 16 on 1 October 2019, with the exception of low value leases and leases of less than 12 months, expenses associated with leases are shown as depreciation of the right-of-use asset and interest expense associated with the lease liability (comparatives not restated).
3. During the 2020 financial year, the Group amended the application of its software amortisation policy to reflect the shorter useful life of software caused by rapidly changing technology and business requirements. As a result of these changes, the Group recognised accelerated amortisation of $197 million during the year. Refer to Note 20 Goodwill and Other Intangible Assets for further details.
4. Includes goodwill write-off of $77 million in the September 2020 financial year.

RECOGNITION AND MEASUREMENT

OPERATING EXPENSES

Operating expenses are recognised as services are provided to the Group, over the period in which an asset is consumed, or once a liability is created.

SALARIES AND RELATED COSTS - ANNUAL LEAVE, LONG SERVICE LEAVE AND OTHER EMPLOYEE BENEFITS

Wages and salaries, annual leave and other employee entitlements expected to be paid or settled within twelve months of employees rendering service are measured at their nominal amounts using remuneration rates that the Group expects to pay when the liabilities are settled.

We accrue employee entitlements relating to long service leave using an actuarial calculation. It includes assumptions regarding staff departures, leave utilisation and future salary increases. The result is then discounted using market yields at the reporting date. The market yields are determined from a blended rate of high quality corporate bonds with terms to maturity that closely match the estimated future cash outflows.

If we expect to pay short term cash bonuses, then a liability is recognised when the Group has a present legal or constructive obligation to pay this amount (as a result of past service provided by the employee) and the obligation can be reliably measured.

3. OPERATING EXPENSES (continued)

RECOGNITION AND MEASUREMENT

Personnel expenses also include share-based payments which may be cash or equity settled. We calculate the fair value of equity settled remuneration at grant date, which is then amortised over the vesting period, with a corresponding increase in share capital or the share option reserve as applicable. When we estimate the fair value, we take into account market vesting conditions, such as share price performance conditions. We take non-market vesting conditions, such as service conditions, into account by adjusting the number of equity instruments included in the expense.

After the grant of an equity-based award, the amount we recognise as an expense is reversed when non-market vesting conditions are not met, for example an employee fails to satisfy the minimum service period specified in the award on resignation, termination or notice of dismissal for serious misconduct. However, we do not reverse the expense if the award does not vest due to the failure to meet a market-based performance condition.

Further information on share-based payment schemes operated by the Group during the current and prior year is included in Note 31 Employee Share and Option Plans.

4. INCOME TAX

INCOME TAX EXPENSE

Reconciliation of the prima facie income tax expense on pre-tax profit with the income tax expense recognised in profit or loss:

	2020 $m	2019 $m
Profit before income tax from continuing operations	5,516	8,920
Prima facie income tax expense at 30%	1,655	2,676
Tax effect of permanent differences:		
Gains or losses on sale from divestments	2	(25)
Impairment of investment in AmBank and PT Panin	245	-
Share of associates' profit	(47)	(78)
Interest on convertible instruments	52	63
Overseas tax rate differential	(86)	(112)
Provision for foreign tax on dividend repatriation	20	39
Other	25	63
Subtotal	1,866	2,626
Income tax (over)/under provided in previous years	(26)	(17)
Income tax expense	1,840	2,609
Current tax expense	2,637	2,779
Adjustments recognised in the current year in relation to the current tax of prior years	(26)	(17)
Deferred tax expense/(income) relating to the origination and reversal of temporary differences	(771)	(153)
Income tax expense	1,840	2,609
Australia	1,115	1,682
Overseas	725	927
Effective tax rate	33.4%	29.2%

4. INCOME TAX (continued)

TAX CONSOLIDATION

The Company and all its wholly owned Australian resident entities are part of a tax-consolidated group under Australian taxation law. The Company is the head entity in the tax-consolidated group. We recognise each of the following in the separate financial statements of members of the tax consolidated group on a 'group allocation' basis: tax expense/income, and deferred tax liabilities/assets that arise from temporary differences of the members of the tax-consolidated group. The Company (as head entity in the tax-consolidated group) recognises current tax liabilities and assets of the tax-consolidated group.

Under a tax funding arrangement between the entities in the tax-consolidated group, amounts are recognised as payable to or receivable by the Company and each member of the tax-consolidated group in relation to the tax contribution amounts paid or payable between the Company and the other members of the tax-consolidated group.

Members of the tax-consolidated group have also entered into a tax sharing agreement that provides for the allocation of income tax liabilities between the entities were the head entity to default on its income tax payment obligations.

UNRECOGNISED DEFERRED TAX ASSETS AND LIABILITIES

Unrecognised deferred tax assets related to unused realised tax losses (on revenue account) total $10 million (2019: $10 million).

Unrecognised deferred tax liabilities related to additional potential foreign tax costs (assuming all retained earnings in offshore branches and subsidiaries are repatriated) total $329 million (2019: $429 million).

RECOGNITION AND MEASUREMENT

INCOME TAX EXPENSE

Income tax expense comprises both current and deferred taxes and is based on the accounting profit adjusted for differences in the accounting and tax treatments of income and expenses (that is, taxable income). We recognise tax expense in profit or loss except when the tax relates to items recognised directly in equity and other comprehensive income, in which case we recognise the tax directly in equity or other comprehensive income respectively.

CURRENT TAX EXPENSE

Current tax is the tax we expect to pay on taxable income for the year, based on tax rates (and tax laws) which are enacted at the reporting date. We recognise current tax as a liability (or asset) to the extent that it is unpaid (or refundable).

DEFERRED TAX ASSETS AND LIABILITIES

We account for deferred tax using the balance sheet method. Deferred tax arises because the accounting income is not always the same as the taxable income. This creates temporary differences, which usually reverse over time. Until they reverse, we recognise a deferred tax asset, or liability, on the balance sheet. We measure deferred taxes at the tax rates that we expect will apply to the period(s) when the asset is realised, or the liability settled, based on tax rates (and tax laws) that have been enacted or substantially enacted at the reporting date.

We offset current and deferred tax assets and liabilities only to the extent that:

- they relate to income taxes imposed by the same taxation authority;
- there is a legal right and intention to settle on a net basis; and
- it is allowed under the tax law of the relevant jurisdiction.

KEY JUDGEMENTS AND ESTIMATES

Judgement is required in determining provisions held in respect of uncertain tax positions. The Group estimates its tax liabilities based on its understanding of the relevant law in each of the countries in which it operates and seeks independent advice where appropriate.

5. DIVIDENDS

ORDINARY SHARE DIVIDENDS

Dividends are provided for in the financial statements once determined, accordingly, the final dividend announced for the current financial year is provided for and paid in the following financial year.

Dividends	% of total	Amount per share	Total dividend $m
Financial Year 2019			
2018 final dividend paid[1,2]		80 cents	2,295
2019 interim dividend paid[1,2]		80 cents	2,267
Bonus option plan adjustment			(81)
Dividends paid during the year ended 30 September 2019			4,481
Cash	90.4%		4,049
Dividend reinvestment plan	9.6%		432
Dividends paid during the year ended 30 September 2019			4,481
Financial Year 2020			
2019 final dividend paid[2,3]		80 cents	2,268
2020 interim dividend paid[1,2]		25 cents	709
Bonus option plan adjustment			(55)
Dividends paid during the year ended 30 September 2020			2,922
Cash	93.7%		2,737
Dividend reinvestment plan	6.3%		185
Dividends paid during the year ended 30 September 2020			2,922

Dividends announced and to be paid after year-end	Payment date	Amount per share	Total dividend $m
2020 final dividend (fully franked for Australian tax, New Zealand imputation credit NZD 4 cents per share)	16 December 2020	35 cents	994

1. Fully franked for Australian tax purposes (30% tax rate).
2. Carries New Zealand imputation credits of NZD 3 cents for the 2020 interim dividend, NZD 9 cents for the 2019 final dividend, 2019 interim dividend and 2018 final dividend.
3. Partially franked at 70% for Australian tax purposes (30% tax rate).

DIVIDEND REINVESTMENT PLAN AND BONUS OPTION PLAN

Eligible shareholders can elect to reinvest their dividend entitlement into ANZ ordinary shares under the Company's Dividend Reinvestment Plan (DRP). Eligible shareholders can elect to forgo their dividend entitlement and instead receive ANZ ordinary shares under the Company's Bonus Option Plan (BOP). For the 2020 final dividend, DRP and BOP participation will be satisfied by an issue of new ANZ ordinary shares. There will be no discount applied to the DRP and BOP price.

See Note 22 Shareholders' Equity for details of shares the Company issued or purchased in respect of the DRP and BOP.

DIVIDEND FRANKING ACCOUNT

	Currency	2020 $m	2019 $m
Australian franking credits available at 30% tax rate	AUD	477	35
New Zealand imputation credits available (which can be attached to our Australian dividends but may only be used by New Zealand resident shareholders)	NZD	4,583	4,068

The above amounts represent the balances of the franking accounts as at the end of the financial year, adjusted for:

- franking credits that will arise from the payment of income tax payable as at the end of the financial year; and
- franking credits/debits from the receipt/payment of dividends that have been recognised as tax receivables/payables as at the end of the financial year.

The proposed final 2020 dividend will utilise $426 million of the franking credits available at 30 September 2020.

5. DIVIDENDS (continued)

RESTRICTIONS ON THE PAYMENT OF DIVIDENDS

APRA's written approval is required before paying dividends on ANZ ordinary shares:

- if the aggregate dividends exceed the Company's after tax earnings (in calculating those after tax earnings, we take into account any payments we made on senior capital instruments) in the financial year to which they relate; or
- if the Group's Common Equity Tier 1 capital ratio falls within capital range buffers specified by APRA.

If the Company fails to pay a dividend or distribution on its ANZ Capital Notes or ANZ Capital Securities on the scheduled payment date, it may (subject to a number of exceptions) be restricted from resolving to pay or paying any dividend on the ANZ ordinary shares.

In July 2020, APRA provided an update to their guidance on capital management. In the updated guidance, APRA acknowledged that the uncertainty in the economic outlook has reduced somewhat since April 2020 and APRA had the opportunity to review ADIs' financial projections and stress testing results. Taking these and other developments since April 2020 into account, APRA advised ADIs to maintain caution in planning capital distributions, including dividend payments and that for the remainder of the calendar year, the ADIs' Board should:

- seek to retain at least half of their earnings when making decisions on capital distributions (and utilise dividend reinvestment plans and other initiatives to offset the diminution in capital from capital distributions where possible);
- conduct regular stress testing to inform decision-making and demonstrate ongoing lending capacity; and
- make use of capital buffers to absorb the impacts of stress, and continue to lend to support households and businesses.

The Company's 2020 interim dividend of 25 cents per share (paid to shareholders on 30 September 2020) and 2020 final dividend of 35 cents per share took into account the updated regulatory guidance above.

6. EARNINGS PER ORDINARY SHARE

Earnings per ordinary share (EPS) - Basic	2020 cents	2019 cents
Earnings Per Share	126.4	210.0
Earnings Per Share from continuing operations[1]	129.8	222.1
Earnings Per Share from discontinued operations	(3.4)	(12.1)

Earnings per ordinary share (EPS) - Diluted	2020 cents	2019 cents
Earnings Per Share	118.0	201.9
Earnings Per Share from continuing operations[1]	121.1	213.0
Earnings Per Share from discontinued operations	(3.1)	(11.1)

Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period (after eliminating ANZ shares held within the Group known as treasury shares). Diluted EPS is calculated by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares used in the basic EPS calculation for the effect of dilutive potential ordinary shares.

Reconciliation of earnings used in earnings per share calculations	2020 $m	2019 $m
Basic:		
Profit for the year	3,578	5,968
Less: Profit attributable to non-controlling interests	1	15
Earnings used in calculating basic earnings per share	3,577	5,953
Less: Profit/(Loss) after tax from discontinued operations	(98)	(343)
Earnings used in calculating basic earnings per share from continuing operations	3,675	6,296
Diluted:		
Earnings used in calculating basic earnings per share	3,577	5,953
Add: Interest on convertible subordinated debt	201	268
Earnings used in calculating diluted earnings per share	3,778	6,221
Less: Profit/(Loss) after tax from discontinued operations	(98)	(343)
Earnings used in calculating diluted earnings per share from continuing operations	3,876	6,564

Reconciliation of weighted average number of ordinary shares (WANOS) used in earnings per share calculations[1,2]	2020 millions	2019 millions
WANOS used in calculating basic earnings per share	2,830.9	2,834.9
Add: Weighted average dilutive potential ordinary shares		
Convertible subordinated debt	362.2	237.9
Share based payments (options, rights and deferred shares)	8.0	8.8
WANOS used in calculating diluted earnings per share	3,201.1	3,081.6

1. The successor fund transfer performed in preparation for the sale of the Group's wealth businesses to Zurich and IOOF was completed on 13 April 2019. Post this date, treasury shares held in Wealth Australia discontinued operations ceased to be eliminated in the Group's consolidated financial statements and are included in the denominator used in calculating earnings per share. If the weighted average number of treasury shares held in Wealth Australia discontinued operations was included in the denominator used in calculating earnings per share from continuing operations in the comparative period, basic earnings per share from continuing operations for the comparative period would have been 221.4 cents and diluted earnings per share from continuing operations for the comparative period would have been 212.4 cents.
2. Weighted average number of ordinary shares excludes the weighted average number of treasury shares held in ANZEST of 5.0 million (2019: 4.7 million) and Wealth Australia discontinued operations of 8.2 million in 2019.

7. SEGMENT REPORTING

DESCRIPTION OF SEGMENTS

The Group's five continuing operating segments are presented on a basis that is consistent with the information provided internally to the Chief Executive Officer, who is the chief operating decision maker. This reflects the way the Group's businesses are managed, rather than the legal structure of the Group.

We measure the performance of these segments on a cash profit basis. To calculate cash profit, we remove certain non-core items from statutory profit. Details of these items are included in the "Other Items" section of this note. Transactions between business units across segments within ANZ are conducted on an arm's-length basis and disclosed as part of the income and expenses of these segments.

The reportable segments are divisions engaged in providing either different products or services or similar products and services in different geographical areas. They are as follows:

Australia Retail and Commercial

The Australia Retail and Commercial division comprises:

- **Retail** provides products and services to consumer customers in Australia via the branch network, mortgage specialists, contact centres, a variety of self-service channels (internet banking, phone banking, ATMs, website, ANZ share investing and digital banking) and third party brokers in addition to financial planning services provided by salaried financial planners.
- **Commercial** provides a full range of banking products and financial services including asset financing across the following customer segments: medium to large commercial customers and agribusiness customers across regional Australia, small business owners and high net worth individuals and family groups.

Institutional

The Institutional division services governments, global institutional and corporate customers across three product sets: Transaction Banking, Corporate Finance and Markets.

- **Transaction Banking** provides working capital and liquidity solutions including documentary trade, supply chain financing, commodity financing as well as cash management solutions, deposits, payments and clearing.
- **Corporate Finance (previously Loans and Specialised Finance)** provides loan products, loan syndication, specialised loan structuring and execution, project and export finance, debt structuring and acquisition finance and corporate advisory.
- **Markets** provide risk management services on foreign exchange, interest rates, credit, commodities, debt capital markets in addition to managing the Group's interest rate exposure and liquidity position.

New Zealand

The New Zealand division comprises:

- **Retail** provides a full range of banking and wealth management services to consumer, private banking and small business banking customers. We deliver our services via our internet and app-based digital solutions and a network of branches, mortgage specialists, relationship managers and contact centres.
- **Commercial** provides a full range of banking services including traditional relationship banking and sophisticated financial solutions through dedicated managers focusing on privately owned medium to large enterprises, the agricultural business segment, government and government-related entities.

Pacific

The Pacific division provides products and services to retail customers, small to medium-sized enterprises, institutional customers and governments located in the Pacific Islands. Products and services include retail products provided to consumers, traditional relationship banking and sophisticated financial solutions provided to business customers through dedicated managers.

Technology, Services & Operations (TSO) and Group Centre

TSO and Group Centre provide support to the operating divisions, including technology, group operations, shared services, property, risk management, financial management, strategy, marketing, human resources and corporate affairs. The Group Centre includes residual components of Group divestments, Group Treasury, Shareholder Functions and minority investments in Asia.

Refer to Note 29 for further details on Discontinued Operations.

OPERATING SEGMENTS

There have been no methodology or structural changes during the year which have impacted the presentation of the Group's operating segments in the 2020 financial year. As such, the presentation of the divisional results remains consistent with the prior period.

7. SEGMENT REPORTING (continued)

OPERATING SEGMENTS (continued)

Year ended 30 September 2020	Australia Retail and Commercial $m	Institutional $m	New Zealand $m	Pacific $m	TSO and Group Centre $m	Other items[1] $m	Group Total $m
Net interest income	7,916	3,182	2,731	109	111	-	14,049
Net fee and commission income							
- Lending fees	267	288	14	10	-	-	579
- Non-lending fees	1,310	776	586	29	(14)	-	2,687
- Commissions	67	-	54	-	-	-	121
- Funds management income	30	2	243	-	-	-	275
- Fee and commission expense	(588)	(308)	(436)	(5)	-	-	(1,337)
Net income from insurance business	77	-	-	-	1	-	78
Other income	(1)	1,891	12	50	(807)	(115)	1,030
Share of associates' profit	(1)	-	-	-	156	-	155
Other operating income	1,161	2,649	473	84	(664)	(115)	3,588
Operating income	9,077	5,831	3,204	193	(553)	(115)	17,637
Operating expenses	(4,091)	(2,558)	(1,435)	(205)	(1,094)	-	(9,383)
Profit before credit impairment and income tax	4,986	3,273	1,769	(12)	(1,647)	(115)	8,254
Credit impairment (charge)/release	(1,647)	(694)	(345)	(52)	-	-	(2,738)
Profit before income tax	3,339	2,579	1,424	(64)	(1,647)	(115)	5,516
Income tax expense and non-controlling interests	(1,002)	(725)	(407)	2	259	32	(1,841)
Profit after tax from continuing operations	2,337	1,854	1,017	(62)	(1,388)	(83)	3,675
Profit/(Loss) after tax from discontinued operations							(98)
Profit after tax attributable to shareholders							3,577
Includes non-cash items:							
Share of associates' profit	(1)	-	-	-	156	-	155
Impairment of associates[2]	-	-	-	-	(815)	-	(815)
Depreciation and amortisation[3]	(197)	(188)	(103)	(11)	(892)	-	(1,391)
Equity-settled share based payment expenses	(7)	(70)	(7)	(1)	(25)	-	(110)
Credit impairment (charge)/release	(1,647)	(694)	(345)	(52)	-	-	(2,738)

Financial position	Australia Retail and Commercial $m	Institutional $m	New Zealand $m	Pacific $m	TSO and Group Centre $m	Discontinued operations $m	Group Total $m
Goodwill[4]	403	1,068	1,793	-	-	-	3,264
Investments in associates[2]	17	4	-	-	2,143	-	2,164

1. Cash profit represents ANZ's preferred measure of the result of the segments. We remove certain items from the segments as discussed on page 136 if we consider them not integral to the ongoing performance of the segment.
2. During the 2020 financial year, ANZ recognised an $815 million impairment after tax in respect of two of the Group's equity accounted investments to adjust their carrying values in line with their value-in-use calculations. AMMB Holdings Berhad (AmBank) was impaired by $595 million and PT Bank Pan Indonesia (PT Panin) was impaired by $220 million. Refer to Note 26 Investments in Associates for further details.
3. During the 2020 financial year, the Group amended the application of its software amortisation policy to reflect the shorter useful life of software caused by rapidly changing technology and business requirements. As a result of these changes, the Group recognised accelerated amortisation of $197 million during the year (Australia Retail and Commercial $31 million, Institutional $38 million, New Zealand $2 million, TSO and Group Centre $126 million). Refer to Note 20 Goodwill and Other Intangible Assets for further details.
4. During the 2020 financial year, the Group wrote off $50 million of goodwill in the Pacific division and wrote off $27 million of goodwill in the New Zealand division winding up the Bonus Bonds business, a managed investment product in New Zealand. Refer to Note 20 Goodwill and Other Intangible Assets for further details.

7. SEGMENT REPORTING (continued)

OPERATING SEGMENT (continued)

Year ended 30 September 2019	Australia Retail and Commercial $m	Institutional $m	New Zealand $m	Pacific $m	TSO and Group Centre $m	Other items[1] $m	Group Total $m
Net interest income	8,092	3,080	2,736	128	303	-	14,339
Net fee and commission income							
- Lending fees	290	282	16	14	-	-	602
- Non-lending fees	1,499	847	691	42	(20)	-	3,059
- Commissions	75	-	61	-	(12)	-	124
- Funds management income	14	2	243	-	(5)	-	254
- Fee and commission expense	(657)	(338)	(459)	(9)	1	-	(1,462)
Net income from insurance business	100	-	18	-	1	7	126
Other income	27	1,399	6	57	243	(251)	1,481
Share of associates' profit	(1)	-	4	-	259	-	262
Other operating income	1,347	2,192	580	104	467	(244)	4,446
Operating income	9,439	5,272	3,316	232	770	(244)	18,785
Operating expenses	(4,074)	(2,667)	(1,286)	(150)	(894)	-	(9,071)
Profit before credit impairment and income tax	5,365	2,605	2,030	82	(124)	(244)	9,714
Credit impairment (charge)/release	(712)	2	(87)	1	1	1	(794)
Profit before income tax	4,653	2,607	1,943	83	(123)	(243)	8,920
Income tax expense and non-controlling interests	(1,458)	(779)	(544)	(24)	112	69	(2,624)
Profit after tax from continuing operations	3,195	1,828	1,399	59	(11)	(174)	6,296
Profit/(Loss) after tax from discontinued operations							(343)
Profit after tax attributable to shareholders							5,953
Non-cash items							
Share of associates' profit	(1)	-	4	-	259	-	262
Depreciation and amortisation	(176)	(112)	(41)	(7)	(535)	-	(871)
Equity-settled share based payment expenses	(13)	(69)	(4)	(1)	(33)	-	(120)
Credit impairment (charge)/release	(712)	2	(87)	1	1	1	(794)

Financial position	Australia Retail and Commercial $m	Institutional $m	New Zealand $m	Pacific $m	TSO and Group Centre $m	Discontinued operations $m	Group Total $m
Goodwill	410	1,070	1,937	50	-	42	3,509
Investments in associates	17	2	-	-	2,938	-	2,957

1. Cash profit represents ANZ's preferred measure of the result of the segments. We remove certain items from the segments as discussed on page 136 if we consider them not integral to the ongoing performance of the segment.

7. SEGMENT REPORTING (continued)

OTHER ITEMS

The table below sets out the profit after tax impact of other items which are removed from statutory profit to reflect the cash profit of each segment.

		Profit after tax	
Item	Related segment	2020 $m	2019 $m
Revaluation of policy liabilities	New Zealand	-	(77)
Economic hedges	Institutional, New Zealand, TSO and Group Centre	(121)	(118)
Revenue and expense hedges	TSO and Group Centre	36	19
Structured credit intermediation trades	Institutional	2	2
Total from continuing operations		(83)	(174)

SEGMENT INCOME BY PRODUCTS AND SERVICES

The primary sources of our external income across all divisions are interest income and other operating income. The Australia Retail and Commercial, New Zealand, and Pacific divisions derive income from products and services from retail and commercial banking. The Institutional division derives its income from institutional products and market services. No single customer amounts to greater than 10% of the Group's income.

GEOGRAPHICAL INFORMATION

The following table sets out total operating income earned including discontinued operations and assets to be recovered in more than one year based on the geographical regions in which the Group operates.

The reportable segments operate across three geographical regions as follows:

- Australia Retail and Commercial division - Australia
- Institutional division – all three geographical regions
- New Zealand division – New Zealand
- Pacific division – International
- TSO and Group Centre division – all three geographical regions
- Discontinued operations – Australia

The International region includes Asia, Pacific, Europe and Americas.

	Australia		International		New Zealand		Total	
	2020 $m	2019 $m	2020 $m	2019 $m	2020 $m	2019 $m	2020 $m	2019 $m
Total operating income[1]	11,838	12,394	1,975	2,613	3,773	3,947	17,586	18,954
Assets to be recovered in more than one year[2]	362,846	386,062	27,632	48,545	100,377	105,642	490,855	540,249

1. Includes operating income earned from Discontinued operations of -$51 million (2019: $169 million).
2. Consists of investment securities measured at fair value through other comprehensive income and net loans and advances.

FINANCIAL ASSETS

Outlined below is a description of how we classify and measure financial assets relevant to the subsequent note disclosures.

CLASSIFICATION AND MEASUREMENT

Financial assets - general

There are three measurement classifications for financial assets under AASB 9: amortised cost, fair value through profit or loss (FVTPL) and fair value through other comprehensive income (FVOCI). Financial assets are classified into these measurement classifications on the basis of two criteria:

- the business model within which the financial asset is managed; and
- the contractual cash flow characteristics of the financial asset (specifically whether the contractual cash flows represent solely payments of principal and interest).

The resultant financial asset classifications are as follows:

- Amortised cost: Financial assets with contractual cash flows that comprise solely payments of principal and interest and which are held in a business model whose objective is to collect their cash flows;
- FVOCI: Financial assets with contractual cash flows that comprise solely payments of principal and interest and which are held in a business model whose objective is to collect their cash flows or to sell the assets; and
- FVTPL: Any other financial assets not falling into the categories above are measured at FVTPL.

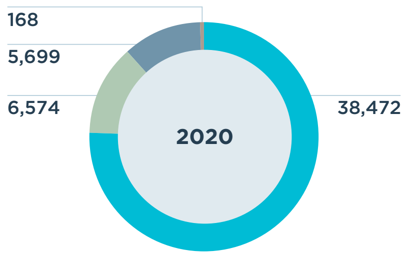
Fair value option for financial assets

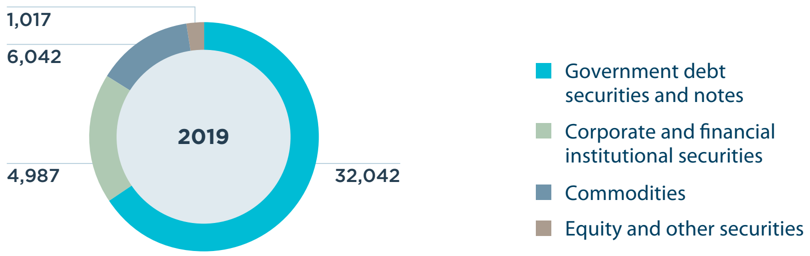
A financial asset may be irrevocably designated at FVTPL on initial recognition when the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

8. CASH AND CASH EQUIVALENTS

	2020 $m	2019 $m
Coins, notes and cash at bank	1,514	1,186
Money at call, bills receivable and remittances in transit	-	3
Securities purchased under agreements to resell in less than 3 months	35,603	25,277
Balances with central banks	46,091	25,681
Settlement balances owed to ANZ within 3 months	24,715	29,474
Cash and cash equivalents	107,923	81,621

9. TRADING SECURITIES





	2020 $m	2019 $m
Government debt securities and notes[1]	38,472	32,042
Corporate and financial institution securities[1]	6,574	4,987
Commodities	5,699	6,042
Equity and other securities[1]	168	1,017
Total	50,913	44,088
Less: Assets reclassified as held for sale (refer to Note 29)	-	(919)
Total	50,913	43,169

1. In 2020, ANZ reclassified trading securities issued by development banks and supra-nationals from Corporate and financial institution securities and Equity and other securities to Government debt securities and notes. Comparative information has been restated accordingly, with $4,865 million reclassified as Government debt securities and notes made up of $4,653 million from Corporate and financial institution securities and $212 million from Equity and other securities.

RECOGNITION AND MEASUREMENT

Trading securities are financial instruments we either:

- acquire principally for the purpose of selling in the short-term; or
- hold as part of a portfolio we manage for short-term profit making.

We recognise purchases and sales of trading securities on trade date:

- initially, we measure them at fair value; and
- subsequently, we measure them in the balance sheet at their fair value with any change in fair value recognised in the profit and loss.

KEY JUDGEMENTS AND ESTIMATES

Judgement is required when applying the valuation techniques used to determine the fair value of trading securities not valued using quoted market prices. Refer to Note 17 Fair Value of Financial Assets and Financial Liabilities for further details.

10. DERIVATIVE FINANCIAL INSTRUMENTS

Fair Value	Assets 2020 $m	Liabilities 2020 $m	Assets 2019 $m	Liabilities 2019 $m
Derivative financial instruments - held for trading	130,097	(130,227)	116,622	(116,778)
Derivative financial instruments - designated in hedging relationships	5,234	(4,484)	4,045	(4,173)
Derivative financial instruments	135,331	(134,711)	120,667	(120,951)

FEATURES

Derivative financial instruments are contracts:

- whose value is derived from an underlying price index (or other variable) defined in the contract - sometimes the value is derived from more than one variable;
- that require little or no initial net investment; and
- that are settled at a future date.

Movements in the price of the underlying variables, which cause the value of the contract to fluctuate, are reflected in the fair value of the derivative.

PURPOSE

The Group's derivative financial instruments have been categorised as following:

Trading	Derivatives held in order to: • meet customer needs for managing their own risks. • manage risks in the Group that are not in a designated hedge accounting relationship (balance sheet management). • undertake market making and positioning activities to generate profits from short-term fluctuations in prices or margins.
Designated in Hedging Relationships	Derivatives designated into hedge accounting relationships in order to minimise profit or loss volatility by matching movements to underlying positions relating to: • hedges of the Group's exposures to interest rate risk and currency risk. • hedges of other exposures relating to non-trading positions.

TYPES

The Group offers and uses four different types of derivative financial instruments:

Forwards	A contract documenting the rate of interest, or the currency exchange rate, to be paid or received on a notional principal amount at a future date.
Futures	An exchange traded contract in which the parties agree to buy or sell an asset in the future for a price agreed on the transaction date, with a net settlement in cash paid on the future date without physical delivery of the asset.
Swaps	A contract in which two parties exchange a series of cash flows for another.
Options	A contract in which the buyer of the contract has the right - but not the obligation - to buy (known as a "call option") or to sell (known as a "put option") an asset or instrument at a set price on a future date. The seller has the corresponding obligation to fulfil the transaction to sell or buy the asset or instrument if the buyer exercises the option.

RISKS MANAGED

The Group offers and uses the instruments described above to manage fluctuations in the following market factors:

Foreign Exchange	Currencies at current or determined rates of exchange.
Interest Rate	Fixed or variable interest rates applying to money lent, deposited or borrowed.
Commodity	Soft commodities (that is, agricultural products such as wheat, coffee, cocoa and sugar) and hard commodities (that is, mined products such as gold, oil and gas).
Credit	Counterparty risk in the event of default.

10. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

DERIVATIVE FINANCIAL INSTRUMENTS – HELD FOR TRADING

The majority of the Group's derivative financial instruments are held for trading. The fair values of derivative financial instruments held for trading are:

Fair Value	Assets 2020 $m	Liabilities 2020 $m	Assets 2019 $m	Liabilities 2019 $m
Interest rate contracts				
Forward rate agreements	86	(86)	74	(78)
Futures contracts	31	(128)	41	(109)
Swap agreements	104,814	(101,277)	82,996	(80,588)
Options purchased	1,676	-	1,454	-
Options sold	-	(2,609)	-	(2,317)
Total	106,607	(104,100)	84,565	(83,092)
Foreign exchange contracts				
Spot and forward contracts	11,815	(11,435)	15,987	(15,359)
Swap agreements	8,703	(12,334)	13,836	(16,235)
Options purchased	372	-	405	-
Options sold	-	(502)	-	(514)
Total	20,890	(24,271)	30,228	(32,108)
Commodity contracts	2,577	(1,834)	1,807	(1,553)
Credit default swaps				
Structured credit derivatives purchased	18	-	16	-
Other credit derivatives purchased	4	(3)	4	(3)
Credit derivatives purchased	22	(3)	20	(3)
Structured credit derivatives sold	-	(18)	-	(19)
Other credit derivatives sold	1	(1)	2	(3)
Credit derivatives sold	1	(19)	2	(22)
Total	23	(22)	22	(25)
Derivative financial instruments - held for trading	130,097	(130,227)	116,622	(116,778)

10. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

DERIVATIVE FINANCIAL INSTRUMENTS – DESIGNATED IN HEDGING RELATIONSHIPS

There are three types of hedge accounting relationships the Group utilises:

	Fair value hedge	Cash flow hedge	Net investment hedge
Objective of this hedging arrangement	To hedge our exposure to changes to the fair value of a recognised asset or liability or unrecognised firm commitment caused by interest rate or foreign currency movements.	To hedge our exposure to variability in cash flows of a recognised asset or liability, a firm commitment or a highly probable forecast transaction caused by interest rate, foreign currency and other price movements.	To hedge our exposure to exchange rate differences arising from the translation of our foreign operations from their functional currency to Australian dollars.
Recognition of effective hedge portion	The following are recognised in profit or loss at the same time: • all changes in the fair value of the underlying item relating to the hedged risk; and • the change in the fair value of the derivatives.	We recognise the effective portion of changes in the fair value of derivatives designated as a cash flow hedge in the cash flow hedge reserve.	We recognise the effective portion of changes in the fair value of the hedging instrument in the foreign currency translation reserve (FCTR).
Recognition of ineffective hedge portion	Recognised immediately in Other operating income.		
If a hedging instrument expires, or is sold, terminated, or exercised; or no longer qualifies for hedge accounting	When we recognise the hedged item in profit or loss, we recognise the related unamortised fair value adjustment in profit or loss. This may occur over time if the hedged item is amortised to profit or loss as part of the effective yield over the period to maturity.	Only when we recognise the hedged item in profit or loss is the amount previously deferred in the cash flow hedge reserve transferred to profit or loss.	The amount we defer in the foreign currency translation reserve remains in equity and is transferred to profit or loss only when we dispose of, or partially dispose of, the foreign operation.
Hedged item sold or repaid	We recognise the unamortised fair value adjustment immediately in profit or loss.	Amounts accumulated in equity are transferred immediately to profit or loss.	The gain or loss, or applicable proportion, we have recognised in equity is transferred to profit or loss on disposal or partial disposal of a foreign operation.

10. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Under the policy choice provided by AASB 9 *Financial Instruments*, the Group has continued to apply the hedge accounting requirements of AASB 139 *Financial Instruments: Recognition and Measurement.*

The fair value of derivative financial instruments designated in hedging relationships are:

	2020			2019		
	Nominal amount $m	Assets $m	Liabilities $m	Nominal amount $m	Assets $m	Liabilities $m
Fair value hedges						
Foreign exchange swap agreements	-	-	-	21	1	-
Foreign exchange spot and forward contracts	558	-	(9)	581	-	(9)
Interest rate swap agreements	105,249	2,871	(3,532)	108,243	2,093	(3,155)
Interest rate futures contracts	9,380	-	(103)	3,139	-	(27)
Cash flow hedges						
Interest rate swap agreements	97,170	2,233	(769)	84,365	1,876	(832)
Foreign exchange swap agreements	2,943	63	(54)	2,934	75	(91)
Foreign exchange spot and forward contracts	153	-	-	159	-	(1)
Net investment hedges						
Foreign exchange spot and forward contracts	1,269	67	(17)	1,484	-	(58)
Derivative financial instruments - designated in hedging relationships	216,722	5,234	(4,484)	200,926	4,045	(4,173)

The maturity profile of the nominal amounts of our hedging instruments held at 30 September 2020 is:

Nominal Amount		Average Rate	Less than 3 months $m	3 to 12 months $m	1 to 5 years $m	After 5 years $m	Total $m
Fair value hedges							
Interest rate	Interest Rate	1.47%	3,548	12,736	69,836	28,509	114,629
Foreign exchange	HKD/AUD FX Rate	5.59	558	-	-	-	558
Cash flow hedges							
Interest rate	Interest Rate	1.72%	9,062	30,364	55,549	2,195	97,170
Foreign exchange[1]	AUD/USD FX Rate USD/EUR FX Rate	0.72 0.91	38	613	1,157	1,288	3,096
Net investment hedges							
Foreign exchange	TWD/AUD FX Rate THB/AUD FX Rate	20.29 21.63	591	678	-	-	1,269

1. Hedges of foreign exchange risk cover multiple currency pairs. The table reflects the larger currency pairs only.

10. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The maturity profile of the nominal amounts of our hedging instruments held at 30 September 2019 is:

Nominal Amount		Average Rate	Less than 3 months $m	3 to 12 months $m	1 to 5 years $m	After 5 years $m	Total $m
Fair value hedges							
Interest rate	Interest Rate	1.95%	3,195	18,407	63,873	25,907	111,382
Foreign exchange	HKD/AUD FX Rate	5.38	602	-	-	-	602
Cash flow hedges							
Interest rate	Interest Rate	2.15%	1,088	14,040	66,880	2,357	84,365
Foreign exchange[1]	AUD/USD FX Rate USD/EUR FX Rate	0.72 0.91	40	120	1,652	1,281	3,093
Net investment hedges							
Foreign exchange	TWD/AUD FX Rate THB/AUD FX Rate	21.41 21.77	474	1,010	-	-	1,484

1. Hedges of foreign exchange risk cover multiple currency pairs. The table reflects the larger currency pairs only.

The impact of ineffectiveness from our designated hedge relationships by type of hedge relationship and type of risk being hedged are:

	Ineffectiveness			
2020	Change in value of hedging instrument $m	Change in value of hedged item $m	Hedge ineffectiveness recognised in profit and loss $m	Amount reclassified from the cash flow hedge reserve or FCTR to profit and loss $m
Fair value hedges[1]				
Interest rate	372	(358)	14	-
Foreign exchange	23	(23)	-	-
Cash flow hedges[1]				
Interest rate	451	(449)	2	10
Foreign exchange	(15)	15	-	(2)
Net investment hedges[1]				
Foreign exchange	94	(94)	-	(15)

	Ineffectiveness			
2019	Change in value of hedging instrument $m	Change in value of hedged item $m	Hedge ineffectiveness recognised in profit and loss $m	Amount reclassified from the cash flow hedge reserve or FCTR to profit and loss $m
Fair value hedges[1]				
Interest rate	586	(582)	4	-
Foreign exchange	(36)	36	-	-
Cash flow hedges[1]				
Interest rate	836	(825)	11	14
Foreign exchange	20	(20)	-	2
Net investment hedges[1]				
Foreign exchange	(144)	144	-	-

1. All hedging instruments are held within Derivative Financial Instruments.

Hedge ineffectiveness recognised is classified within Other operating income. Reclassification adjustments to the Statement of Comprehensive Income are recognised within Net interest income and Other operating income.

10. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Hedged items in relation to the Group's fair value hedges as at 30 September 2020 are as follows:

	Balance sheet presentation	Hedged risk	Carrying amount Assets $m	Carrying amount Liabilities $m	Accumulated fair value hedge adjustments on the hedged item Assets $m	Accumulated fair value hedge adjustments on the hedged item Liabilities $m
Fixed rate loans and advances	Net loans and advances	Interest rate	7,375	-	52	-
Fixed rate debt issuance	Debt issuances	Interest rate	-	(61,355)	-	(2,518)
Fixed rate investment securities (FVOCI)[1]	Investment securities	Interest rate	55,233	-	2,256	-
Equity securities at FVOCI[1]	Investment securities	Foreign exchange	558	-	29	-
Total			63,166	(61,355)	2,337	(2,518)

Hedged items in relation to the Group's fair value hedges for 30 September 2019 are as follows:

	Balance sheet presentation	Hedged risk	Carrying amount Assets $m	Carrying amount Liabilities $m	Accumulated fair value hedge adjustments on the hedged item Assets $m	Accumulated fair value hedge adjustments on the hedged item Liabilities $m
Fixed rate loans and advances	Net loans and advances	Interest rate	2,281	-	17	-
Fixed rate debt issuance	Debt issuances	Interest rate	-	(67,555)	-	(1,749)
Fixed rate investment securities (FVOCI)[1]	Investment securities	Interest rate	47,641	-	1,907	-
Equity securities at FVOCI[1]	Investment securities	Foreign exchange	581	-	52	-
Total			50,503	(67,555)	1,976	(1,749)

1. The carrying amount of debt and equity instruments at fair value through other comprehensive income does not include the fair value hedge adjustment since accounting for the hedge relationship results in the transfer of the hedge adjustment out of other comprehensive income into the Income Statement to match the profit or loss on the hedging instrument.

The cumulative amount of fair value hedge adjustments relating to ceased hedge relationships remaining on the Balance Sheet is $nil (2019: $8 million).

10. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Hedged items in relation to the Group's cash flow and net investment hedges as at 30 September 2020 are as follows:

		Cash flow hedge reserve		Foreign currency translation reserve	
	Hedged risk	Continuing hedges $m	Discontinued hedges $m	Continuing hedges $m	Discontinued hedges $m
Cash flow hedges					
Floating rate loans and advances	Interest rate	2,013	38	-	-
Floating rate customer deposits	Interest rate	(562)	(18)	-	-
Foreign currency debt issuance	Foreign exchange	(2)	-	-	-
Foreign currency investment securities	Foreign exchange	10	-	-	-
Highly probable forecast transactions	Foreign exchange	(1)	-	-	-
Net investment hedges					
Foreign operations	Foreign exchange	-	-	(80)	(149)

Hedged items in relation to the Group's cash flow and net investment hedges as at 30 September 2019 are as follows:

		Cash flow hedge reserve		Foreign currency translation reserve	
	Hedged risk	Continuing hedges $m	Discontinued hedges $m	Continuing hedges $m	Discontinued hedges $m
Cash flow hedges					
Floating rate loans and advances	Interest rate	1,587	41	-	-
Floating rate customer deposits	Interest rate	(577)	(32)	-	-
Foreign currency debt issuance	Foreign exchange	14		-	-
Foreign currency investment securities	Foreign exchange	6	-	-	-
Highly probable forecast transactions	Foreign exchange	3	-	-	-
Net investment hedges					
Foreign operations	Foreign exchange	-	-	(159)	(149)

The table below details the reconciliation of the cash flow hedge reserve by risk type:

	Interest rate $m	Foreign currency $m	Total $m
Balance at 1 October 2018	128	(1)	127
Fair value gains	825	20	845
Transferred to income statement	14	2	16
Income taxes and others	(251)	(6)	(257)
Balance at 30 September 2019	716	15	731
Fair value gains	449	(15)	434
Transferred to income statement	10	(2)	8
Income taxes and others	(141)	6	(135)
Balance at 30 September 2020	1,034	4	1,038

Hedges from net investments in a foreign operation resulted in a $94 million increase in FCTR during the year (2019: -$144 million). Of that, $15 million (2019: nil) was reclassified from FCTR to the income statement during the year.

10. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

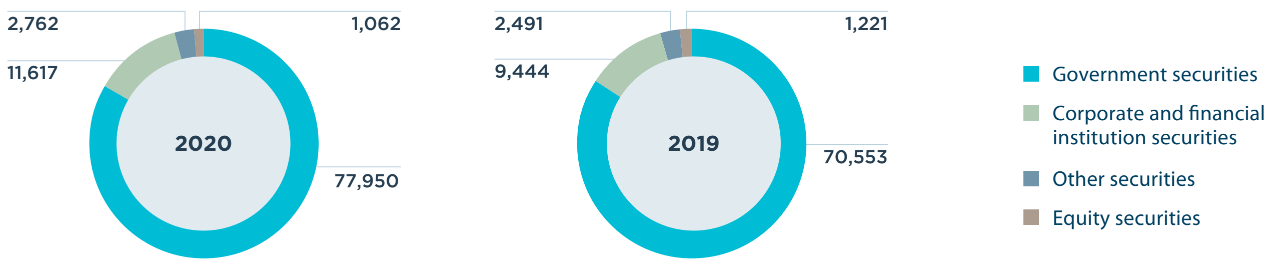
RECOGNITION AND MEASUREMENT

Recognition	Initially and at each reporting date, we recognise all derivatives at fair value. If the fair value of a derivative is positive, then we carry it as an asset, but if its value is negative, then we carry it as a liability. Valuation adjustments are integral in determining the fair value of derivatives. This includes: • a credit valuation adjustment (CVA) to reflect the counterparty risk and/or event of default; and • a funding valuation adjustment (FVA) to account for funding costs and benefits in the derivatives portfolio.
Derecognition of assets and liabilities	We remove derivative assets from our balance sheet when the contracts expire or we have transferred substantially all the risks and rewards of ownership. We remove derivative liabilities from our balance sheet when the Group's contractual obligations are discharged, cancelled or expired.
Impact on the Income Statement	How we recognise gains or losses on derivative financial instruments depends on whether the derivative is held for trading or is designated in a hedging relationship. For derivative financial instruments held for trading, gains or losses from changes in the fair value are recognised in profit or loss. For an instrument designated in a hedging relationship, the recognition of gains or losses depends on the nature of the item being hedged. Refer to the previous table on page 141 for profit or loss treatment depending on the hedge type. Sources of hedge ineffectiveness may arise from basis risk and differences in discounting between the hedged items and the hedging instruments. The hedging instruments are discounted using Overnight Index Swaps discount curves which are not applied to the hedged items.
Hedge effectiveness	To qualify for hedge accounting, a hedge is expected to be highly effective. A hedge is highly effective only if the following conditions are met: • the hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated (prospective effectiveness); and • the actual results of the hedge are within the range of 80-125% (retrospective effectiveness). The Group monitors hedge effectiveness on a regular basis but at a minimum at least at each reporting date.

KEY JUDGEMENTS AND ESTIMATES

Judgement is required when we select the valuation techniques used to determine the fair value of derivatives, particularly the selection of valuation inputs that are not readily observable, and the application of valuation adjustments to certain derivatives. Refer to Note 17 Fair Value of Financial Assets and Financial Liabilities for further details.

11. INVESTMENT SECURITIES



	2020 $m	2019 $m
Investment securities measured at fair value through other comprehensive income		
Debt securities	85,460	76,489
Equity securities	1,062	1,221
Investment securities measured at amortised cost		
Debt securities[1]	6,816	5,999
Investment Securities measured at fair value through profit or loss		
Debt securities	53	-
Total	93,391	83,709

2020 Investment securities	Less than 3 months $m	3 to 12 months $m	1 to 5 years $m	After 5 years $m	No maturity $m	Total $m
Government securities[2]	7,175	14,436	37,656	18,683	-	77,950
Corporate and financial institution securities[2]	701	2,698	8,128	90	-	11,617
Other securities[2]	-	-	532	2,230	-	2,762
Equity securities	-	-	-	-	1,062	1,062
Total	7,876	17,134	46,316	21,003	1,062	93,391
2019 Investment securities						
Government securities[2]	7,617	15,731	34,236	12,969	-	70,553
Corporate and financial institution securities[2]	431	1,653	7,339	21	-	9,444
Other securities[2]	-	-	773	1,718	-	2,491
Equity securities	-	-	-	-	1,221	1,221
Total	8,048	17,384	42,348	14,708	1,221	83,709

1. Includes allowance for expected credit losses of $20 million (2019: $13 million).
2. In 2020, ANZ reclassified investment securities issued by development banks and supra-nationals from Corporate and financial institution securities to Government securities. Comparative information has been restated accordingly, with $10,894 million reclassified as Government securities from Corporate and financial institution securities. In addition, ANZ reclassified certain investment securities from Government securities to Other securities and comparative information was restated with $577 million reclassified.

11. INVESTMENT SECURITIES (continued)

During the year, the Group recognised a net gain (before tax) in Other operating income from the recycling of gains/losses previously deferred in equity of $23 million (2019: $240 million) in respect of investment securities.

The carrying value of equity securities at FVOCI is $1,062 million (2019: $1,221 million). This includes the Group's $934 million (2019: $1,106 million) investment in the Bank of Tianjin (BoT).

RECOGNITION AND MEASUREMENT

Investment securities are those financial assets in security form (that is, transferable debt or equity instruments) that are not held for trading purposes. By way of exception, bills of exchange (a form of security/transferable instrument) which are used to facilitate the Group's customer lending activities are classified as Loans and advances (rather than Investment securities) to better reflect the substance of the arrangement.

Non-traded equity investments may be designated at FVOCI on an instrument by instrument basis. If this election is made, gains or losses are not reclassified from other comprehensive income to profit or loss on disposal of the investment. However, gains or losses may be reclassified within equity.

Assets disclosed as Investment securities are subject to the general classification and measurement policy for Financial Assets outlined at the commencement of the Group's financial asset disclosures on page 137. Additionally, expected credit losses associated with "Investment securities - debt securities at amortised cost" and "Investment securities - debt securities at fair value through other comprehensive income" are recognised and measured in accordance with the accounting policy outlined in Note 13. For "Investment securities – debt securities at fair value through other comprehensive income" the allowance for Expected Credit Loss (ECL) is recognised in the FVOCI reserve in equity with a corresponding charge to profit or loss.

KEY JUDGEMENTS AND ESTIMATES

Judgement is required when we select valuation techniques used to determine the fair value of assets not valued using quoted market prices, particularly the selection of valuation inputs that are not readily observable. Refer to Note 17 Fair Value of Financial Assets and Financial Liabilities for further details.

12. NET LOANS AND ADVANCES

The following table provides details of net loans and advances for the Group:

	2020 $m	2019 $m
Overdrafts	5,214	7,267
Credit cards	7,194	9,241
Commercial bills	6,383	6,159
Term loans – housing	358,350	343,808
Term loans – non-housing	241,725	248,337
Other	2,406	3,483
Subtotal	621,272	618,295
Unearned income	(66)	(398)
Capitalised brokerage/mortgage origination fees	868	870
Gross loans and advances	622,074	618,767
Allowance for expected credit losses (refer to Note 13)	(4,981)	(3,509)
Net loans and advances	617,093	615,258
Residual contractual maturity:		
Within one year	126,238	133,273
More than one year	490,855	481,985
Net loans and advances	617,093	615,258
Carried on Balance Sheet at:		
Amortised cost	613,155	614,336
Fair value through profit or loss[1]	3,938	922
Net loans and advances	617,093	615,258

1. From 1 October 2019, the Group changed its accounting treatment for certain gold loan and deposit products which are now designated as at fair value through the profit and loss.

RECOGNITION AND MEASUREMENT

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are facilities the Group provides directly to customers or through third party channels.

Loans and advances are initially recognised at fair value plus transaction costs directly attributable to the issue of the loan or advance, which are primarily brokerage/mortgage origination fees which we amortise over the estimated life of the loan. Subsequently, we then measure loans and advances at amortised cost using the effective interest rate method, net of any provision for credit impairment, or at fair value when they are specifically designated on initial recognition as fair value through profit or loss or when held for trading.

We classify contracts to lease assets and hire purchase agreements as finance leases if they transfer substantially all the risks and rewards of ownership of the asset to the customer or an unrelated third party. We include these facilities in 'Other' in the table above.

The Group enters into transactions in which it transfers financial assets that are recognised on its balance sheet. When the Group retains substantially all of the risks and rewards of the transferred assets, the transferred assets remain on the Group's balance sheet, however if substantially all the risks and rewards are transferred, the Group derecognises the asset.

If the risks and rewards are partially retained and control over the asset is lost, the Group derecognises the asset. If control over the asset is not lost, the Group continues to recognise the asset to the extent of its continuing involvement.

We separately recognise the rights and obligations retained, or created, in the transfer of assets and liabilities as appropriate.

Assets disclosed as net loans and advances are subject to the general classification and measurement policy for financial assets outlined on page 137. Additionally, expected credit losses associated with loans and advances at amortised cost are recognised and measured in accordance with the accounting policy outlined in Note 13.

13. ALLOWANCE FOR EXPECTED CREDIT LOSSES

The following tables present the movement in the allowance for ECL (2019 includes allowance for ECL reclassified as held for sale) for the year. The total allowance for ECL at 30 September 2020 was $5,899 million (30 September 2019: $4,190 million).

Net loans and advances - at amortised cost

Allowance for ECL is included in Net loans and advances.

	Stage 1 $m	Stage 2 $m	Stage 3[1] Collectively assessed $m	Stage 3[1] Individually assessed $m	Total $m
As at 1 October 2018	**920**	**1,391**	**359**	**894**	**3,564**
Transfer between stages	166	(308)	(91)	233	-
New and increased provisions (net of releases)	(168)	291	147	1,139	1,409
Write-backs	-	-	-	(382)	(382)
Bad debts written off (excluding recoveries)	-	-	-	(1,076)	(1,076)
Foreign currency translation and other movements[2]	9	4	(2)	(17)	(6)
As at 30 September 2019	**927**	**1,378**	**413**	**791**	**3,509**
Transfer between stages	200	(308)	(112)	220	-
New and increased provisions (net of releases)	110	1,428	162	1,324	3,024
Write-backs	-	-	-	(321)	(321)
Bad debts written off (excluding recoveries)	-	-	-	(1,109)	(1,109)
Foreign currency translation and other movements[2]	(33)	(33)	(2)	(54)	(122)
As at 30 September 2020	**1,204**	**2,465**	**461**	**851**	**4,981**

1. The Group's credit exposures that are purchased or originated credit-impaired financial assets are insignificant.
2. Other movements include the impacts of divestments completed during the year and the impact of discount unwind on individually assessed allowance for ECL.

Investment securities - debt securities at amortised cost

Allowance for ECL is included in Investment securities.

	Stage 1 $m	Stage 2 $m	Stage 3 Collectively assessed $m	Stage 3 Individually assessed $m	Total $m
As at 1 October 2018	**9**	**2**	**-**	**-**	**11**
New and increased provisions (net of releases)	2	(1)	-	-	1
Foreign currency translation	1	-	-	-	1
As at 30 September 2019	**12**	**1**	**-**	**-**	**13**
New and increased provisions (net of releases)	10	(1)	-	-	9
Foreign currency translation	(2)	-	-	-	(2)
As at 30 September 2020	**20**	**-**	**-**	**-**	**20**

13. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)

Investment securities - debt securities at FVOCI

As FVOCI assets are measured at fair value, there is no separate allowance for ECL. Instead, the allowance for ECL is recognised in Other Comprehensive Income (OCI) with a corresponding charge to profit or loss.

			Stage 3		
	Stage 1 $m	Stage 2 $m	Collectively assessed $m	Individually assessed $m	Total $m
As at 1 October 2018	14	-	-	-	14
New and increased provisions (net of releases)	(2)	-	-	-	(2)
Foreign currency translation and other movements[1]	(4)	-	-	-	(4)
As at 30 September 2019	8	-	-	-	8
New and increased provisions (net of releases)	2	-	-	-	2
Foreign currency translation	-	-	-	-	-
As at 30 September 2020	10	-	-	-	10

1. Other movements includes the impacts of divestments completed in 2019.

Off-balance sheet commitments - undrawn and contingent facilities

Allowance for ECL is included in Other provisions.

			Stage 3[1]		
	Stage 1 $m	Stage 2 $m	Collectively assessed $m	Individually assessed $m	Total $m
As at 1 October 2018	474	166	15	26	681
Transfer between stages	27	(29)	-	2	-
New and increased provisions (net of releases)	(36)	12	6	-	(18)
Write-backs	-	-	-	(3)	(3)
Foreign currency translation and other movements[2]	8	2	-	(2)	8
As at 30 September 2019	473	151	21	23	668
Transfer between stages	18	(24)	(1)	7	-
New and increased provisions (net of releases)	115	115	3	24	257
Write-backs	-	-	-	(14)	(14)
Foreign currency translation and other movements[2]	(10)	(3)	-	-	(13)
As at 30 September 2020	596	239	23	40	898

1. The Group's credit exposures that are purchased or originated credit-impaired financial assets are insignificant.
2. Other movements includes the impacts of divestments completed during the year.

13. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)

CREDIT IMPAIRMENT CHARGE - INCOME STATEMENT

Credit impairment charge/(release) analysis

	2020 $m	2019 $m
New and increased provisions (net of releases)[1]		
- Collectively assessed	1,717	16
- Individually assessed	1,575	1,374
Write-backs	(335)	(385)
Recoveries of amounts previously written-off	(219)	(212)
Total credit impairment charge	2,738	793
Less: credit impairment charge/(release) from discontinued operations	-	(1)
Total credit impairment charge	2,738	794

1. Includes the impact of transfers between collectively assessed and individually assessed.

The contractual amount outstanding on financial assets that were written off during the period ended 30 September 2020 and that are still subject to enforcement activity is $340 million (2019: $212 million).

COVID-19 REPAYMENT DEFERRAL PACKAGES OFFERED TO CUSTOMERS[1]

Since March 2020, the Group has offered various forms of assistance to customers to counteract the impact of COVID-19 on the ability of customers to meet their loan obligations. The assistance provided has included arrangements such as temporary deferral of principal and interest repayments, replacing principal and interest with interest only repayments, and extension of loan maturity dates. Refer to Key Judgements and Estimates in this Note for details of the impact of deferrals when determining if there has been a Significant Increase in Credit Risk (SICR).

The loan repayment deferral package is considered to be a loan modification under AASB 9. This either results in the loan being derecognised and replaced with a new loan (substantial modification) or the existing loan continuing to be recognised (non-substantial modification). The table below shows the outstanding balance as at 30 September 2020 of all loans that have been modified (both substantial and non-substantial modifications):

Assistance package category	Total loan outstanding At 30 September 2020 $m
Loan deferral package	
Retail	29,822
Commercial and other	9,182
Interest only	
Retail	2,413
Commercial and other	527
Term extensions	
Retail	614
Commercial and other	90
Total[2]	42,648
Retail	32,849
Commercial and other	9,799
Total[2]	42,648

1. COVID-19 loan deferral packages are available to customers if either their loan repayments are less than 30 days past due, or if their repayments are less than 90 days past due but were up to date at 1 March 2020.
2. The gross carrying amount of loans at the date of modification that were considered non-substantial modifications and had loss allowances based on lifetime expected losses was $9,917 million. No gain or loss was recognised as a result of the modification and none of the loans have subsequently changed to a 12 month expected loss allowance.

13. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)

RECOGNITION AND MEASUREMENT

EXPECTED CREDIT LOSS IMPAIRMENT MODEL

The measurement of expected credit losses reflects an unbiased, probability weighted prediction which evaluates a range of scenarios and takes into account the time value of money, past events, current conditions and forecasts of future economic conditions.

Expected credit losses are either measured over 12 months or the expected lifetime of the financial asset, depending on credit deterioration since origination, according to the following three-stage approach:

- Stage 1: At the origination of a financial asset, and where there has not been a Significant Increase in Credit Risk (SICR) since origination, an allowance equivalent to 12 months ECL is recognised reflecting the expected credit losses resulting from default events that are possible within the next 12 months from the reporting date. For instruments with a remaining maturity of less than 12 months, expected credit losses are estimated based on default events that are possible over the remaining time to maturity.
- Stage 2: Where there has been a SICR since origination, an allowance equivalent to lifetime ECL is recognised reflecting expected credit losses resulting from all possible default events over the expected life of a financial instrument. If credit risk were to improve in a subsequent period such that the increase in credit risk since origination is no longer considered significant, the exposure returns to a Stage 1 classification and a 12 month ECL applies.
- Stage 3: Where there is objective evidence of impairment, an allowance equivalent to lifetime ECL is recognised.

Expected credit losses are estimated on a collective basis for exposures in Stage 1 and Stage 2, and on either a collective or individual basis when transferred to Stage 3.

MEASUREMENT OF EXPECTED CREDIT LOSS

ECL is calculated as the product of the following credit risk factors at a facility level, discounted to incorporate the time value of money:

- Probability of default (PD) - the estimate of the likelihood that a borrower will default over a given period;
- Exposure at default (EAD) - the expected balance sheet exposure at default taking into account repayments of principal and interest, expected additional drawdowns and accrued interest; and
- Loss given default (LGD) - the expected loss in the event of the borrower defaulting, expressed as a percentage of the facility's EAD, taking into account direct and indirect recovery costs.

These credit risk factors are adjusted for current and forward-looking information through the use of macro-economic variables.

EXPECTED LIFE

When estimating ECL for exposures in Stage 2 and 3, the Group considers the expected lifetime over which it is exposed to credit risk.

For non-retail portfolios, the Group uses the maximum contractual period as the expected lifetime for non-revolving credit facilities. For non-retail revolving credit facilities, such as corporate lines of credit, the expected life reflects the Group's contractual right to withdraw a facility as part of a contractually agreed annual review, after taking into account the applicable notice period.

For retail portfolios, the expected lifetime is determined using a behavioural term, taking into account expected prepayment behaviour and substantial modifications.

DEFINITION OF DEFAULT, CREDIT IMPAIRED AND WRITE-OFFS

The definition of default used in measuring expected credit losses is aligned to the definition used for internal credit risk management purposes across all portfolios. This definition is also in line with the regulatory definition of default. Default occurs when there are indicators that a debtor is unlikely to fully satisfy contractual credit obligations to the Group, or the exposure is 90 days past due.

Financial assets, including those that are well secured, are considered credit impaired for financial reporting purposes when they default.

When there is no realistic probability of recovery, loans are written off against the related impairment allowance on completion of the Group's internal processes and when all reasonably expected recoveries have been collected. In subsequent periods, any recoveries of amounts previously written-off are credited to credit impairment charge in the income statement.

13. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)

RECOGNITION AND MEASUREMENT

MODIFIED FINANCIAL ASSETS

If the terms of a financial asset are modified or an existing financial asset is replaced with a new one for either credit or commercial reasons, an assessment is made to determine if the changes to the terms of the existing financial asset are considered substantial. This assessment considers both changes in cash flows arising from the modified terms as well as changes in the overall instrument risk profile; for example, changes in the principal (credit limit), term, or type of underlying collateral. Where a modification is considered non-substantial, the existing financial asset is not derecognised and its date of origination continues to be used to determine SICR. Where a modification is considered substantial, the existing financial asset is derecognised and a new financial asset is recognised at its fair value on the modification date, which also becomes the date of origination used to determine SICR for this new asset.

SIGNIFICANT INCREASE IN CREDIT RISK (SICR)

Stage 2 assets are those that have experienced a Significant Increase in Credit Risk (SICR) since origination. In determining what constitutes a SICR, the Group considers both qualitative and quantitative information:

i. Internal credit rating grade

For the majority of portfolios, the primary indicator of a SICR is a significant deterioration in the internal credit rating grade of a facility since origination and is measured by application of thresholds.

For non-retail portfolios, a SICR is determined by comparing the Customer Credit Rating (CCR) applicable to a facility at reporting date to the CCR at origination of that facility. A CCR is assigned to each borrower which reflects the probability of default of the borrower and incorporates both borrower and non-borrower specific information, including forward-looking information. CCRs are subject to review at least annually or more frequently when an event occurs which could affect the credit risk of the customer.

For retail portfolios, a SICR is determined, depending on the type of facility, by either comparing the scenario weighted lifetime probability of default at the reporting date to that at origination, or by reference to customer behavioural score thresholds. The scenario weighted lifetime probability of default may increase significantly if:

- there has been a deterioration in the economic outlook, or an increase in economic uncertainty; or
- there has been a deterioration in the customer's overall credit position, or ability to manage their credit obligations.

ii. Backstop criteria

The Group uses 30 days past due arrears as a backstop criteria for both non-retail and retail portfolios. For retail portfolios only, facilities are required to demonstrate three to six months of good payment behaviour prior to being allocated back to Stage 1.

iii. COVID-19 initiatives

For facilities subject to the COVID-19 repayment deferral arrangements noted above, an assessment of SICR has been determined based on various measures of the customer's current financial position and earnings capacity from which the facilities are categorised into risk categories. SICR is then determined based on the resulting risk categorisation. Customers in higher risk categories, and those who have requested a deferral extension are classified as having a SICR.

FORWARD-LOOKING INFORMATION

Forward-looking information is incorporated into both our assessment of whether a financial asset has experienced a Significant Increase in Credit Risk (SICR) since its initial recognition and in our estimate of ECL. In applying forward-looking information for estimating ECL, the Group considers four probability-weighted forecast economic scenarios as follows:

i. Base case scenario

The base case scenario is ANZ's view of the most likely future macro-economic conditions. It reflects management's assumptions used for strategic planning and budgeting, and also informs the Group Internal Capital Adequacy Assessment Process (ICAAP) which is the process the Group applies in strategic and capital planning over a 3-year time horizon;

ii. Upside and iii. Downside scenarios

The upside and downside scenarios are fixed by reference to average economic cycle conditions (that is, they are not based on the economic conditions prevailing at balance date) and are based on a combination of more optimistic (in the case of the upside) and pessimistic (in the case of the downside) economic events and uncertainty over long term horizons; and

iv. Severe downside scenario

The severe downside scenario is fixed by reference to average economic cycle conditions and accounts for the potentially severe impact of less likely extremely adverse economic conditions. It reflects macro-economic conditions of a downturn economic event with a probability of occurrence once every 25 years.

13. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)

RECOGNITION AND MEASUREMENT (continued)

FORWARD-LOOKING INFORMATION (continued)

The four scenarios are described in terms of macro-economic variables used in the PD, LGD and EAD models (collectively the ECL models) depending on the portfolio and country of the borrower. Examples of the variables include unemployment rates, GDP growth rates, house price indices, commercial property price indices and consumer price indices.

Probability weighting of each scenario is determined by management considering the risks and uncertainties surrounding the base case economic scenario, as well as specific portfolio considerations where required. The Group Asset and Liability Committee (GALCO) is responsible for reviewing and approving the base case economic forecast scenario and the Credit and Market Risk Committee (CMRC) approves the probability weights applied to each scenario.

Where applicable, temporary adjustments may be made to account for situations where known or expected risks have not been adequately addressed in the modelling process. CMRC is responsible for approving such adjustments.

KEY JUDGEMENTS AND ESTIMATES

In estimating collectively assessed ECL, the Group makes judgements and assumptions in relation to:

- the selection of an estimation technique or modelling methodology, noting that the modelling of the Group's ECL estimates are complex; and
- the selection of inputs for those models, and the interdependencies between those inputs.

The following table summarises the key judgements and assumptions in relation to the ECL model inputs and the interdependencies between those inputs, and highlights significant changes during the current period.

The judgements and associated assumptions have been made within the context of the impact of COVID-19, and reflect historical experience and other factors that are considered to be relevant, including expectations of future events that are believed to be reasonable under the circumstances. In relation to COVID-19, judgements and assumptions include the extent and duration of the pandemic, the impacts of actions of governments and other authorities, and the responses of businesses and consumers in different industries, along with the associated impact on the global economy. Accordingly, the Group's ECL estimates are inherently uncertain and, as a result, actual results may differ from these estimates.

Judgement/Assumption	Description	Considerations for the year ended 30 September 2020
Determining when a Significant Increase in Credit Risk (SICR) has occurred	In the measurement of ECL, judgement is involved in setting the rules and trigger points to determine whether there has been a SICR since initial recognition of a loan, which would result in the financial asset moving from 'Stage 1' to 'Stage 2'. This is a key area of judgement since transition from Stage 1 to Stage 2 increases the ECL from an allowance based on the probability of default in the next 12 months, to an allowance for lifetime expected credit losses. Subsequent decreases in credit risk resulting in transition from Stage 2 to Stage 1 may similarly result in significant changes in the ECL allowance. The setting of precise trigger points requires judgement which may have a material impact upon the size of the ECL allowance. The Group monitors the effectiveness of SICR criteria on an ongoing basis.	In response to the impacts of COVID-19, various packages, such as repayment deferrals, have been offered to eligible retail and commercial customers in Australia and New Zealand. The Group does not consider that when a customer is first provided assistance, all other things being equal, that there has been a Significant Increase in Credit Risk (SICR) and a consequent impact on ECL when assessing provisions. Subsequent to take-up, customers have been contacted to discuss available options once the packages reach their end date. This additional information on the customer's financial position and ability to recommence their loan repayments is used to assist in classification of customers into risk categories. Customers in higher risk categories, and those who have requested a deferral extension, have been classified as having a SICR.

13. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)

KEY JUDGEMENTS AND ESTIMATES (continued)

Judgement/Assumption	Description	Considerations for the year ended 30 September 2020
Measuring both 12-month and lifetime credit losses	The probability of default (PD), loss given default (LGD) and exposure at default (EAD) credit risk parameters used in determining ECL are point-in-time measures reflecting the relevant forward-looking information determined by management. Judgement is involved in determining which forward-looking information variables are relevant for particular lending portfolios and for determining each portfolio's point-in-time sensitivity.	The PD, EAD and LGD models are subject to the Group's model risk policy that stipulates periodic model monitoring, periodic re-validation and defines approval procedures and authorities according to model materiality. There were no material changes to the policies during the year ended 30 September 2020.
	In addition, judgement is required where behavioural characteristics are applied in estimating the lifetime of a facility to be used in measuring ECL.	There were no changes to behavioural lifetime estimates during the year ended 30 September 2020.
Base case economic forecast	The Group derives a forward-looking "base case" economic scenario which reflects ANZ's view of the most likely future macro-economic conditions.	There have been no changes to the types of forward-looking variables (key economic drivers) used as model inputs in the current year. As at 30 September 2020, the base case assumptions have been updated to reflect the rapidly evolving situation with respect to COVID-19. This includes an assessment of the impact of central bank policies, governments' actions, the response of business, and institution specific responses (such as repayment deferrals). These are considered in determining the length and severity of the forecast economic downturn. The expected outcomes of key economic drivers for the base case scenario as at 30 September 2020 are described below under the heading "Base case economic forecast assumptions".
Probability weighting of each economic scenario (base case, upside, downside and severe downside scenarios)[1,2]	Probability weighting of each economic scenario is determined by management considering the risks and uncertainties surrounding the base case economic scenario at each measurement date.	The key consideration for probability weightings in the current period is the continuing impact of COVID-19. The Group considers these weightings in each geography to provide the best estimate of the possible loss outcomes and has analysed inter-relationships and correlations (over both the short and long term) within the Group's credit portfolios in determining them. In addition to the base case forecast which reflects the negative economic consequences of COVID-19, greater weighting has been applied to the downside scenario given the Group's assessment of downside risks. The assigned probability weightings in Australia, New Zealand and Rest of world are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected.

1. The upside and downside scenarios are fixed by reference to average economic cycle conditions (that is, they are not based on the economic conditions prevailing at balance date) and are based on a combination of more optimistic (in the case of the upside) and pessimistic (in the case of the downside) economic conditions.
2. The severe downside scenario is fixed by reference to average economic cycle conditions and accounts for the potentially severe downside impact of less likely extremely adverse economic conditions.

13. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)

KEY JUDGEMENTS AND ESTIMATES (continued)

Judgement/Assumption	Description	Considerations for the year ended 30 September 2020
Management temporary adjustments	Management temporary adjustments to the ECL allowance are used in circumstances where it is judged that our existing inputs, assumptions and model techniques do not capture all the risk factors relevant to our lending portfolios. Emerging local or global macroeconomic, microeconomic or political events, and natural disasters that are not incorporated into our current parameters, risk ratings, or forward-looking information are examples of such circumstances. The use of management temporary adjustments may impact the amount of ECL recognised. The uncertainty associated with the COVID-19 pandemic, and the extent to which the actions of governments, businesses and consumers mitigate against potentially adverse credit outcomes are not fully incorporated into existing ECL models. Accordingly, management overlays have been applied to ensure credit provisions are appropriate.	Management have applied a number of adjustments to the modelled ECL primarily due to the uncertainty associated with COVID-19. Management overlays (including COVID-19 overlays) which add to the modelled ECL provision have been made for risks particular to small business and commercial banking in Australia, for retail, commercial and agri banking in New Zealand, and for tourism in the Pacific.

Base case economic forecast assumptions

The uncertain evolution of the COVID-19 pandemic increases the risk to the economic forecast resulting in an understatement or overstatement of the ECL balance due to uncertainties around:

- the extent and duration of measures to stop or reduce the speed of the spread of COVID-19;
- the extent and duration of the economic downturn, along with the time required for economies to recover; and
- the effectiveness of government stimulus measures, in particular their impact on the magnitude of economic downturn and the extent and duration of the recovery.

The economic drivers of the base case economic forecasts at 30 September 2020 are set out below. These reflect ANZ's view of the most likely future macro-economic conditions at 30 September 2020. For years beyond the near term forecasts below, the ECL models project future year economic conditions including an assumption to eventual reversion to mid-cycle economic conditions.

	Forecast calendar year		
	2020	2021	2022
Australia			
GDP	-4.3%	1.6%	4.0%
Unemployment	7.3%	8.8%	7.7%
Residential property prices	-2.2%	-4.8%	2.0%
Consumer price index	0.8	1.2	1.3
New Zealand			
GDP	-5.6%	2.0%	5.6%
Unemployment	5.7%	9.1%	6.5%
Residential property prices	-0.3%	0.9%	4.1%
Consumer price index	1.6	1.0	1.2
Rest of world			
GDP	-4.5%	2.5%	2.5%
Consumer price index	1.0	1.8	2.0

13. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)

KEY JUDGEMENTS AND ESTIMATES (continued)

The base case economic forecasts as at 30 September 2020 reflect a significant deterioration in current and expected economic conditions from the forecasts as at 30 September 2019 reflecting the emergence and ongoing impact of the COVID-19 pandemic.

Probability weightings

Probability weighting of each scenario is determined by management considering the risks and uncertainties surrounding the base case economic scenario. The key consideration for probability weightings in the current period is the continuing impact of COVID-19.

In addition to the base case economic forecast which reflects the negative economic consequences of COVID-19, greater weighting has been applied to the downside economic scenario given the Group's assessment of downside risks.

The assigned probability weightings in Australia, New Zealand and Rest of world are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Group considers these weightings in each geography to provide the best estimate of the possible loss outcomes and has analysed inter-relationships and correlations (over both the short and long term) within the Group's credit portfolios in determining them. The average weightings applied across the Group are set out below:

	2020	2019
Group		
Base	50.0%	50.0%
Upside	10.4%	15.7%
Downside	33.3%	29.3%
Severe Downside	6.3%	5.0%

ECL - Sensitivity analysis

The uncertainty of the impact of COVID-19 introduces significant estimation uncertainty in relation to the measurement of the Group's allowance for expected credit losses. The rapidly evolving consequences of COVID-19 and government, business and consumer responses could result in significant adjustments to the allowance in future financial years.

Given current economic uncertainties and the judgment applied to factors used in determining the expected default of borrowers in future periods, expected credit losses reported by the Group should be considered as a best estimate within a range of possible estimates.

The table below illustrates the sensitivity of collectively assessed ECL to key factors used in determining it as at 30 September 2020:

	ECL $m	Impact $m
If 1% of Stage 1 facilities were included in Stage 2	5,069	61
If 1% of Stage 2 facilities were included in Stage 1	4,998	(10)
100% upside scenario	1,898	(3,110)
100% base scenario	4,011	(997)
100% downside scenario	5,144	136
100% severe downside scenario	6,315	1,307

FINANCIAL LIABILITIES

Outlined below is a description of how we classify and measure financial liabilities relevant to the subsequent note disclosures.

CLASSIFICATION AND MEASUREMENT

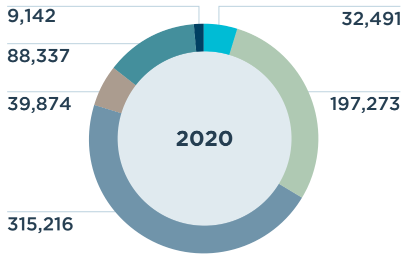
Financial liabilities

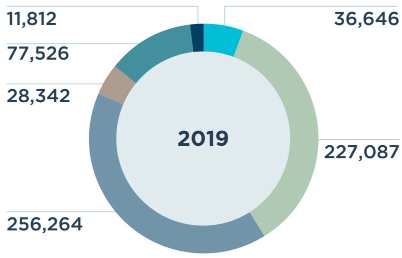
Financial liabilities are measured at amortised cost, or fair value through profit or loss (FVTPL) when they are held for trading. Additionally, financial liabilities can be designated at FVTPL where:

- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise;
- a group of financial liabilities are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management strategy; or
- the financial liability contains one or more embedded derivatives unless:
  a) the embedded derivative does not significantly modify the cash flows that otherwise would be required by the contract; or
  b) the embedded derivative is closely related to the host financial liability.

Where financial liabilities are designated as measured at fair value, gains or losses relating to changes in the entity's own credit risk are included in other comprehensive income, except where doing so would create or enlarge an accounting mismatch in profit or loss.

14. DEPOSITS AND OTHER BORROWINGS





	2020 $m	2019 $m
Certificates of deposit	32,491	36,646
Term deposits	197,273	227,087
On demand and short term deposits	315,216	256,264
Deposits not bearing interest	39,874	28,342
Deposits from banks & securities sold under repurchase agreements[1]	88,337	77,526
Commercial paper and other borrowings[2]	9,142	11,812
Deposits and other borrowings	682,333	637,677
Residual contractual maturity:		
Within one year	665,151	630,373
More than one year	17,182	7,304
Deposits and other borrowings	682,333	637,677
Carried on Balance Sheet at:		
Amortised cost	679,255	635,376
Fair value through profit or loss (designated on initial recognition)[3]	3,078	2,301
Deposits and other borrowings	682,333	637,677

1. Includes $12 billion of funds drawn under the RBA's Term Funding Facility (TFF). TFF is initially recognised at fair value and is subsequently measured at amortised cost using the effective interest rate method. Refer to Note 16 Financial Risk Management for more details.
2. In 2019, Other borrowings related to secured investments issued by the consolidated subsidiary UDC Finance Limited (UDC) of NZD 0.1 billion, which were secured by a security interest over all the assets of UDC of NZD 3.5 billion. The Group divested of UDC during 2020.
3. From 1 October 2019, the Group changed its accounting treatment for certain gold loan and deposit products which are now designated as at fair value through profit and loss.

RECOGNITION AND MEASUREMENT

For deposits and other borrowings that:

- are not designated at fair value through profit or loss on initial recognition, we measure them at amortised cost and recognise their interest expense using the effective interest rate method; and
- are managed on a fair value basis, reduce or eliminate an accounting mismatch or contain an embedded derivative, we designated them as measured at fair value through profit or loss.

Refer to Note 17 Fair Value of Financial Assets and Financial Liabilities for further details.

For deposits and other borrowings designated at fair value we recognise the amount of fair value gain or loss attributable to changes in the Group's own credit risk in other comprehensive income in retained earnings. Any remaining amount of fair value gain or loss we recognise directly in profit and loss. Once we have recognised an amount in other comprehensive income, we do not later reclassify it to profit and loss.

Securities sold under repurchase agreements represent a liability to repurchase the financial assets that remain on our balance sheet since the risks and rewards of ownership remain with the Group. Over the life of the repurchase agreement, we recognise the difference between the sale price and the repurchase price and charge it to interest expense in the profit and loss.

15. DEBT ISSUANCES

The Group uses a variety of funding programmes to issue senior debt (including covered bonds and securitisations) and subordinated debt. The difference between senior debt and subordinated debt is that holders of senior debt take priority over holders of subordinated debt owed by the relevant issuer. In the winding up of the relevant issuer, the subordinated debt will be repaid by the relevant issuer only after the repayment of claims of depositors, other creditors and the senior debt holders.

	2020 $m	2019 $m
Senior debt	80,835	89,737
Covered bonds	15,948	20,957
Securitisation	1,824	2,411
Total unsubordinated debt	98,607	113,105
Subordinated debt		
- Additional Tier 1 capital	8,196	8,171
- Tier 2 capital	12,865	8,415
Total subordinated debt	21,061	16,586
Total debt issued	119,668	129,691

TOTAL DEBT ISSUED BY CURRENCY

The table below shows the Group's issued debt by currency of issue, which broadly represents the debt holders' base location.

		2020 $m	2019 $m
USD	United States dollars	41,100	45,841
EUR	Euro	23,038	26,200
AUD	Australian dollars	43,697	39,273
NZD	New Zealand dollars	3,682	5,130
JPY	Japanese yen	2,131	3,312
CHF	Swiss francs	975	1,501
GBP	Pounds sterling	2,387	4,720
HKD	Hong Kong dollars	1,088	1,446
Other	Chinese yuan, Norwegian kroner, Singapore dollars, Indonesian rupiah and Canadian dollars	1,570	2,268
Total debt issued		119,668	129,691
Residual contractual maturity[1]*:*			
Within one year		25,688	20,803
More than one year		92,059	106,963
No maturity date (instruments in perpetuity)		1,921	1,925
Total debt issued		119,668	129,691

1. Based on the final maturity date or, in the case of Additional Tier 1 capital securities, the mandatory conversion date (if any).

SUBORDINATED DEBT

Subordinated debt qualifies as regulatory capital for the Group and is classified as either Additional Tier 1 (AT1) capital or Tier 2 capital for APRA's capital adequacy purposes depending on their terms and conditions:

- AT1 capital: perpetual capital instruments:
  - ANZ Capital Notes (ANZ CN);
  - ANZ Capital Securities (ANZ CS); and
  - ANZ NZ Capital Notes (ANZ NZ CN).
- Tier 2 capital: perpetual or term subordinated notes.

Tier 2 capital instruments rank ahead of AT1 capital instruments, and AT1 capital instruments only rank ahead of ordinary shares, in any liquidation event impacting the issuer of the instruments.

15. DEBT ISSUANCES (continued)

AT1 CAPITAL

All outstanding AT1 capital instruments are Basel III fully compliant instruments (refer to Note 23 Capital Management for further information about Basel III). Each of the ANZ CN and ANZ CS rank equally with each other.

Distributions on the AT1 capital instruments are non-cumulative and subject to the issuer's absolute discretion and certain payment conditions (including regulatory requirements). Distributions on ANZ CNs are franked in line with the franking applied to ANZ ordinary shares.

Where specified, the AT1 capital instruments provide the issuer with an early redemption or conversion option on a specified date and in certain other circumstances (such as a tax or regulatory event). This redemption option is subject to APRA's and, in respect of the ANZ NZ CN, the Reserve Bank of New Zealand's (RBNZ) prior written approval.

Each of the AT1 capital instruments will immediately convert into a variable number of ANZ ordinary shares (based on the average market price of the shares immediately prior to conversion less a 1% discount, subject to a maximum conversion number of ANZ ordinary shares) if:

- ANZ's or, in the case of the ANZ NZ CN, ANZ Bank New Zealand Limited's (ANZ NZ) Common Equity Tier 1 capital ratio is equal to or less than 5.125% - known as a Common Equity Capital Trigger Event; or
- APRA notifies the Company that, without the conversion or write-off of certain securities or a public sector injection of capital (or equivalent support), it considers that the Company would become non-viable or, in the case of the ANZ NZ CN, the RBNZ directs ANZ NZ to convert or write-off the notes or a statutory manager is appointed to ANZ NZ and decides that ANZ NZ must convert or write-off the notes – known as a Non-Viability Trigger Event.

Where specified, AT1 capital instruments mandatorily convert into a variable number of ANZ ordinary shares (based on the average market price of the shares immediately prior to conversion less a 1% discount):

- on a specified mandatory conversion date; or
- on an earlier date under certain circumstances as set out in the terms.

However the mandatory conversion is deferred for a specified period if certain conversion tests are not met.

The tables below show the key details of the Group's AT1 capital instruments on issue at 30 September in both the current and prior years:

			2020 $m	2019 $m
Additional Tier 1 capital (perpetual subordinated securities)[1]				
ANZ Capital Notes (ANZ CN)				
AUD	1,120m	ANZ CN1	**1,119**	1,118
AUD	1,610m	ANZ CN2	**1,608**	1,607
AUD	970m	ANZ CN3	**967**	966
AUD	1,622m	ANZ CN4	**1,614**	1,612
AUD	931m	ANZ CN5	**926**	925
ANZ Capital Securities (ANZ CS)				
USD	1,000m	ANZ Capital Securities	**1,499**	1,481
ANZ NZ Capital Notes (ANZ NZ CN)				
NZD	500m	ANZ NZ Capital Notes	**463**	462
Total Additional Tier 1 capital[2]			**8,196**	8,171

1. Carrying values net of issue costs.
2. This forms part of qualifying Additional Tier 1 capital (refer to Note 23 Capital Management).

15. DEBT ISSUANCES (continued)

ANZ Capital Notes (ANZ CN)

	CN1	CN2	CN3
Issuer	ANZ	ANZ	ANZ, acting through its New Zealand branch
Issue date	7 August 2013	31 March 2014	5 March 2015
Issue amount	$1,120 million	$1,610 million	$970 million
Face value	$100	$100	$100
Distribution frequency	Semi-annually in arrears	Semi-annually in arrears	Semi-annually in arrears
Distribution rate	Floating rate: (180 day Bank Bill rate +3.4%)x(1-Australian corporate tax rate)	Floating rate: (180 day Bank Bill rate +3.25%)x(1-Australian corporate tax rate)	Floating rate: (180 day Bank Bill rate +3.6%)x(1-Australian corporate tax rate)
Issuer's early redemption or conversion option	1 September 2021	24 March 2022	24 March 2023
Mandatory conversion date	1 September 2023	24 March 2024	24 March 2025
Common equity capital trigger event	Yes	Yes	Yes
Non-viability trigger event	Yes	Yes	Yes
Carrying value 2020 (net of issue costs)	$1,119 million (2019: $1,118 million)	$1,608 million (2019: $1,607 million)	$967 million (2019: $966 million)

	CN4	CN5
Issuer	ANZ	ANZ
Issue date	27 September 2016	28 September 2017
Issue amount	$1,622 million	$931 million
Face value	$100	$100
Distribution frequency	Quarterly in arrears	Quarterly in arrears
Distribution rate	Floating rate: (90 day Bank Bill rate +4.7%)x(1-Australian corporate tax rate)	Floating rate: (90 day Bank Bill rate +3.8%)x(1-Australian corporate tax rate)
Issuer's early redemption or conversion option	20 March 2024	20 March 2025
Mandatory conversion date	20 March 2026	20 March 2027
Common equity capital trigger event	Yes	Yes
Non-viability trigger event	Yes	Yes
Carrying value 2020 (net of issue costs)	$1,614 million (2019: $1,612 million)	$926 million (2019: $925 million)

15. DEBT ISSUANCES (continued)

ANZ Capital Securities (ANZ CS)

Issuer	ANZ, acting through its London branch
Issue date	15 June 2016
Issue amount	USD 1,000 million
Face value	Minimum denomination of USD 200,000 and an integral multiple of USD 1,000 above that
Interest frequency	Semi-annually in arrears
Interest rate	Fixed at 6.75% p.a. until 15 June 2026. Reset on 15 June 2026 and each 5 year anniversary to a floating rate: 5 year USD mid-market swap rate + 5.168%
Issuer's early redemption option	15 June 2026 and each 5 year anniversary
Common equity capital trigger event	Yes
Non-viability trigger event	Yes
Carrying value 2020 (net of issue costs)	$1,499 million (2019: $1,481 million)

ANZ NZ Capital Notes (ANZ NZ CN)

Issuer	ANZ Bank New Zealand Limited (ANZ NZ)
Issue date	31 March 2015
Issue amount	NZD 500 million
Face value	NZD 1
Interest frequency	Quarterly in arrears
Interest rate	Fixed at 7.2% p.a. until 25 May 2020. The rate reset in May 2020 to a floating rate: New Zealand 3 month bank bill rate + 3.5% Interest payments are subject to ANZ NZ's absolute discretion and certain payment conditions (including APRA and RBNZ requirements)
Issuer's early redemption option	The option was not exercised on 25 May 2020 and has expired[1]
Mandatory conversion date	25 May 2022
Common equity capital trigger event	Yes
Non-viability trigger event	Yes
Carrying value 2020 (net of issue costs)	$463 million (2019: $462 million)

1. The RBNZ has informed New Zealand-incorporated registered banks (including ANZ NZ) that they should not redeem capital instruments at this time. Accordingly, ANZ NZ was not permitted to redeem its NZ$500 million Capital Notes in May 2020, although it can continue making coupon payments on those Capital Notes. As ANZ NZ did not exercise its option to convert in May 2020, the terms of the Capital Notes provide for their conversion into a variable number of ANZBGL shares in May 2022 subject to certain conditions.

15. DEBT ISSUANCES (continued)

TIER 2 CAPITAL

The convertible term subordinated notes are Basel III fully compliant instruments. If a Non-Viability Trigger Event occurs, the convertible term subordinated notes will immediately convert into ANZ ordinary shares (based on the average market price of the shares immediately prior to conversion less a 1% discount, subject to a maximum conversion number).

APRA has granted transitional Basel III capital treatment for the USD 300 million perpetual subordinated notes until the end of the transitional period (December 2021).

The table below shows the Tier 2 capital subordinated notes the Group holds at 30 September in both the current and prior year:

Currency	Face value	Maturity	Next optional call date – subject to APRA's prior approval	Interest rate	Non-Viability Trigger Event	2020 $m	2019 $m
Basel III transitional subordinated notes (perpetual)							
USD	300m	Perpetual	Each semi-annual interest payment date	Floating	No	422	444
Total Basel III transitional subordinated notes						422	444
Basel III fully compliant convertible subordinated notes (term)							
USD	800m	2024	N/A	Fixed	Yes	1,225	1,250
CNY	2,500m	2025	2020	Fixed	Yes	-	519
SGD	500m	2027	2022	Fixed	Yes	529	544
AUD	200m	2027	2022	Fixed	Yes	200	200
JPY	20,000m	2026	N/A	Fixed	Yes	270	281
AUD	700m	2026	2021	Floating	Yes	700	700
USD	1,500m	2026	N/A	Fixed	Yes	2,253	2,229
JPY	10,000m	2026	2021	Fixed	Yes	133	137
JPY	10,000m	2028	2023	Fixed	Yes	133	137
AUD	225m	2032	2027	Fixed	Yes	225	224
AUD	1,750m	2029	2024	Floating	Yes	1,750	1,750
EUR	1,000m	2029	2024	Fixed	Yes	1,657	-
AUD	265m	2039	N/A	Fixed	Yes	265	-
USD	1,250m	2030	2025	Fixed	Yes	1,859	-
AUD	1,250m	2031	2026	Floating	Yes	1,244	-
Total Basel III fully compliant subordinated notes						12,443	7,971
Total Tier 2 capital[1,2]						12,865	8,415

1. Carrying value net of issuance costs.
2. This forms part of qualifying Tier 2 capital (refer to Note 23 Capital Management)

RECOGNITION AND MEASUREMENT

Debt issuances are measured at amortised cost, except where designated at fair value through profit or loss. Where the Group enters into a fair value hedge accounting relationship, the fair value attributable to the hedge risk is reflected in adjustments to the carrying value of the debt. Interest expense is recognised using the effective interest rate method.

Subordinated debt with capital-based conversion features (i.e. Common Equity Capital Trigger Events or Non-Viability Trigger Events) are considered to contain embedded derivatives that we account for separately at fair value through profit and loss. The embedded derivatives arise because the amount of shares issued on conversion following any of those trigger events is subject to the maximum conversion number, however they have no significant value as of the reporting date given the remote nature of those trigger events.

16. FINANCIAL RISK MANAGEMENT

RISK MANAGEMENT FRAMEWORK AND MODEL

INTRODUCTION

The use of financial instruments is fundamental to the Group's businesses of providing banking and other financial services to our customers. The associated financial risks (primarily credit, market, and liquidity risks) are a significant portion of the Group's key material risks.

We disclose details of all key material risks impacting the Group, and further information on the Group's risk management activities, in the Governance and Risk Management section.

This note details the Group's financial risk management policies, processes and quantitative disclosures in relation to the key financial risks.

Key material financial risks	Key sections applicable to this risk
Overview	• An overview of our Risk Management Framework
Credit risk The risk of financial loss resulting from: • a counterparty failing to fulfil its obligations; or • a decrease in credit quality of a counterparty resulting in a financial loss. Credit risk incorporates the risks associated with us lending to customers who could be impacted by climate change or by changes to laws, regulations, or other policies adopted by governments or regulatory authorities, including carbon pricing and climate change adaptation or mitigation policies.	• Credit risk overview, management and control responsibilities • Maximum exposure to credit risk • Credit quality • Concentrations of credit risk • Collateral management
Market risk The risk to the Group's earnings arising from: • changes in interest rates, foreign exchange rates, credit spreads, volatility and correlations; or • fluctuations in bond, commodity or equity prices.	• Market risk overview, management and control responsibilities • Measurement of market risk • Traded and non-traded market risk • Equity securities designated at FVOCI • Foreign currency risk – structural exposure
Liquidity and funding risk The risk that the Group is unable to meet payment obligations as they fall due, including: • repaying depositors or maturing wholesale debt; or • the Group having insufficient capacity to fund increases in assets.	• Liquidity risk overview, management and control responsibilities • Key areas of measurement for liquidity risk • Liquidity risk outcomes • Residual contractual maturity analysis of the Group's liabilities

16. FINANCIAL RISK MANAGEMENT (continued)

OVERVIEW

AN OVERVIEW OF OUR RISK MANAGEMENT FRAMEWORK

This overview is provided to aid the users of the financial statements to understand the context of the financial disclosures required under AASB 7 *Financial Instruments: Disclosures* (AASB 7). It should be read in conjunction with the Governance and Risk Management section.

The Board is responsible for establishing and overseeing the Group's Risk Management Framework (RMF). The Board has delegated authority to the Board Risk Committee (BRC) to develop and monitor compliance with the Group's risk management policies. The BRC reports regularly to the Board on its activities.

The Board approves the strategic objectives of the Group including:

- the Risk Appetite Statement (RAS), which 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; and
- the Risk Management Strategy (RMS), which describes ANZ's strategy for managing risks and the key elements of the RMF that gives effect to this strategy. This includes a description of each material risk, and an overview of how the RMF addresses each risk, with reference to the relevant policies, standards and procedures. It also includes information on how ANZ identifies, measures, evaluates, monitors, reports and controls or mitigates material risks.

The Group, through its training and management standards and procedures, aims to maintain a disciplined and robust control environment in which all employees understand their roles and obligations. At ANZ, risk is everyone's responsibility.

The Group has an independent risk management function, headed by the Chief Risk Officer who:

- is responsible for overseeing the risk profile and the risk management framework;
- can effectively challenge activities and decisions that materially affect ANZ's risk profile; and
- has an independent reporting line to the BRC to enable the appropriate escalation of issues of concern.

The Internal Audit Function reports directly to the Board Audit Committee (BAC). Internal Audit provides:

- an independent evaluation of the Group's RMF annually that seeks to ensure compliance with, and the effectiveness of, the risk management framework;
- facilitation of a comprehensive review every three years that seeks to ensure the appropriateness, effectiveness and adequacy of the risk management framework; and
- recommendations to improve the framework and/or work practices to strengthen the effectiveness of day to day operations.

16. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK

CREDIT RISK OVERVIEW, MANAGEMENT AND CONTROL RESPONSIBILITIES

Granting credit facilities to customers is one of the Group's major sources of income. As this activity is also a principal risk, the Group dedicates considerable resources to its management. The Group assumes credit risk in a wide range of lending and other activities in diverse markets and in many jurisdictions. Credit risks arise from traditional lending to customers as well as from interbank, treasury, trade finance and capital markets activities around the world.

Our credit risk management framework ensures we apply a consistent approach across the Group when we measure, monitor and manage the credit risk appetite set by the Board. The Board is assisted and advised by the BRC in discharging its duty to oversee credit risk. The BRC:

- sets the credit risk appetite and credit strategies; and
- approves credit transactions beyond the discretion of executive management.

We quantify credit risk through an internal credit rating system (masterscales) to ensure consistency across exposure types and to provide a consistent framework for reporting and analysis. The system uses models and other tools to measure the following for customer exposures:

Probability of Default (PD)	Expressed by a Customer Credit Rating (CCR), reflecting the Group's assessment of a customer's ability to service and repay debt.
Exposure at Default (EAD)	The expected balance sheet exposure at default taking into account repayments of principal and interest, expected additional drawdowns and accrued interest at the time of default.
Loss Given Default (LGD)	Expressed by a Security Indicator (SI) ranging from A to G. The SI is calculated by reference to the percentage of loan covered by security which the Group can realise if a customer defaults. The A-G scale is supplemented by a range of other SIs which cover factors such as cash cover and sovereign backing. For retail and some small business lending, we group exposures into large homogenous pools – and the LGD is assigned at the pool level.
Our specialist credit risk teams develop and validate the Group's PD and LGD rating models. The outputs from these models drive our day-to-day credit risk management decisions including origination, pricing, approval levels, regulatory capital adequacy, economic capital allocation, and credit provisioning.	

All customers with whom ANZ has a credit relationship are assigned a CCR at origination via either of the following assessment approaches:

Large and more complex lending	Retail and some small business lending
Rating models provide a consistent and structured assessment, with judgement required around the use of out-of-model factors. We handle credit approval on a dual approval basis, jointly with the business writer and an independent credit officer.	Automated assessment of credit applications using a combination of scoring (application and behavioural), policy rules and external credit reporting information. If the application does not meet the automated assessment criteria, then it is referred out for manual assessment.

We use the Group's internal CCRs to manage the credit quality of financial assets. To enable wider comparisons, the Group's CCRs are mapped to external rating agency scales as follows:

Credit Quality Description	Internal CCR	ANZ Customer Requirements	Moody's Rating	Standard & Poor's Rating
Strong	CCR 0+ to 4-	Demonstrated superior stability in their operating and financial performance over the long-term, and whose earnings capacity is not significantly vulnerable to foreseeable events.	Aaa – Baa3	AAA – BBB-
Satisfactory	CCR 5+ to 6-	Demonstrated sound operational and financial stability over the medium to long-term, even though some may be susceptible to cyclical trends or variability in earnings.	Ba1 – B1	BB+ – B+
Weak	CCR 7+ to 8=	Demonstrated some operational and financial instability, with variability and uncertainty in profitability and liquidity projected to continue over the short and possibly medium term.	B2 - Caa	B - CCC
Defaulted	CCR 8- to 10	When doubt arises as to the collectability of a credit facility, the financial instrument (or "the facility") is classified as defaulted.	N/A	N/A

16. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK (continued)

MAXIMUM EXPOSURE TO CREDIT RISK

For financial assets recognised on the balance sheet, the maximum exposure to credit risk is the carrying amount. In certain circumstances there may be differences between the carrying amounts reported on the balance sheet and the amounts reported in the tables below. Principally, these differences arise in respect of financial assets that are subject to risks other than credit risk, such as equity instruments which are primarily subject to market risk, or bank notes and coins.

For undrawn facilities, this maximum exposure to credit risk is the full amount of the committed facilities. For contingent exposures, the maximum exposure to credit risk is the maximum amount the Group would have to pay if the instrument is called upon.

For the purpose of this note, assets presented as assets held for sale in the Balance Sheet have been reallocated to their respective Balance Sheet categories.

The table below shows our maximum exposure to credit risk of on-balance sheet and off-balance sheet positions before taking account of any collateral held or other credit enhancements.

	Reported		Excluded[1]		Maximum exposure to credit risk	
	2020 $m	2019 $m	2020 $m	2019 $m	2020 $m	2019 $m
On-balance sheet positions						
Net loans and advances	617,093	615,258	-	-	617,093	615,258
Other financial assets:						
Cash and cash equivalents	107,923	81,621	1,514	1,186	106,409	80,435
Settlement balances owed to ANZ	7,541	3,739	7,541	3,739	-	-
Collateral paid	14,308	15,006	-	-	14,308	15,006
Trading securities	50,913	44,088	5,698	6,199	45,215	37,889
Derivative financial instruments	135,331	120,667	-	-	135,331	120,667
Investment securities						
- debt securities at amortised costs	6,816	5,999	-	-	6,816	5,999
- debt securities at FVOCI	85,460	76,489	-	-	85,460	76,489
- equity securities at FVOCI	1,062	1,221	1,062	1,221	-	-
- debt securities at FVTPL	53	-	-	-	53	-
Regulatory deposits	801	879	-	-	801	879
Other financial assets[2]	2,407	3,619	-	-	2,407	3,619
Total other financial assets	412,615	353,328	15,815	12,345	396,800	340,983
Subtotal	1,029,708	968,586	15,815	12,345	1,013,893	956,241
Off-balance sheet positions						
Undrawn and contingent facilities[3]	266,716	253,123	-	-	266,716	253,123
Total	1,296,424	1,221,709	15,815	12,345	1,280,609	1,209,364

1. Bank notes and coins and cash at bank within Cash and cash equivalents; Trade dated assets within Settlement balances owed to ANZ; Equity securities and precious metal exposures within Trading securities; Equity securities within Investment securities were excluded as they do not have credit risk exposure.
2. Other financial assets mainly comprise accrued interest and acceptances.
3. Undrawn and contingent facilities include guarantees, letters of credit and performance related contingencies, net of collectively assessed and individually assessed allowance for expected credit losses.

16. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK (continued)

CREDIT QUALITY

An analysis of the Group's credit risk exposure is presented in the following tables based on the Group's internal rating by stage without taking account of the effects of any collateral or other credit enhancements:

Net loans and advances

	2020				
			Stage 3		
	Stage 1 $m	Stage 2 $m	Collectively assessed $m	Individually assessed $m	Total $m
Strong	395,608	18,262	-	-	413,870
Satisfactory	133,558	37,577	-	-	171,135
Weak	8,461	16,850	-	-	25,311
Defaulted	-	-	4,762	2,256	7,018
Gross loans and advances at amortised cost	537,627	72,689	4,762	2,256	617,334
Allowance for ECL	(1,204)	(2,465)	(461)	(851)	(4,981)
Net loans and advances at amortised cost	536,423	70,224	4,301	1,405	612,353
Coverage ratio	0.22%	3.39%	9.68%	37.72%	0.81%
Loans and advances at fair value through profit or loss					3,938
Unearned income					(66)
Capitalised brokerage/mortgage origination fees					868
Net carrying amount					617,093

	2019				
			Stage 3		
	Stage 1 $m	Stage 2 $m	Collectively assessed $m	Individually assessed $m	Total $m
Strong	425,113	18,597	-	-	443,710
Satisfactory	121,030	28,445	-	-	149,475
Weak	7,138	10,373	-	-	17,511
Defaulted	-	-	4,699	1,978	6,677
Gross loans and advances at amortised cost	553,281	57,415	4,699	1,978	617,373
Allowance for ECL	(927)	(1,378)	(413)	(791)	(3,509)
Net loans and advances at amortised cost	552,354	56,037	4,286	1,187	613,864
Coverage ratio	0.17%	2.40%	8.79%	39.99%	0.57%
Loans and advances at fair value through profit or loss					922
Unearned income					(398)
Capitalised brokerage/mortgage origination fees					870
Net carrying amount					615,258

16. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK (continued)

Investment securities - debt securities at amortised cost

	2020				
			Stage 3		
	Stage 1 $m	Stage 2 $m	Collectively assessed $m	Individually assessed $m	Total $m
Strong	5,594	-	-	-	5,594
Satisfactory	1,067	175	-	-	1,242
Weak	-	-	-	-	-
Defaulted	-	-	-	-	-
Gross investment securities - debt securities at amortised cost	6,661	175	-	-	6,836
Allowance for ECL	(20)	-	-	-	(20)
Net investment securities - debt securities at amortised cost	6,641	175	-	-	6,816
Coverage ratio	0.30%	0.00%	-	-	0.29%

	2019				
			Stage 3		
	Stage 1 $m	Stage 2 $m	Collectively assessed $m	Individually assessed $m	Total $m
Strong	4,798	-	-	-	4,798
Satisfactory	707	507	-	-	1,214
Weak	-	-	-	-	-
Defaulted	-	-	-	-	-
Gross investment securities - debt securities at amortised cost	5,505	507	-	-	6,012
Allowance for ECL	(12)	(1)	-	-	(13)
Net investment securities - debt securities at amortised cost	5,493	506	-	-	5,999
Coverage ratio	0.22%	0.20%	-	-	0.22%

16. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK (continued)

Investment securities - debt securities at FVOCI

	2020				
			Stage 3		
	Stage 1	Stage 2	Collectively assessed	Individually assessed	Total
	$m	$m	$m	$m	$m
Strong	85,287	-	-	-	85,287
Satisfactory	173	-	-	-	173
Weak	-	-	-	-	-
Defaulted	-	-	-	-	-
Investment securities - debt securities at FVOCI	85,460	-	-	-	85,460
Allowance for ECL recognised in other comprehensive income	(10)	-	-	-	(10)
Coverage ratio	0.01%	-	-	-	0.01%

	2019				
			Stage 3		
	Stage 1	Stage 2	Collectively assessed	Individually assessed	Total
	$m	$m	$m	$m	$m
Strong	76,218	-	-	-	76,218
Satisfactory	271	-	-	-	271
Weak	-	-	-	-	-
Defaulted	-	-	-	-	-
Investment securities - debt securities at FVOCI	76,489	-	-	-	76,489
Allowance for ECL recognised in other comprehensive income	(8)	-	-	-	(8)
Coverage ratio	0.01%	-	-	-	0.01%

Other financial assets

	2020	2019
	$m	$m
Strong	293,171	248,020
Satisfactory	10,724	10,060
Weak	628	415
Defaulted	1	-
Total carrying amount	304,524	258,495

16. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK (continued)

Off-balance sheet commitments - undrawn and contingent facilities

	2020				
			Stage 3		
	Stage 1 $m	Stage 2 $m	Collectively assessed $m	Individually assessed $m	Total $m
Strong	171,979	3,045	-	-	175,024
Satisfactory	22,983	3,972	-	-	26,955
Weak	1,123	1,132	-	-	2,255
Defaulted	-	-	144	203	347
Gross undrawn and contingent facilities subject to ECL	196,085	8,149	144	203	204,581
Allowance for ECL included in Other provisions (refer to Note 21)	(596)	(239)	(23)	(40)	(898)
Net undrawn and contingent facilities subject to ECL	195,489	7,910	121	163	203,683
Coverage ratio	0.30%	2.93%	15.97%	19.70%	0.44%
Undrawn and contingent facilities not subject to ECL[1]					63,033
Net undrawn and contingent facilities					266,716

	2019				
			Stage 3		
	Stage 1 $m	Stage 2 $m	Collectively assessed $m	Individually assessed $m	Total $m
Strong	162,891	1,972	-	-	164,863
Satisfactory	23,655	3,634	-	-	27,289
Weak	294	976	-	-	1,270
Defaulted	-	-	140	51	191
Gross undrawn and contingent facilities subject to ECL	186,840	6,582	140	51	193,613
Allowance for ECL included in Other provisions (refer to Note 21)	(473)	(151)	(21)	(23)	(668)
Net undrawn and contingent facilities subject to ECL	186,367	6,431	119	28	192,945
Coverage ratio	0.25%	2.29%	15.00%	45.10%	0.35%
Undrawn and contingent facilities not subject to ECL[1]					60,178
Net undrawn and contingent facilities					253,123

1. Commitments that can be unconditionally cancelled at any time without notice.

16. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK (continued)

CONCENTRATIONS OF CREDIT RISK

Credit risk becomes concentrated when a number of customers are engaged in similar activities, have similar economic characteristics, or have similar activities within the same geographic region – therefore, they may be similarly affected by changes in economic or other conditions. The Group monitors its credit portfolio to manage risk concentration and rebalance the portfolio. The Group also applies single customer counterparty limits to protect against unacceptably large exposures to one single customer.

Composition of financial instruments that give rise to credit risk by industry group are presented below:

	Loans and advances		Other financial assets		Off-balance sheet credit related commitments		Total	
	2020 $m	2019 $m	2020 $m	2019 $m	2020 $m	2019 $m	2020 $m	2019 $m
Agriculture, forestry, fishing and mining	36,458	38,562	1,092	1,070	17,188	18,424	54,738	58,056
Business services	8,642	8,449	172	168	6,506	6,976	15,320	15,593
Construction	5,807	6,711	44	65	6,679	6,697	12,530	13,473
Electricity, gas and water supply	5,881	6,599	2,386	2,008	8,663	7,087	16,930	15,694
Entertainment, leisure and tourism	13,179	12,780	600	699	4,114	3,446	17,893	16,925
Financial, investment and insurance	51,857	55,344	279,468	247,351	48,537	41,874	379,862	344,569
Government and official institutions	4,645	3,388	98,017	75,066	1,968	2,524	104,630	80,978
Manufacturing	25,163	23,796	2,306	2,932	41,114	44,091	68,583	70,819
Personal lending	361,459	351,894	1,170	1,754	50,433	54,429	413,062	408,077
Property services	50,406	46,721	2,044	1,905	27,992	17,216	80,442	65,842
Retail trade	10,739	13,078	231	242	9,602	7,086	20,572	20,406
Transport and storage	12,657	13,583	1,280	1,194	8,587	8,269	22,524	23,046
Wholesale trade	11,816	15,177	2,649	3,141	19,494	20,283	33,959	38,601
Other	22,563	22,213	5,361	3,401	16,737	15,389	44,661	41,003
Gross total	621,272	618,295	396,820	340,996	267,614	253,791	1,285,706	1,213,082
Allowance for ECL	(4,981)	(3,509)	(20)	(13)	(898)	(668)	(5,899)	(4,190)
Subtotal	616,291	614,786	396,800	340,983	266,716	253,123	1,279,807	1,208,892
Unearned income	(66)	(398)	-	-	-	-	(66)	(398)
Capitalised brokerage/mortgage origination fees	868	870	-	-	-	-	868	870
Maximum exposure to credit risk	617,093	615,258	396,800	340,983	266,716	253,123	1,280,609	1,209,364

16. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK (continued)

COLLATERAL MANAGEMENT

We use collateral for on and off-balance sheet exposures to mitigate credit risk if a counterparty cannot meet its repayment obligations. Where there is sufficient collateral, an expected credit loss is not recognised. This is largely the case for certain lending products that are secured by corresponding investment for which the margin loans are utilised and for reverse repurchase agreements. For some products, the collateral provided by customers is fundamental to the product's structuring, so it is not strictly the secondary source of repayment - for example, lending secured by trade receivables is typically repaid by the collection of those receivables. During the period there was no change in our collateral policies.

The nature of collateral or security held for the relevant classes of financial assets is as follows:

Net loans and advances	
Loans - housing and personal	Housing loans are secured by mortgage(s) over property and additional security may take the form of guarantees and deposits. Personal lending (including credit cards and overdrafts) is predominantly unsecured. If we take security, then it is restricted to eligible vehicles, motor homes and other assets.
Loans - business	Business loans may be secured, partially secured or unsecured. Typically, we take security by way of a mortgage over property and/or a charge over the business or other assets. If appropriate, we may take other security to mitigate the credit risk, for example: guarantees, standby letters of credit or derivative protection.
Other financial assets	
Trading securities, Investment securities, Derivatives and Other financial assets	For trading securities, we do not seek collateral directly from the issuer or counterparty. However, the collateral may be implicit in the terms of the instrument (for example, with an asset-backed security). The terms of debt securities may include collateralisation. For derivatives, we typically terminate all contracts with the counterparty and settle on a net basis at market levels current at the time of a counterparty default under International Swaps and Derivatives Association (ISDA) Master Agreements. Our preferred practice is to use a Credit Support Annex (CSA) to the ISDA so that open derivative positions with the counterparty are aggregated and cash collateral (or other forms of eligible collateral) is exchanged daily. The collateral is provided by the counterparty when their position is out of the money (or provided to the counterparty by ANZ when our position is out of the money).
Off-balance sheet positions	
Undrawn and contingent facilities	Collateral for off-balance sheet positions is mainly held against undrawn facilities, and they are typically performance bonds or guarantees. Undrawn facilities that are secured include housing loans secured by mortgages over residential property and business lending secured by commercial real estate and/or charges over business assets.

The table below shows the estimated value of collateral we hold and the net unsecured portion of credit exposures:

	Credit exposure		Total value of collateral		Unsecured portion of credit exposure	
	2020 $m	2019 $m	2020 $m	2019 $m	2020 $m	2019 $m
Net loans and advances	617,093	615,258	510,995	490,188	106,098	125,070
Other financial assets	396,800	340,983	45,246	31,898	351,554	309,085
Off-balance sheet positions	266,716	253,123	51,361	48,225	215,355	204,898
Total	1,280,609	1,209,364	607,602	570,311	673,007	639,053

16. FINANCIAL RISK MANAGEMENT (continued)

MARKET RISK

MARKET RISK OVERVIEW, MANAGEMENT AND CONTROL RESPONSIBILITIES

Market risk stems from the Group's trading and balance sheet management activities and the impact of changes and correlation between interest rates, foreign exchange rates, credit spreads and volatility in bond, commodity or equity prices.

The BRC delegates responsibility for day-to-day management of both market risks and compliance with market risk policies to the Credit & Market Risk Committee (CMRC) and the Group Asset & Liability Committee (GALCO).

Within overall strategies and policies established by the BRC, business units and risk management have joint responsibility for the control of market risk at the Group level. The Market Risk team (a specialist risk management unit independent of the business) allocates market risk limits at various levels and monitors and reports on them daily. This detailed framework allocates individual limits to manage and control exposures using risk factors and profit and loss limits.

Management, measurement and reporting of market risk is undertaken in two broad categories:

Traded Market Risk	Non-Traded Market Risk
Risk of loss from changes in the value of financial instruments due to movements in price factors for both physical and derivative trading positions. Principal risk categories monitored are: 1. Currency risk – potential loss arising from changes in foreign exchange rates or their implied volatilities. 2. Interest rate risk – potential loss from changes in market interest rates or their implied volatilities. 3. Credit spread risk – potential loss arising from a movement in margin or spread relative to a benchmark. 4. Commodity risk – potential loss arising from changes in commodity prices or their implied volatilities. 5. Equity risk – potential loss arising from changes in equity prices.	Risk of loss associated with the management of non-traded interest rate risk, liquidity risk and foreign exchange exposures. This includes interest rate risk in the banking book. This risk of loss arises from adverse changes in the overall and relative level of interest rates for different tenors, differences in the actual versus expected net interest margin, and the potential valuation risk associated with embedded options in financial instruments and bank products.

MEASUREMENT OF MARKET RISK

We primarily manage and control market risk using Value at Risk (VaR), sensitivity analysis and stress testing.

VaR gauges the Group's possible daily loss based on historical market movements.

The Group's VaR approach for both traded and non-traded risk is historical simulation. We use historical changes in market rates, prices and volatilities over:

- the previous 500 business days, to calculate standard VaR, and
- a 1-year stressed period, to calculate stressed VaR.

We calculate traded and non-traded VaR using one-day and ten-day holding periods. For stressed VaR, we use a ten-day period. Back testing is used to ensure our VaR models remain accurate.

ANZ measures VaR at a 99% confidence interval which means there is a 99% chance that a loss will not exceed the VaR for the relevant holding period.

16. FINANCIAL RISK MANAGEMENT (continued)

MARKET RISK (continued)

TRADED AND NON-TRADED MARKET RISK

Traded market risk

The table below shows the traded market risk VaR on a diversified basis by risk categories:

	2020				2019			
	As at $m	High for year $m	Low for year $m	Average for year $m	As at $m	High for year $m	Low for year $m	Average for year $m
Traded value at risk 99% confidence								
Foreign exchange	2.0	6.1	1.2	3.1	1.4	9.5	1.2	4.1
Interest rate	9.6	13.8	3.3	7.2	3.6	10.4	3.6	5.8
Credit	13.9	17.1	1.8	8.6	5.1	5.4	1.2	3.1
Commodity	3.0	4.7	1.3	2.6	1.6	3.9	1.4	2.2
Equity	-	-	-	-	-	-	-	-
Diversification benefit[1]	(10.9)	n/a	n/a	(8.0)	(5.5)	n/a	n/a	(7.2)
Total VaR	17.6	31.9	5.7	13.5	6.2	13.4	5.1	8.0

1. The diversification benefit reflects risks that offset across categories. The high and low VaR figures reported for each factor did not necessarily occur on the same day as the high and low VaR reported for the Group as a whole. Consequently, a diversification benefit for high and low would not be meaningful and is therefore omitted from the table.

Non-traded market risk

Balance sheet risk management

The principal objectives of balance sheet risk management are to maintain acceptable levels of interest rate and liquidity risk to mitigate the negative impact of movements in interest rates on the earnings and market value of the Group's banking book, while ensuring the Group maintains sufficient liquidity to meet its obligations as they fall due.

Interest rate risk management

Non-traded interest rate risk relates to the potential adverse impact of changes in market interest rates on the Group's future net interest income. This risk arises from two principal sources, namely mismatches between the repricing dates of interest bearing assets and liabilities; and the investment of capital and other non-interest bearing liabilities and assets. Interest rate risk is reported using VaR and scenario analysis (based on the impact of a 1% rate shock). The table below shows VaR figures for non-traded interest rate risk for the combined Group as well as Australia, New Zealand and Asia Pacific, Europe and Americas (APEA) geographies which are calculated separately.

	2020				2019			
	As at $m	High for year $m	Low for year $m	Average for year $m	As at $m	High for year $m	Low for year $m	Average for year $m
Non-traded value at risk 99% confidence								
Australia	60.8	60.8	18.8	33.4	22.7	22.7	16.4	18.9
New Zealand	26.3	26.3	9.4	15.2	9.6	9.6	7.1	8.0
Asia Pacific, Europe & America	29.4	30.2	17.8	24.2	17.6	17.7	12.9	16.1
Diversification benefit[1]	(61.4)	n/a	n/a	(29.5)	(17.8)	n/a	n/a	(14.8)
Total VaR	55.1	58.3	31.5	43.3	32.1	32.1	25.2	28.2

1. The diversification benefit reflects the historical correlation between the regions. The high and low VaR figures reported for the region did not necessarily occur on the same day as the high and low VaR reported for the Group as a whole. Consequently, a diversification benefit for high and low would not be meaningful and is therefore omitted from the table.

16. FINANCIAL RISK MANAGEMENT (continued)

MARKET RISK (continued)

We undertake scenario analysis to stress test the impact of extreme events on the Group's market risk exposures. We model a 1% overnight parallel positive shift in the yield curve to determine the potential impact on our net interest income over the next 12 months. This is a standard risk measure which assumes the parallel shift is reflected in all wholesale and customer rates.

The table below shows the outcome of this risk measure for the current and previous financial years, expressed as a percentage of reported net interest income. A positive number signifies that a rate increase is positive for net interest income over the next 12 months.

	2020	2019[1]
Impact of 1% rate shock		
As at period end	1.25%	1.19%
Maximum exposure	1.61%	1.19%
Minimum exposure	0.52%	0.33%
Average exposure (in absolute terms)	1.01%	0.69%

1. Prior period numbers have been restated to reflect IRR model enhancements

EQUITY SECURITIES DESIGNATED AT FVOCI

Our investment securities contain equity investment holdings which predominantly comprise investments we hold for longer-term strategic reasons. The market risk impact on these equity investments is not captured by the Group's VaR processes for traded and non-traded market risks. Therefore, the Group regularly reviews the valuations of the investments within the portfolio and assesses whether the investments are appropriately measured based on the recognition and measurement policies set out in Note 11 Investment securities.

FOREIGN CURRENCY RISK – STRUCTURAL EXPOSURES

Our investment of capital in foreign operations - for example, branches, subsidiaries or associates with functional currencies other than the Australian Dollar - exposes the Group to the risk of changes in foreign exchange rates. Variations in the value of these foreign operations arising as a result of exchange differences are reflected in the foreign currency translation reserve in equity.

Where it is considered appropriate, the Group takes out economic hedges against larger foreign exchange denominated revenue streams (primarily New Zealand Dollar, US Dollar and US Dollar correlated). The primary objective of hedging is to ensure that, if practical, the effect of changes in foreign exchange rates on the consolidated capital ratios are minimised.

16. FINANCIAL RISK MANAGEMENT (continued)

LIQUIDITY AND FUNDING RISK

LIQUIDITY RISK OVERVIEW, MANAGEMENT AND CONTROL RESPONSIBILITIES

Liquidity risk is the risk that the Group is either:

- unable to meet its payment obligations (including repaying depositors or maturing wholesale debt) when they fall due; or
- does not have the appropriate amount, tenor and composition of funding and liquidity to fund increases in its assets.

Management of liquidity and funding risks are overseen by GALCO. The Group's liquidity and funding risks are governed by a set of principles approved by the BRC and include:

- maintaining the ability to meet all payment obligations in the immediate term;
- ensuring that the Group has the ability to meet 'survival horizons' under a range of ANZ specific, and general market, liquidity stress scenarios, at the site and Group-wide level, to meet cash flow obligations over the short to medium term;
- maintaining strength in the Group's balance sheet structure to ensure long term resilience in the liquidity and funding risk profile;
- ensuring the liquidity management framework is compatible with local regulatory requirements;
- preparing daily liquidity reports and scenario analysis to quantify the Group's positions;
- targeting a diversified funding base to avoid undue concentrations by investor type, maturity, market source and currency;
- holding a portfolio of high quality liquid assets to protect against adverse funding conditions and to support day-to-day operations; and
- establishing detailed contingency plans to cover different liquidity crisis events.

KEY AREAS OF MEASUREMENT FOR LIQUIDITY RISK

Scenario modelling of funding sources

ANZ's liquidity risk appetite is defined by a range of regulatory and internal liquidity metrics mandated by the Board. The metrics cover a range of scenarios of varying duration and level of severity.

A key component of this framework is the Liquidity Coverage Ratio (LCR), which is a severe short term liquidity stress scenario mandated by banking regulators including APRA. As part of meeting LCR requirements, the Group has a Committed Liquidity Facility (CLF) with the Reserve Bank of Australia (RBA). The CLF has been established to offset the shortage of available High Quality Liquid Assets (HQLA) in Australia and provides an alternative form of contingent liquidity. The total amount of the CLF available to a qualifying Australian Deposit-taking Institution is set annually by APRA. From 1 January 2020, ANZ's CLF is $35.7 billion (2019 calendar year end: $48.0 billion).

Liquid assets

The Group holds a portfolio of high quality (unencumbered) liquid assets to protect the Group's liquidity position in a severely stressed environment, to meet regulatory requirements. HQLA comprise three categories consistent with Basel III LCR requirements:

- HQLA1- Cash and highest credit quality government, central bank or public sector securities eligible for repurchase with central banks to provide same-day liquidity.
- HQLA2 - High credit quality government, central bank or public sector securities, high quality corporate debt securities and high quality covered bonds eligible for repurchase with central banks to provide same-day liquidity.
- Alternative liquid assets (ALA) - Assets qualifying as collateral for the CLF and eligible securities that the Reserve Bank of New Zealand (RBNZ) will accept in its domestic market operations.

LIQUIDITY RISK OUTCOMES[1]

Liquidity Coverage Ratio

ANZ's Liquidity Coverage Ratio (LCR) averaged 139% for 2020, a decrease from the 2019 average of 140%, and above the regulatory minimum of 100%.

Net Stable Funding Ratio

ANZ's Net Stable Funding Ratio (NSFR) as at 30 September 2020 was 124% (2019: 116%), above the regulatory minimum of 100%.

1. This information is not within the scope of the external audit of the Group Financial Report by the Group's external auditor, KPMG. The Liquidity Coverage Ratio and Net Stable Funding Ratio are non-IFRS disclosures and are disclosed as part of the Group's *APS 330 Public Disclosure* which is subject to specific review procedures in accordance with the *Australian Standard on Related Services (ASRS) 4400 Agreed upon Procedures Engagements to Report Factual Findings.*

16. FINANCIAL RISK MANAGEMENT (continued)

LIQUIDITY AND FUNDING RISK (continued)

Liquidity crisis contingency planning

The Group maintains APRA-endorsed liquidity crisis contingency plans for analysing and responding to a liquidity threatening event at a country and Group-wide level. Key liquidity contingency crisis planning requirements and guidelines include:

Ongoing business management	Early signs/ mild stress	Severe Stress
• establish crisis/severity levels • liquidity limits • early warning indicators	• monitoring and review • management actions not requiring business rationalisation	• activate contingency funding plans • management actions for altering asset and liability behaviour
Assigned responsibility for internal and external communications and the appropriate timing to communicate		

Since the precise nature of any stress event cannot be known in advance, we design the plans to be flexible to the nature and severity of the stress event with multiple variables able to be accommodated in any plan.

Group funding

The Group monitors the composition and stability of its funding so that it remains within the Group's funding risk appetite. This approach ensures that an appropriate proportion of the Group's assets are funded by stable funding sources, including customer deposits; longer-dated wholesale funding (with a remaining term exceeding one year); and equity.

Funding plans prepared	Considerations in preparing funding plans
• 3 year strategic plan prepared annually • annual funding plan as part of budgeting process • forecasting in light of actual results as a calibration to the annual plan	• customer balance sheet growth • changes in wholesale funding including: targeted funding volumes; markets; investors; tenors; and currencies for senior, secured, subordinated, hybrid transactions and market conditions

RBA Term Funding Facility

As an additional source of funding, in March 2020, the RBA announced a term funding facility (TFF) for the banking system to support lending to Australian businesses. The TFF is a three-year secured funding facility to ADIs at a fixed rate of 0.25%. APRA has determined that the TFF qualifies for inclusion in determining the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). ADIs can obtain initial funding of up to 3% of their existing credit outstanding to Australian households and businesses, and have access to additional funding if they increase lending to business, especially to small and medium-sized businesses.

As at 30 September 2020, ANZ had drawn $12 billion from its initial TFF allowance of $12 billion, and drawn $nil from its additional TFF allowance of $6 billion.

16. FINANCIAL RISK MANAGEMENT (continued)

LIQUIDITY AND FUNDING RISK (continued)

RESIDUAL CONTRACTUAL MATURITY ANALYSIS OF GROUP'S LIABILITIES

The tables below provide residual contractual maturity analysis of financial liabilities, including financial liablities reclassified to held for sale, at 30 September within relevant maturity groupings. All outstanding debt issuance and subordinated debt is profiled on the earliest date on which the Group may be required to pay. All at-call liabilities are reported in the "Less than 3 months" category. Any other items without a specified maturity date are included in the "After 5 years" category. The amounts represent principal and interest cash flows - so they may differ from equivalent amounts reported on balance sheet. For the purpose of this note, liabilities presented as liabilities held for sale in the Balance Sheet have been reallocated to their respective Balance Sheet categories.

It should be noted that this is not how the Group manages its liquidity risk. The management of this risk is detailed on page 179.

2020	Less than 3 months $m	3 to 12 months $m	1 to 5 years $m	After 5 years $m	Total $m
Settlement balances owed by ANZ	22,241	-	-	-	22,241
Collateral received	9,304	-	-	-	9,304
Deposits and other borrowings	576,506	90,241	18,025	159	684,931
Liability for acceptances	449	-	-	-	449
Debt issuances[1]	5,174	26,642	78,181	16,948	126,945
Derivative liabilities (excluding those held for balance sheet management)[2]	123,865	-	-	-	123,865
Lease liabilities[3]	72	248	809	390	1,519
Derivative assets and liabilities (balance sheet management)[4]					
- Funding					
Receive leg	(11,170)	(21,569)	(69,594)	(18,243)	(120,576)
Pay leg	10,856	20,206	66,455	17,403	114,920
- Other balance sheet management					
Receive leg	(75,098)	(40,956)	(9,738)	(8,512)	(134,304)
Pay leg	75,226	40,401	10,031	7,271	132,929

2019	Less than 3 months $m	3 to 12 months $m	1 to 5 years $m	After 5 years $m	Total $m
Settlement balances owed by ANZ	10,838	29	-	-	10,867
Collateral received	7,929	-	-	-	7,929
Deposits and other borrowings	530,392	102,731	7,657	100	640,880
Liability for acceptances	760	-	-	-	760
Debt issuances[1]	7,948	18,985	95,632	17,886	140,451
Derivative liabilities (excluding those held for balance sheet management)[2]	108,501	-	-	-	108,501
Derivative assets and liabilities (balance sheet management)[4]					
- Funding					
Receive leg	(27,588)	(29,128)	(82,588)	(22,238)	(161,542)
Pay leg	26,778	26,594	77,686	21,190	152,248
- Other balance sheet management					
Receive leg	(85,489)	(26,218)	(11,632)	(1,893)	(125,232)
Pay leg	85,887	26,980	13,071	2,311	128,249

1. Any callable wholesale debt instruments have been included at their next call date. Balance includes subordinated debt instruments that may be settled in cash or in equity, at the option of the Company, and perpetual debt instruments after 5 years.
2. The full mark-to-market of derivative liabilities (excluding those held for balance sheet management) is included in the 'less than 3 months' category.
3. On adoption of AASB 16 on 1 October 2019, the Group recognised a lease liability of $1.7 billion presented within Payables and other liabilities. Comparative information has not been restated. Refer to Note 1 for further details.
4. Include derivatives designated into hedging relationships of $4,484 million (2019: 4,173 million) and $6,362 million (2019: $8,277 million) categorised as held for trading but form part of Group's balance sheet activities.

At 30 September 2020, $227,819 million (2019: $209,341 million) of the Group's undrawn facilities and $39,795 million (2019: $44,451 million) of its issued guarantees mature in less than 1 year, based on the earliest date on which the Group may be required to pay.

17. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Group carries a significant number of financial instruments on the balance sheet at fair value. In addition the Group also holds assets classified as held for sale which are measured at fair value less costs to sell. The fair value is the best estimate of the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date.

VALUATION

The Group has an established control framework, including appropriate segregation of duties, to ensure that fair values are accurately determined, reported and controlled. The framework includes the following features:

- products are approved for transacting with external customers and counterparties only where fair values can be appropriately determined;
- quoted market prices used to value financial instruments are independently verified with information from external pricing providers;
- fair value methodologies and inputs are evaluated and approved by a function independent of the party that undertakes the transaction;
- movements in fair values are independently monitored and explained by reference to underlying factors relevant to the fair value; and
- valuation adjustments (such as funding valuation adjustments, credit valuation adjustments and bid-offer adjustments) are independently validated and monitored.

If the Group holds offsetting risk positions, then the Group uses the portfolio exception in AASB 13 *Fair Value Measurement* (AASB 13) to measure the fair value of such groups of financial assets and financial liabilities. We measure the portfolio based on the price that would be received to sell a net long position (an asset) for a particular risk exposure, or to transfer a net short position (a liability) for a particular risk exposure.

Fair value designation

We designate certain loans and advances and certain deposits and other borrowings and debt issuances as fair value through profit or loss:

- where they contain a separable embedded derivative which significantly modifies the instruments' cash flow; or
- in order to eliminate an accounting mismatch which would arise if the asset or liabilities were otherwise carried at amortised cost. This mismatch arises as we measure the derivative financial instruments (which we acquired to mitigate interest rate risk of the assets or liabilities) at fair value through profit or loss.

Our approach ensures that we recognise the fair value movements on the assets or liabilities in profit or loss in the same period as the movement on the associated derivatives.

We may also designate certain loans and advances, certain deposits and other borrowings and debt issuances as fair value through profit or loss where they are managed on a fair value basis to align the measurement with how the instruments are managed.

FAIR VALUE APPROACH AND VALUATION TECHNIQUES

We use valuation techniques to estimate the fair value of assets and liabilities for recognition, measurement and disclosure purposes where no quoted price in an active market exists for that asset or liability. This includes the following:

Asset or Liability	Fair Value Approach
Financial instruments classified as: - Trading securities - Securities sold short - Derivative financial assets and financial liabilities - Investment securities	Valuation techniques are used that incorporate observable market inputs for financial instruments with similar credit risk, maturity and yield characteristics. Equity instruments that are not traded in active markets may be measured using comparable company valuation multiples.
Financial instruments classified as: - Net loans and advances - Deposits and other borrowings - Debt issuances	Discounted cash flow techniques are used whereby contractual future cash flows of the instrument are discounted using wholesale market interest rates, or market borrowing rates for debt with similar maturities or yield curve appropriate for the remaining term to maturity.
Assets and liabilities held for sale	Valuation based on the expected sale price before transaction costs.

17. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The following tables set out the classification of financial asset and liability categories according to measurement bases together with their carrying amounts as reported on the balance sheet.

		2020			2019		
	Note	At amortised cost $m	At fair value $m	Total $m	At amortised cost $m	At fair value $m	Total $m
Financial assets							
Cash and cash equivalents	8	107,923	-	107,923	81,621	-	81,621
Settlement balances owed to ANZ		7,541	-	7,541	3,739	-	3,739
Collateral paid		14,308	-	14,308	15,006	-	15,006
Trading securities	9	-	50,913	50,913	-	43,169	43,169
Derivative financial instruments	10	-	135,331	135,331	-	120,667	120,667
Investment securities	11	6,816	86,575	93,391	5,999	77,710	83,709
Net loans and advances	12	613,155	3,938	617,093	614,336	922	615,258
Regulatory deposits		801	-	801	879	-	879
Assets held for sale[1]		-	-	-	-	1,420	1,420
Other financial assets		2,407	-	2,407	3,118	-	3,118
Total		752,951	276,757	1,029,708	724,698	243,888	968,586
Financial liabilities							
Settlement balances owed by ANZ		22,241	-	22,241	10,867	-	10,867
Collateral received		9,304	-	9,304	7,929	-	7,929
Deposits and other borrowings	14	679,255	3,078	682,333	635,376	2,301	637,677
Derivative financial instruments	10	-	134,711	134,711	-	120,951	120,951
Liabilities held for sale[1]		-	-	-	-	1,914	1,914
Payables and other liabilities		5,285	3,843	9,128	5,377	2,591	7,968
Debt issuances	15	117,509	2,159	119,668	127,102	2,589	129,691
Total		833,594	143,791	977,385	786,651	130,346	916,997

1. Assets held for sale and liabilities held for sale include only the components of assets or liabilities held for sale which are financial instruments.

FAIR VALUE HIERARCHY

The Group categorises assets and liabilities carried at fair value into a fair value hierarchy as required by AASB 13 based on the observability of inputs used to measure the fair value:

- Level 1 - valuations based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - valuations using inputs other than quoted prices included within Level 1 that are observable for a similar asset or liability, either directly or indirectly; and
- Level 3 - valuations where significant unobservable inputs are used to measure the fair value of the asset or liability.

17. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

The following table presents assets and liabilities carried at fair value in accordance with the fair value hierarchy:

	Fair value measurements							
	Quoted price in active markets (Level 1)		Using observable inputs (Level 2)		Using unobservable inputs (Level 3)		Total	
	2020 $m	2019 $m	2020 $m	2019 $m	2020 $m	2019 $m	2020 $m	2019 $m
Assets								
Trading securities[1]	**44,004**	37,768	**6,909**	5,401	**-**	-	**50,913**	43,169
Derivative financial instruments	**681**	365	**134,588**	120,241	**62**	61	**135,331**	120,667
Investment securities[1]	**85,330**	76,000	**137**	499	**1,108**	1,211	**86,575**	77,710
Net loans and advances[2]	**-**	-	**3,925**	922	**13**	-	**3,938**	922
Assets held for sale[3]	**-**	-	**-**	1,952	**-**	-	**-**	1,952
Total	**130,015**	114,133	**145,559**	129,015	**1,183**	1,272	**276,757**	244,420
Liabilities								
Deposits and other borrowings[2]	**-**	-	**3,078**	2,301	**-**	-	**3,078**	2,301
Derivative financial instruments	**1,120**	881	**133,536**	120,018	**55**	52	**134,711**	120,951
Payables and other liabilities[4]	**3,830**	2,553	**13**	38	**-**	-	**3,843**	2,591
Debt issuances (designated at fair value)	**-**	-	**2,159**	2,589	**-**	-	**2,159**	2,589
Liabilities held for sale[3]	**-**	-	**-**	2,121	**-**	-	**-**	2,121
Total	**4,950**	3,434	**138,786**	127,067	**55**	52	**143,791**	130,553

1. During the year, $127 million of assets were transferred from Level 2 to Level1 (2019: nil) following increased trading activity to support quoted prices. There were no other material transfers during the year. Transfers into and out of levels are measured at the beginning of the reporting period in which the transfer occurred.
2. From 1 October 2019, Group changed its accounting treatment for certain gold loan and deposit products which are now designated as at fair value through profit and loss.
3. The amount classified as Assets and Liabilities held for sale relates to assets and liabilities measured at fair value less cost to sell in accordance with AASB *5 Non-current Assets Held for Sale and Discontinued Operations*. The amount presented reflects fair value excluding cost to sell but including intercompany eliminations.
4. Payables and other liabilities relates to securities sold short, which we classify as held for trading and measured at fair value through profit or loss.

FAIR VALUE MEASUREMENT INCORPORATING UNOBSERVABLE MARKET DATA

Level 3 fair value measurements

The net balance of Level 3 is an asset of $1,128 million (2019: $1,220 million). The assets and liabilities which incorporate significant unobservable inputs primarily include:

- equities for which there is no active market or traded prices cannot be observed;
- structured credit products for which credit spreads and default probabilities relating to the reference assets and derivative counterparties cannot be observed;
- net loans and advances that are required to be measured at fair value for which there is no observable market data; and
- other derivatives referencing market rates that cannot be observed primarily due to lack of market activity.

Movement in Level 3 balance is mainly due to the revaluation of the Group's investment in Bank of Tianjin.

There were no material transfers in or out of Level 3 during the period.

17. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

Bank of Tianjin (BoT)

The investment is valued based on comparative price-to-book (P/B) multiples (a P/B multiple is the ratio of the market value of equity to the book value of equity). The extent of judgement applied in determining the appropriate multiple and comparator group from which the multiple is derived are non-observable inputs which have resulted in the Level 3 classification.

Sensitivity to Level 3 data inputs

When we make assumptions due to significant inputs not being directly observable in the market place (Level 3 inputs), then changing these assumptions changes the Group's estimate of the instrument's fair value. Favourable and unfavourable changes are determined by changing the primary unobservable parameter used to derive the valuation.

Bank of Tianjin (BoT)

The valuation of the BoT investment is sensitive to the selected unobservable input, being the P/B multiple. If the P/B multiple was increased or decreased by 10% it would result in a $93 million (2019: $111 million) increase or decrease to the fair value of the investment, which would be recognised in shareholders' equity.

Other

The remaining Level 3 balance is immaterial and changes in the Level 3 inputs have a minimal impact on net profit and net assets of the Group.

Deferred fair value gains and losses

Where fair values are determined using unobservable inputs significant to the fair value of a financial instrument, the Group does not immediately recognise the difference between the transaction price and the amount we determine based on the valuation technique (day one gain or loss) in profit or loss. After initial recognition, we recognise the deferred amount in profit or loss on a straight line basis over the life of the transaction or until all inputs become observable.

The day one gains and losses deferred are not material.

FINANCIAL ASSETS AND FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE

The following table sets out the Group's basis of estimating fair values of financial instruments carried at amortised cost:

Financial Asset and Liability	Fair Value Approach
Investment securities - debt securities at amortised cost	Calculated based on quoted market prices or observable inputs as applicable. If quoted market prices are not available, we use a discounted cash flow model using a yield curve appropriate for the remaining term to maturity of the debt instrument. The fair value reflects adjustments to credit spreads applicable for that instrument.
Net loans and advances to banks	Discounted cash flows using prevailing market rates for loans with similar credit quality.
Net loans and advances to customers	Present value of future cash flows, discounted using a curve that incorporates changes in wholesale market rates, the Group's cost of wholesale funding and the customer margin, as appropriate.
Deposit liability without a specified maturity or at call	The amount payable on demand at the reporting date. We do not adjust the fair value for any value we expect the Group to derive from retaining the deposit for a future period.
Interest bearing fixed maturity deposits and other borrowings and acceptances with quoted market rates	Market borrowing rates of interest for debt with a similar maturity are used to discount contractual cash flows to derive the fair value.
Debt issuances	Calculated based on quoted market prices or observable inputs as applicable. If quoted market prices are not available, we use a discounted cash flow model using a yield curve appropriate for the remaining term to maturity of the debt instrument. The fair value reflects adjustments to credit spreads applicable to ANZ for that instrument.

17. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

The financial assets and financial liabilities listed in the table below are carried at amortised cost on the Group's Balance Sheet. While this is the value at which we expect the assets will be realised and the liabilities settled, the Group provides an estimate of the fair value of the financial assets and financial liabilities at balance date in the table below.

			Categorised into fair value hierarchy							
	At amortised cost		Quoted price active markets (Level 1)		Using observable inputs (Level 2)		With significant non-observable inputs (Level 3)		Fair value (total)	
	2020 $m	2019 $m	2020 $m	2019 $m	2020 $m	2019 $m	2020 $m	2019 $m	2020 $m	2019 $m
Financial assets										
Net loans and advances	613,155	614,336	-	-	16,161	22,629	597,997	592,704	614,158	615,333
Investment securities	6,816	5,999	-	-	6,816	5,997	-	-	6,816	5,997
Total	619,971	620,335	-	-	22,977	28,626	597,997	592,704	620,974	621,330
Financial liabilities										
Deposits and other borrowings	679,255	635,376	-	-	679,544	635,660	-	-	679,544	635,660
Debt issuances	117,509	127,102	26,107	43,304	93,187	85,484	-	-	119,294	128,788
Total	796,764	762,478	26,107	43,304	772,731	721,144	-	-	798,838	764,448

KEY JUDGEMENTS AND ESTIMATES

The Group evaluates the material accuracy of the valuations incorporated in the financial statements as they can involve a high degree of judgement and estimation in determining the carrying values of financial assets and financial liabilities at the balance sheet date.

The majority of valuation models the Group uses employ only observable market data as inputs. This has not changed as a result of COVID-19, however the Group has considered the impact of related economic and market disruptions on fair value measurement assumptions and the appropriateness of valuation inputs, notably valuation adjustments, as well as the impact of COVID-19 on the classification of exposures in the fair value hierarchy.

For certain financial instruments, we may use data that is not readily observable in current markets. If we use unobservable market data, then we need to exercise more judgement to determine fair value depending on the significance of the unobservable input to the overall valuation. Generally, we derive unobservable inputs from other relevant market data and compare them to observed transaction prices where available.

When establishing the fair value of a financial instrument using a valuation technique, the Group considers valuation adjustments in determining the fair value. We may apply adjustments (such as bid/offer spreads, credit valuation adjustments and funding valuation adjustments – refer Note 10 Derivative Financial Instruments) to reflect the Group's assessment of factors that market participants would consider in setting fair value.

18. ASSETS CHARGED AS SECURITY FOR LIABILITIES AND COLLATERAL ACCEPTED AS SECURITY FOR ASSETS

The following disclosure excludes the amounts presented as collateral paid and received in the Balance Sheet that relate to derivative liabilities and derivative assets respectively. The terms and conditions of those collateral agreements are included in the standard Credit Support Annex that forms part of the International Swaps and Derivatives Association Master Agreement.

ASSETS CHARGED AS SECURITY FOR LIABILITIES

Assets charged as security for liabilities include the following types of instruments:

- securities provided as collateral for repurchase transactions. These transactions are governed by standard industry agreements;
- specified residential mortgages provided as security for notes and bonds issued to investors as part of ANZ's covered bond programs;
- collateral provided to central banks; and
- collateral provided to clearing houses.

The carrying amount of assets pledged as security are as follows:

	2020 $m	2019 $m
Securities sold under arrangements to repurchase[1]	61,415	43,213
Assets pledged as collateral for UDC Secured Investments[2]	-	3,228
Residential mortgages provided as security for covered bonds	28,559	30,799
Other	4,990	4,927

1. The amounts disclosed as securities sold under arrangements to repurchase include both:
   - assets pledged as security which continue to be recognised on the Group's balance sheet; and
   - assets repledged, which are included in the disclosure below.
2. UDC Secured Investments were secured by a security interest over all of UDC's assets. The Group divested of UDC during 2020 and, therefore, there are no longer any associated collateral balances requiring disclosure by the Group.

COLLATERAL ACCEPTED AS SECURITY FOR ASSETS

ANZ has received collateral associated with various financial instruments. Under certain transactions ANZ has the right to sell, or to repledge, the collateral received. These transactions are governed by standard industry agreements.

The fair value of collateral we have received and that which we have sold or repledged is as follows:

	2020 $m	2019 $m
Fair value of assets which can be sold or repledged	54,242	37,990
Fair value of assets sold or repledged	32,578	29,460

19. OFFSETTING

We offset financial assets and financial liabilities on the balance sheet (in accordance with AASB 132 *Financial Instruments: Presentation*) when there is:

- a current legally enforceable right to set off the recognised amounts in all circumstances; and
- an intention to settle the asset and liability on a net basis, or to realise the asset and settle the liability simultaneously.

If the above conditions are not met, the financial assets and financial liabilities are presented on a gross basis.

The Group does not have any arrangements that satisfy the conditions necessary to offset financial assets and financial liabilities within the balance sheet. The following table identifies financial assets and financial liabilities which have not been offset but are subject to enforceable master netting agreements (or similar arrangements) and the related amounts not offset in the balance sheet. We have not taken into account the effect of over-collateralisation.

			Amount subject to master netting agreement or similar			
2020	Total amounts recognised in the Balance Sheet $m	Amounts not subject to master netting agreement or similar $m	Total $m	Financial instruments $m	Financial collateral (received)/ pledged $m	Net amount $m
Derivative financial assets	135,331	(3,862)	131,469	(117,982)	(6,397)	7,090
Reverse repurchase, securities borrowing and similar agreements[1]	53,434	(5,922)	47,512	(1,566)	(45,946)	-
Total financial assets	188,765	(9,784)	178,981	(119,548)	(52,343)	7,090
Derivative financial liabilities	(134,711)	2,824	(131,887)	117,982	10,059	(3,846)
Repurchase, securities lending and similar agreements[2]	(55,716)	14,354	(41,362)	1,566	39,796	-
Total financial liabilities	(190,427)	17,178	(173,249)	119,548	49,855	(3,846)

			Amount subject to master netting agreement or similar			
2019	Total amounts recognised in the Balance Sheet $m	Amounts not subject to master netting agreement or similar $m	Total $m	Financial instruments $m	Financial collateral (received)/ pledged $m	Net amount $m
Derivative financial assets	120,667	(4,019)	116,648	(103,247)	(6,378)	7,023
Reverse repurchase, securities borrowing and similar agreements[1]	37,102	(5,299)	31,803	(1,414)	(30,389)	-
Total financial assets	157,769	(9,318)	148,451	(104,661)	(36,767)	7,023
Derivative financial liabilities	(120,951)	3,145	(117,806)	103,247	10,970	(3,589)
Repurchase, securities lending and similar agreements[2]	(41,367)	17,781	(23,586)	1,414	22,172	-
Total financial liabilities	(162,318)	20,926	(141,392)	104,661	33,142	(3,589)

1. Reverse repurchase agreements:
   - with less than 90 days to maturity are presented in the Balance Sheet within cash and cash equivalents; or
   - with 90 days or more to maturity are presented in the Balance Sheet within net loans and advances.
2. Repurchase agreements are presented on the Balance Sheet within deposits and other borrowings.

20. GOODWILL AND OTHER INTANGIBLE ASSETS

	Goodwill[1]		Software		Other Intangibles		Total	
	2020 $m	2019 $m	2020 $m	2019 $m	2020 $m	2019 $m	2020 $m	2019 $m
Balance at start of year	3,467	3,440	1,323	1,421	71	69	4,861	4,930
Additions	-	-	375	421	6	-	381	421
Amortisation expense[2]	-	-	(657)	(517)	(1)	-	(658)	(517)
Impairment expense	(77)	-	(2)	(4)	-	-	(79)	(4)
Written off on disposal	(124)	-	-	-	-	-	(124)	-
Foreign currency exchange difference	(2)	27	-	2	-	2	(2)	31
Balance at end of year	3,264	3,467	1,039	1,323	76	71	4,379	4,861
Cost[3]	3,341	3,467	7,300	7,068	77	75	10,718	10,610
Accumulated amortisation/impairment	(77)	n/a	(6,261)	(5,745)	(1)	(4)	(6,339)	(5,749)
Carrying amount	3,264	3,467	1,039	1,323	76	71	4,379	4,861

1. Goodwill excludes notional goodwill in equity accounted investments.
2. During the second half of the 2020 financial year, the Group amended the application of its software amortisation policy. The Group recognised accelerated amortisation of $197 million.
3. Includes impact of foreign currency translation differences.

IMPAIRMENT TESTING FOR CASH GENERATING UNITS (CGUs) CONTAINING GOODWILL

During the year ended September 2020, $124 million of goodwill was written off in relation to completed divestments. In addition, as a result of changes in economic outlook, the Group announced its intention to begin winding up the Bonus Bonds business, a managed investment product in New Zealand and the Group wrote off the associated goodwill of $27 million. The balance of goodwill was subject to impairment assessment as set out below which resulted in $50 million of goodwill impairment in the Pacific division.

An assessment as to whether the current carrying value of goodwill is impaired is undertaken annually or where there are indicators of potential impairment. For the purpose of impairment testing, goodwill acquired in a business combination is allocated at the date of acquisition to the cash generating units (CGUs) that are expected to benefit from the synergies of the related business combination. These CGUs are ANZ's reportable segments. Goodwill is considered to be impaired if the carrying amount of the relevant CGU exceeds its recoverable amount.

In determining the carrying amount of the CGUs to which goodwill is allocated, we include all direct assets and liabilities and an allocation, on a reasonable and consistent basis, of corporate assets and liabilities that are recorded outside those CGUs to which goodwill is allocated.

We estimate the recoverable amount of each CGU to which goodwill is allocated using a fair value less costs of disposal (FVLCOD) approach, with a value in use (VIU) assessment performed where the FVLCOD is less than the carrying amount.

As the Group's market capitalisation was below the Group's net asset value at 30 September 2020, and considering uncertainties surrounding COVID-19, the Group assessed the carrying value of goodwill as at 30 September 2020. Based on this assessment:

- no impairment was identified in the Australia Retail and Commercial, New Zealand and Institutional CGUs under the FVLCOD approach;
- the Pacific CGU's recoverable amount measured on a VIU basis (being higher than its FVLCOD) indicated a shortfall in recoverable amount relative to carrying amount. Accordingly an impairment loss of $50 million has been recognised at 30 September 2020, reducing the carrying amount of goodwill to nil.

Fair Value Less Cost of Disposal

The recoverable amount of each CGU to which goodwill is allocated is estimated on a FVLCOD basis, calculated using a market multiple approach. Under this approach, we determine the estimated fair value of each of our CGUs by applying observable price earnings multiples of appropriate comparator companies to the estimated future maintainable earnings of each CGU. A deduction is then made for estimated costs of disposal. The valuation is considered to be level 3 in the fair value hierarchy due to unobservable inputs used in the valuation.

20. GOODWILL AND OTHER INTANGIBLE ASSETS (continued)

Management's approach and the key assumptions used to determine FVLCOD, for those CGUs where recoverable amount was determined on the basis of FVLCOD were as follows:

<table>
<tr><th>Key assumption</th><th>Approach to determining the value (or values) for each key assumption</th></tr>
<tr><td>Future maintainable earnings</td><td>Future maintainable earnings for each CGU have been estimated as the sum of:
• The financial year 2021 financial plan results for each CGU, which incorporates management estimates of the impacts of COVID-19; plus
• An allocation of the central costs recorded outside of the CGU's to which goodwill is allocated.
Adjustments have been made to the financial year 2021 plan results to:
• reflect longer term expected credit losses; and
• normalise certain other operating expenditure where specific factors result in financial year 2021 planned expenditure exceeding longer term maintainable levels with the higher operating expenditure treated as a one-off adjustment in the valuations.</td></tr>
<tr><td>Price/Earnings (P/E) multiple applied (including control premium)</td><td>Trading multiples:
The P/E multiples used have been derived from valuations of comparable publicly traded companies as at 30 September 2020 and are the median P/E multiple (2021 earnings multiple) of the comparator group:
• For the Australia Retail and Commercial and New Zealand CGUs, the comparator group is the four major banking groups headquartered in Australia;
• For the Institutional CGU, the comparator group includes the four major banking groups headquartered in Australia plus certain major financial institutions who compete with the Group in international markets.
In the case of the New Zealand and Institutional CGUs, management has made downwards adjustments to comparator group multiples to address specific factors relevant to those CGUs.
For each of ANZ's CGUs where the recoverable amount was determined on the basis of FVLCOD, the P/E multiples applied (including a 30% control premium discussed below) were as follows:
<table><tr><th>Division</th><th>2020</th><th>2019</th></tr><tr><td>Australia Retail and Commercial</td><td>16.0</td><td>17.9</td></tr><tr><td>New Zealand</td><td>12.7</td><td>17.8</td></tr><tr><td>Institutional</td><td>13.4</td><td>14.7</td></tr></table>Control premium:
A control premium has been applied which recognises the increased consideration a potential acquirer would be willing to pay in order to gain sufficient ownership to achieve control over the relevant activities of the CGU. For each CGU, the control premium has been estimated as 30% of the comparator group P/E multiple based on historical transactions.</td></tr>
<tr><td>Costs of disposal</td><td>Costs of disposal have been estimated as 2% of the fair value of the CGU based on input from historical and recent transactions.</td></tr>
</table>

FVLCOD assessment outcomes

For those CGUs where recoverable amount was determined on the basis of FVLCOD, the surplus of the recoverable amount over the carrying amount was as follows:

Cash generating unit:	Surplus 30 September 2020 $m
Australia Retail and Commercial	4,539
New Zealand	1,201
Institutional	516

Sensitivity analysis

The surpluses disclosed above are sensitive to judgements and estimates in respect of:

- for recoverable amount – The future maintainable earnings and the P/E multiple applied (including the control premium applied in determining the P/E multiple); and
- for carrying amount - The allocation of corporate assets and liabilities recorded outside those CGUs to which goodwill is allocated.

20. GOODWILL AND OTHER INTANGIBLE ASSETS (continued)

The FVLCOD estimates for the respective CGUs would continue to show a surplus in recoverable amount over carrying amount if:

- either the P/E multiple applied or the future maintainable earnings estimates were reduced (in isolation) by 13.6% in Australia Retail and Commercial; 8.6% in New Zealand or 2.6% in Institutional; or
- the 30% control premium applied was reduced by 59.5% in Australia Retail and Commercial (resulting in a control premium applied of 12.1%), by 38.1% in New Zealand (resulting in a control premium applied of 18.6%) or by 11.4% in Institutional (resulting in a control premium applied of 26.6%); or
- the share of corporate assets and liabilities was increased (in isolation) by 17.3% to Australia Retail and Commercial; 10.1% to New Zealand or 3.2% to Institutional.

As the recoverable amounts estimated on the basis of FVLCOD show a surplus of recoverable amount over carrying amount for the Australia Retail and Commercial, New Zealand and Institutional CGUs, such adverse movements would not necessarily trigger an impairment, rather they would trigger the need for a VIU assessment to be performed with any impairment determined on the basis of the higher of FVLCOD and VIU.

Value In Use

The Pacific CGU's recoverable amount was measured on the basis of its VIU (as this was higher than the FVLCOD). Recoverable amount under the VIU assessment was estimated at $466 million using a post-tax discount rate of 13%, which resulted in a shortfall relative to carrying amount. Accordingly an impairment loss of $50 million has been recognised at 30 September 2020, reducing the carrying amount of goodwill to nil. In addition, an associated assessment of the carrying values of the other assets in the Pacific was completed and no impairment (apart from goodwill) was recorded.

The goodwill applicable to each CGU before and after impairment charges and other adjustments is shown below:

Cash generating unit:	Balance as at 1 October 2019 $m	Impairment expense $m	Disposal on sale $m	Foreign exchange difference $m	Balance at 30 September 2020 $m
Australia	409	-	(6)	-	403
New Zealand	1,937	(27)	(118)	1	1,793
Institutional	1,071	-	-	(3)	1,068
Pacific	50	(50)	-	-	-
Total	3,467	(77)	(124)	(2)	3,264

20. GOODWILL AND OTHER INTANGIBLE ASSETS (continued)

RECOGNITION AND MEASUREMENT

The table below details how we recognise and measure different intangible assets:

	Goodwill	Software	Other Intangible Assets
Definition	Excess amount the Group has paid in acquiring a business over the fair value of the identifiable assets and liabilities acquired.	Purchases of "off the shelf" software assets are capitalised as assets. Internal and external costs incurred in building software and computer systems costing greater than $20 million are capitalised as assets. Those less than $20 million are expensed in the year in which the costs are incurred.	Management fee rights arising from acquisition of funds management business and an intangible asset arising from contractual rights.
Carrying value	Cost less any accumulated impairment losses. Allocated to the cash generating unit to which the acquisition relates.	Initially, measured at cost. Subsequently, carried at cost less accumulated amortisation and impairment losses. Costs incurred in planning or evaluating software proposals or in maintaining systems after implementation are not capitalised.	Initially, measured at fair value at acquisition. Subsequently, carried at cost less amortisation and impairment losses.
Useful life	Indefinite. Goodwill is reviewed for impairment at least annually or when there is an indication of impairment.	Except for major core infrastructure, amortised over periods between 2-5 years; however major core infrastructure may be amortised up to 7 years subject to approval by the Audit Committee. Purchased software is amortised over 2 years unless it is considered integral to other assets with a longer useful life.	Management fee rights with an indefinite life are reviewed for impairment at least annually or when there is an indication of impairment. The contractual rights intangible asset has a useful life of 3 years.
Depreciation method	Not applicable.	Straight-line method.	Not applicable to indefinite life intangible assets. Straight line for those with a limited life.

20. GOODWILL AND OTHER INTANGIBLE ASSETS (continued)

KEY JUDGEMENTS AND ESTIMATES

Management judgement is used to assess the recoverable value of goodwill, and other intangible assets, and the useful economic life of an asset, or if an asset has an indefinite life. We reassess the recoverability of the carrying value at each reporting date.

Goodwill

A number of key judgements are required in the determination of whether or not a goodwill balance is impaired:

- the level at which goodwill is allocated – consistent with prior periods the CGUs to which goodwill is allocated are the Group's four revenue generating segments that benefit from relevant historical business combinations generating goodwill.
- determination of the carrying amount of each CGU which includes an allocation, on a reasonable and consistent basis of corporate assets and liabilities that are not directly attributable to the CGUs to which goodwill is allocated.
- assessment of the recoverable amount of each CGU used to determine whether the carrying amount of goodwill is supported is based on judgements including:
  - selection of the model used to determine the fair value – the Group has used the market multiple approach to estimate the fair value; and
  - selection of the key assumptions in respect of future maintainable earnings, the P/E multiple applied, including selection of an appropriate comparator group and determination of an appropriate control premium, and costs of disposal as described above.

The assessment of the recoverable amount of each CGU has been made within the context of the ongoing impact of COVID-19 on both earnings and asset prices, and reflects expectations of future events that are believed to be reasonable under the circumstances. The rapidly evolving consequences of COVID-19 and government, business and consumer responses create heightened uncertainty in these estimates and any variations could have a positive or adverse impact on the determination of recoverable amounts.

Software and other intangible assets

At each reporting date, software and other intangible assets, are assessed for indicators of impairment and, where such indicators are identified, an impairment assessment is performed. In the event that an asset's carrying amount is determined to be greater than its recoverable amount, the carrying amount of the asset is written down immediately. Those assets not yet ready for use are tested for impairment annually.

In addition, the expected useful lives of intangible assets are assessed at each reporting date. The assessment requires management judgement, and in relation to our software assets, a number of factors can influence the expected useful lives. These factors include changes to business strategy, significant divestments and the underlying pace of technological change.

During the Financial year the Group amended the application of the software policy to reflect the shorter useful lives of various types of software, including regulatory and compliance focused assets and purchased assets. These changes better reflect the Group's rapidly changing technology and business needs and ongoing reinvestment in purchased and internally developed software to ensure assets remain fit for purpose.

21. OTHER PROVISIONS

	2020 $m	2019 $m
ECL allowance on undrawn and contingent facilities[1]	898	668
Customer remediation	1,109	1,139
Restructuring costs	105	64
Non-lending losses, frauds and forgeries	79	94
Other	388	349
Total other provisions (including liabilities reclassified as held for sale)	2,579	2,314
Less: Other provisions reclassified as held for sale	-	(91)
Total other provisions	2,579	2,223

1. Refer to Note 13 Allowance for Expected Credit Losses for movement analysis.

	Customer remediation $m	Restructuring costs $m	Non-lending losses, frauds and forgeries $m	Other $m
Balance at 1 October 2018	602	105	100	191
New and increased provisions made during the year	857	97	18	338
Provisions used during the year	(186)	(117)	(5)	(71)
Unused amounts reversed during the year	(134)	(21)	(19)	(109)
Balance at 30 September 2019 (including liabilities reclassified as held for sale)	1,139	64	94	349
New and increased provisions made during the year	773	124	4	400
Provisions used during the year	(381)	(74)	(12)	(215)
Unused amounts reversed during the year[1]	(422)	(9)	(7)	(146)
Balance at end of year	1,109	105	79	388

1. Customer remediation includes a $99 million transfer to the purchaser on completion of divestment of part of Wealth Australia discontinued operations.

Customer remediation

Customer remediation includes provisions for expected refunds to customers, remediation project costs and related customer and regulatory claims, penalties and litigation outcomes.

Restructuring costs

Provisions for restructuring costs arise from activities related to material changes in the scope of business undertaken by the Group or the manner in which that business is undertaken and include employee termination benefits. Costs relating to on-going activities are not provided for and are expensed as incurred.

Non-lending losses, frauds and forgeries

Non-lending losses include losses arising from certain legal actions not directly related to amounts of principal outstanding for loans and advances and losses arising from forgeries, frauds and the correction of operational issues. The amounts recognised are the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties that surround the events and circumstances that affect the provision.

Other

Other provisions comprise various other provisions including workers compensation, make-good provisions associated with leased premises, warranties and indemnities provided in connection with various disposals of businesses and assets, and contingent liabilities recognised as part of a business combination.

21. OTHER PROVISIONS (continued)

RECOGNITION AND MEASUREMENT

The Group recognises provisions when there is a present obligation arising from a past event, an outflow of economic resources is probable, and the amount of the provision can be measured reliably.

The amount recognised is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the timing and amount of the obligation. Where a provision is measured using the estimated cash flows required to settle the present obligation, its carrying amount is the present value of those cash flows.

KEY JUDGEMENTS AND ESTIMATES

The Group holds provisions for various obligations including customer remediation, restructuring costs, non-lending losses, fraud and forgeries and litigation related claims. These provisions involve judgements regarding the timing and outcome of future events, including estimates of expenditure required to satisfy such obligations. Where relevant, expert legal advice has been obtained and, in light of such advice, provisions and/or disclosures as deemed appropriate have been made.

In relation to customer remediation, determining the amount of the provisions, which represent management's best estimate of the cost of settling the identified matters, requires the exercise of significant judgement. It will often be necessary to form a view on a number of different assumptions, including, the number of impacted customers, the average refund per customer, the associated remediation project costs, and the implications of regulatory exposures and customer claims having regard to their specific facts and circumstances. Consequently, the appropriateness of the underlying assumptions is reviewed on a regular basis against actual experience and other relevant evidence including expert legal advices and adjustments are made to the provisions where appropriate.

22. SHAREHOLDERS' EQUITY

SHAREHOLDERS' EQUITY

	2020 $m	2019 $m
Ordinary share capital	26,531	26,490
Reserves		
Foreign currency translation reserve	155	705
Share option reserve	85	89
FVOCI reserve	245	126
Cash flow hedge reserve	1,038	731
Transactions with non-controlling interests reserve	(22)	(22)
Total reserves	1,501	1,629
Retained earnings	33,255	32,664
Share capital and reserves attributable to shareholders of the Company	61,287	60,783
Non-controlling interests	10	11
Total shareholders' equity	61,297	60,794

ORDINARY SHARE CAPITAL

The table below details the movement in ordinary shares and share capital for the period.

	2020		2019	
	Number of shares	$m	Number of shares	$m
Balance at start of the year	2,834,584,923	26,490	2,873,618,118	27,205
Dividend reinvestment plan ('DRP') Issuances[1]	3,373,022	61	-	-
Bonus option plan[2]	2,412,280	-	2,999,796	-
Group employee share acquisition scheme	-	(20)	-	-
Share buy-back[3]	-	-	(42,032,991)	(1,120)
Treasury shares in Wealth Australia discontinued operations[4]	-	-	-	405
Balance at end of year	2,840,370,225	26,531	2,834,584,923	26,490

1. 3.4 million shares were issued under the Dividend Reinvestment Plan (DRP) for the 2020 interim dividend (nil shares for the 2019 final and interim dividend as the shares were purchased on-market and provided directly to shareholders participating in the DRP).
2. The Company issued 0.8 million shares under the Bonus Option Plan (BOP) for the 2020 interim dividend and 1.6 million shares for the 2019 final dividend (1.4 million shares for the 2019 interim dividend and 1.6 million shares for the 2018 final dividend).
3. The Company completed a $3.0 billion on-market share buy-back of ANZ ordinary shares purchasing $1,120 million in the September 2019 full year resulting in 42.0 million ANZ ordinary shares being cancelled in the September 2019 full year.
4. The successor fund transfer performed in preparation for the sale of the Group's wealth business to Zurich and IOOF completed on 13 April 2019. As a result the Group no longer eliminates the ANZ shares previously held in Wealth Australia discontinued operations.

22. SHAREHOLDERS' EQUITY (continued)

RECOGNITION AND MEASUREMENT

Ordinary shares	Ordinary shares have no par value. They entitle holders to receive dividends, or proceeds available on winding up of the Company, in proportion to the number of fully paid ordinary shares held. They are recognised at the amount paid per ordinary share net of directly attributable costs. Every holder of fully paid ordinary shares present at a meeting in person, or by proxy, is entitled to: • on a show of hands, one vote; and • on a poll, one vote, for each share held.
Treasury shares	Treasury shares are shares in the Company which: • the ANZ Employee Share Acquisition Plan purchases on market and have not yet distributed, or • the Company issues to the ANZ Employee Share Acquisition Plan and have not yet been distributed, or • the life insurance business purchased and held to back policy liabilities in the statutory funds prior to the successor fund transfer performed in preparation for the sale of the Group's wealth business to Zurich and IOOF which completed on 13 April 2019. Treasury shares are deducted from share capital and excluded from the weighted average number of ordinary shares used in the earnings per share calculations.
Reserves:	
Foreign currency translation reserve	Includes differences arising on translation of assets and liabilities into Australian dollars when the functional currency of a foreign operation (including subsidiaries and branches) is not Australian dollars. In this reserve, we reflect any offsetting gains or losses on hedging these exposures, together with any tax effect.
Cash flow hedge reserve	Includes fair value gains and losses associated with the effective portion of designated cash flow hedging instruments together with any tax effect.
FVOCI reserve	Includes changes in the fair value of certain debt securities and equity securities included within Investment Securities together with any tax effect. In respect of debt securities classified as measured at FVOCI, the FVOCI reserve records accumulated changes in fair value arising subsequent to initial recognition, except for those relating to allowance for expected credit losses, interest income and foreign currency exchange gains and losses which are recognised in profit or loss. As debt securities at FVOCI are recorded at fair value, the balance of the FVOCI reserve is net of the ECL allowance associated with such assets. When a debt security measured at FVOCI is derecognised, the cumulative gain or loss recognised in the FVOCI reserve in respect of that security is reclassified to profit or loss and presented in Other Operating Income. In respect of the equity securities classified as measured at FVOCI, the FVOCI reserve records accumulated changes in fair value arising subsequent to initial recognition (including any related foreign exchange gains or losses). When an equity security measured at FVOCI is derecognised, the cumulative gain or loss recognised in the FVOCI reserve in respect of that security is not recycled to profit or loss.
Share option reserve	Includes amounts which arise on the recognition of share-based compensation expense.
Transactions with non-controlling interests reserve	Includes the impact of transactions with non-controlling shareholders in their capacity as shareholders.
Non-controlling interests	Share in the net assets of controlled entities attributable to equity interests which the Company does not own directly or indirectly.

23. CAPITAL MANAGEMENT

CAPITAL MANAGEMENT STRATEGY

ANZ's capital management strategy aims to protect the interests of depositors, creditors and shareholders. We achieve this through an Internal Capital Adequacy Assessment Process (ICAAP) whereby ANZ conducts detailed strategic and capital planning over a 3 year time horizon.
The process involves:

- forecasting economic variables, financial performance of ANZ's divisions and the financial impact of new strategic initiatives to be implemented during the planning period;
- performing stress tests under different economic scenarios to determine the level of additional capital ('stress capital buffer') needed to absorb losses that may be experienced under an economic downturn;
- reviewing capital ratios and targets across various classes of capital against ANZ's risk profile; and
- developing a capital plan, taking into account capital ratio targets, current and future capital issuances requirements and options around capital products, timing and markets to execute the capital plan under differing market and economic conditions.

The capital plan is approved by the Board and updated as required. The Board and senior management are provided with regular updates of ANZ's capital position. Any material actions required to ensure ongoing prudent capital management are submitted to the Board for approval. Throughout the year, the Group maintained compliance with all the regulatory requirements related to Capital Adequacy in the jurisdictions in which it operates.

REGULATORY ENVIRONMENT

Australia

As ANZ is an Authorised Deposit-taking Institution (ADI) in Australia, it is primarily regulated by APRA under the *Banking Act 1959 (Cth)*. ANZ must comply with the minimum regulatory capital requirements, prudential capital ratios and specific reporting levels that APRA sets and which are consistent with the global Basel III capital framework. This is the common framework for determining the appropriate level of bank regulatory capital as set by the Basel Committee on Banking Supervision ("BCBS"). APRA requirements are summarised below:

Regulatory Capital Definition			
Common Equity Tier 1 (CET1) Capital	**Tier 1 Capital**	**Tier 2 Capital**	**Total Capital**
Shareholders' equity adjusted for specific items.	CET1 Capital plus certain securities with complying loss absorbing characteristics known as Additional Tier 1 Capital.	Subordinated debt instruments which have a minimum term of 5 years at issue date.	Tier 1 plus Tier 2 Capital.
Minimum Prudential Capital Ratios (PCRs)			
CET1 Ratio	**Tier 1 Ratio**	**Total Capital Ratio**	
CET1 Capital divided by total risk weighted assets must be at least 4.5%.	Tier 1 Capital divided by total risk weighted assets must be at least 6.0%.	Total Capital divided by total risk weighted assets must be at least 8.0%.	
Reporting Levels			
Level 1	**Level 2**	**Level 3**	
The ADI on a stand-alone basis (that is the Company and specified subsidiaries which are consolidated to form the ADI's Extended Licensed Entity).	The consolidated Group less certain subsidiaries and associates that are excluded under prudential standards.	A conglomerate Group at the widest level.	

APRA also requires the ADI to hold additional CET1 buffers as follows:

- a capital conservation buffer (CCB) of 3.5% which is inclusive of the additional 1% surcharge for domestically systemically important banks (D-SIBs). APRA has determined that ANZ is a D-SIB.
- a countercyclical capital buffer which is set on a jurisdictional basis. The requirement is currently set to zero for Australia.

ANZ reports to APRA on a Level 1 and Level 2 basis, and measures capital adequacy monthly on a Level 1 and Level 2 basis, and is not yet required to maintain capital on a Level 3 basis (APRA have yet to conclude required timing for Level 3 reporting).

Life Insurance and Funds Management

As required by APRA's Prudential Standards, insurance and funds management activities are:

- de-consolidated for the purposes of calculating capital adequacy; and
- excluded from the risk based capital adequacy framework.

We deduct the investment in these controlled entities 100% from CET1 capital, and if we include any profits from these activities in the Group's results, then we exclude them from the determination of CET1 capital to the extent they have not been remitted to the Company.

23. CAPITAL MANAGEMENT (continued)

Outside Australia

In addition to APRA, the Company's branch operations and major banking subsidiary operations are also 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 and Insurance Regulatory Commission. They may impose minimum capital levels on operations in their individual jurisdictions.

CAPITAL ADEQUACY[1]

The following table provides details of the Group's capital adequacy ratios at 30 September:

	2020 $m	2019 $m
Qualifying capital		
Tier 1		
Shareholders' equity and non-controlling interests	61,297	60,794
Prudential adjustments to shareholders' equity	(205)	120
Gross Common Equity Tier 1 capital	61,092	60,914
Deductions	(12,390)	(13,559)
Common Equity Tier 1 capital	48,702	47,355
Additional Tier 1 capital[2]	7,779	7,866
Tier 1 capital	56,481	55,221
Tier 2 capital[3]	13,957	8,549
Total qualifying capital	70,438	63,770
Capital adequacy ratios (Level 2)		
Common Equity Tier 1	11.3%	11.4%
Tier 1	13.2%	13.2%
Tier 2	3.3%	2.1%
Total capital ratio	16.4%	15.3%
Risk weighted assets	429,384	416,961

1. This information is not within the scope of the external audit of the Group Financial Report by the Group's external auditor, KPMG. The information presented in this table is a regulatory requirement disclosed in Part A of the *APRA Reporting Form (ARF) 110 Capital Adequacy* which will be subject to audit in accordance with *Prudential Standard APS 310 Audit and Related Matters*.
2. This includes Additional Tier 1 capital of $8,196 million (2019: $8,171 million) (refer to Note 15 Debt issuances), reduced for regulatory adjustments and deductions of $417 million (2019: $305 million).
3. This includes Tier 2 capital of $12,865 million (2019: $8,415 million) (refer to Note 15 Debt issuances), general reserve for impairment of financial assets of $1,813 million (2019: $296 million) and deductions for regulatory adjustments of $721 million (2019: $162 million).

24. PARENT ENTITY FINANCIAL INFORMATION

Australia and New Zealand Banking Group Limited (the Company) has prepared a separate set of financial statements to satisfy the requirements of the Australian Financial Services Licence it holds with ASIC. These separate Company financial statements are available on the ANZ website at anz.com and have been lodged with ASIC.

Selected financial information of the Company is provided below:

SUMMARY FINANCIAL INFORMATION

	2020 $m	2019 $m
Income statement information for the financial year		
Profit after tax for the year	2,806	4,447
Total comprehensive income for the year	3,007	5,413
Balance sheet information as at the end of the financial year		
Cash and cash equivalents	98,083	77,949
Net loans and advances	488,002	484,655
Total assets	979,078	914,832
Deposits and other borrowings	558,136	524,241
Total liabilities	925,806	861,618
Shareholders' equity		
Ordinary share capital	26,454	26,413
Reserves	1,018	840
Retained earnings	25,800	25,961
Total shareholders' equity	53,272	53,214

CREDIT RELATED COMMITMENTS AND CONTINGENCIES

	2020 $m	2019 $m
Contract amount of:		
Undrawn facilities	191,300	171,881
Guarantees and letters of credit	20,640	20,375
Performance related contingencies	15,505	20,097
Total	227,445	212,353

The contingent liabilities of the Group described under Other contingent liabilities in Note 33 are contingent liabilities of the parent entity (some are also contingent liabilities of other Group companies).

25. CONTROLLED ENTITIES

The ultimate parent of the Group is Australia and New Zealand Banking Group Limited	Incorporated in Australia	Nature of Business Banking
All controlled entities are 100% owned, unless otherwise noted. The material controlled entities of the Group are:		
ANZ Bank (Vietnam) Limited[1]	Vietnam	Banking
ANZ Capel Court Limited	Australia	Securitisation Manager
ANZ Funds Pty. Ltd.	Australia	Holding Company
ANZ Bank (Kiribati) Limited[1] (75% ownership)	Kiribati	Banking
ANZ Bank (Samoa) Limited[1]	Samoa	Banking
ANZ Bank (Thai) Public Company Limited[1]	Thailand	Banking
ANZ Holdings (New Zealand) Limited[1]	New Zealand	Holding Company
ANZ Bank New Zealand Limited[1]	New Zealand	Banking
ANZ Investment Services (New Zealand) Limited[1]	New Zealand	Funds Management
ANZ New Zealand (Int'l) Limited[1]	New Zealand	Finance
ANZ Wealth New Zealand Limited[1]	New Zealand	Holding Company
ANZ New Zealand Investments Limited[1]	New Zealand	Funds Management
ANZNZ Covered Bond Trust[1,4]	New Zealand	Finance
ANZ International Private Limited[1]	Singapore	Holding Company
ANZ Singapore Limited[1]	Singapore	Merchant Banking
ANZ International (Hong Kong) Limited[1]	Hong Kong	Holding Company
ANZ Asia Limited[1]	Hong Kong	Banking
ANZ Bank (Vanuatu) Limited[2]	Vanuatu	Banking
ANZcover Insurance Private Ltd[1]	Singapore	Captive-Insurance
ANZ Lenders Mortgage Insurance Pty. Limited	Australia	Mortgage Insurance
ANZ Residential Covered Bond Trust[4]	Australia	Finance
Australia and New Zealand Bank (China) Company Limited[1]	China	Banking
Australia and New Zealand Banking Group (PNG) Limited[1]	Papua New Guinea	Banking
Chongqing Liangping ANZ Rural Bank Company Limited[1]	China	Banking
Citizens Bancorp[3]	Guam	Holding Company
ANZ Guam Inc[3]	Guam	Banking
PT Bank ANZ Indonesia[1] (99% ownership)	Indonesia	Banking

1. Audited by overseas KPMG firms — either as part of the Group audit, or for standalone financial statements as required.
2. Audited by Law Partners.
3. Audited by Deloitte Guam.
4. Not owned by the Group. Control exists as the Group retains substantially all the risks and rewards of the operations.

25. CONTROLLED ENTITIES (continued)

CHANGES TO MATERIAL CONTROLLED ENTITIES

The following changes to our material entities have occurred during the year ended 30 September 2020.

- In January 2020, OnePath Funds Management Limited and OnePath Custodians Pty Limited was sold to IOOF Holdings Limited. The holding company of these entities, ANZ Wealth Australia Limited, is no longer considered to be a material entity.
- In September 2020, UDC Finance Limited was sold to Shinsei Bank Limited.

RECOGNITION AND MEASUREMENT

The Group's subsidiaries are those entities it controls through:

- being exposed to, or having rights to, variable returns from the entity; and
- being able to affect those returns through its power over the entity.

The Group assesses whether it has power over those entities by examining the Group's existing rights to direct the relevant activities of the entity.

If the Group sells or acquires subsidiaries during the year, it includes their operating results in the Group results to the date of disposal or from the date of acquisition. When the Group's control ceases, it derecognises the assets and liabilities of the subsidiary, any related non-controlling interest and other components of equity.

When the Group ceases to control a subsidiary, it:

- measures any retained interest in the entity at fair value; and
- recognises any resulting gain or loss in profit or loss.

If the Group's ownership interest in a subsidiary changes in a way that does not result in a loss of control, then the Group accounts for that as a transaction with equity holders in their capacity as equity holders.

All transactions between Group entities are eliminated on consolidation.

26. INVESTMENTS IN ASSOCIATES

Significant associates of the Group are:

		Ordinary share interest		Carrying amount $m	
Name of entity	Principal activity	2020	2019	2020	2019
AMMB Holdings Berhad ('AmBank')	Banking and insurance	24%	24%	1,056	1,586
PT Bank Pan Indonesia ('PT Panin')	Consumer and business bank	39%	39%	1,084	1,350
Aggregate other individually immaterial associates		n/a	n/a	24	21
Total carrying value of associates[1]				2,164	2,957

1. Includes the impact of foreign currency translation recognised in the foreign currency translation reserve.

FINANCIAL INFORMATION ON SIGNIFICANT ASSOCIATES

Set out below is the summarised financial information of each associate that is significant to the Group. The summarised financial information is based on the associates' IFRS financial information and may require the use of unaudited financial information as both associates have different financial years to the Group (PT Panin 31 December, AmBank 31 March).

	AMMB Holdings Berhad		PT Bank Pan Indonesia	
Principal place of business and country of incorporation	Malaysia		Indonesia	
	2020 $m	2019 $m	2020 $m	2019 $m
Summarised results				
Operating income	3,156	3,298	1,105	1,109
Profit for the year	456	569	319	349
Other comprehensive income/(loss)	105	69	72	24
Total comprehensive income	561	638	391	373
Less: Total comprehensive (income)/loss attributable to non–controlling interests	(26)	(25)	(11)	(12)
Total comprehensive income attributable to owners of associate	535	613	380	361
Summarised financial position				
Total assets[1]	53,301	55,740	19,669	22,518
Total liabilities[1]	48,530	48,718	16,599	18,743
Total Net assets[1]	4,771	7,022	3,070	3,775
Less: Non–controlling interests of associate	(343)	(368)	(294)	(309)
Net assets attributable to owners of associate	4,428	6,654	2,776	3,466
Reconciliation to carrying amount of Group's interest in associate				
Carrying amount at the beginning of the year	1,586	1,427	1,350	1,103
Group's share of total comprehensive income	126	146	150	140
Dividends received from associate	(32)	(50)	-	-
Group's share of other reserve movements of associate and foreign currency translation reserve adjustments[2]	(29)	63	(128)	107
Group's equity accounted share of AASB 9 transition adjustment[3]	-	-	(68)	-
Impairment charges[4]	(595)	-	(220)	-
Carrying amount at the end of the year	1,056	1,586	1,084	1,350
Market value of Group's investment in associate	727	1,050	653	1,303

1. Includes market value adjustments (including goodwill) the Group made at the time of acquisition (and adjustments for any differences in accounting policies).
2. In 2019, the Group recognised a decrease of $32m and $33m to the carrying value of AMMB Holdings Berhad and PT Bank Pan Indonesia respectively with a corresponding decrease to retained earnings reflecting the Group's share of the estimated initial application impact of IFRS 9 (the international equivalent of AASB 9).
3. In 2020, the Group recognised an adjustment of $68 million to the equity accounted earnings of PT Panin. When the Group adopted AASB 9 Financial Instruments on 1 October 2018, an estimate of PT Panin's transition adjustment was recognised through opening retained earnings to align accounting policies. PT Panin adopted AASB 9 during the current financial year recognising a transition adjustment in retained earnings. The adjustment of $68 million represents the Group's equity accounted share of the transition adjustment net of amounts previously recognised by the Group on 1 October 2018.
4. The Group recorded an impairment charge of $815 million in other operating income based on impairment assessments performed as part of the Group 31 March 2020 half year results with AmBank impaired by $595 million and PT Panin impaired by $220 million.

26. INVESTMENTS IN ASSOCIATES (continued)

IMPAIRMENT ASSESSMENT

The Group assesses the carrying value of its associate investments for impairment indicators.

During the year the Group identified an indicator of impairment as neither the market values of the investments in AMMB Holdings Berhad (AmBank) and PT Bank Pan Indonesia (PT Panin) (based on share price) nor the value-in-use (VIU) calculation supported the carrying value of either investment. Accordingly, the Group recorded an impairment charge of $815 million ($595 million for AmBank and $220 million for PT Panin).

VIU assessments were also conducted as at 30 September 2020 given the market values were below their carrying values. The assumptions used in the VIU were updated to reflect the ongoing impact of COVID-19 and the uncertainty of the future performance of these investments. The VIU assessments supported the carrying value of both Ambank and PT Panin as at 30 September 2020, however did not indicate the recoverable amount of either investments had increased sufficiently to reverse any of the impairment recorded during the year.

RECOGNITION AND MEASUREMENT

An associate is an entity over which the Group has significant influence over its operating and financial policies but does not control. The Group accounts for associates using the equity method. Its investments in associates are carried at cost plus the post-acquisition share of changes in the associate's net assets less accumulated impairments. Dividends the Group receives from associates are recognised as a reduction in the carrying amount of the investment. The Group includes goodwill relating to the associate in the carrying amount of the investment. It does not individually test the goodwill incorporated in the associates carrying amount for impairment.

At least at each reporting date, the Group reviews investments in associates for any indication of impairment. If an indication of impairment exists, then the Group determines the recoverable amount of the associate using the higher of:

- the associate's fair value less cost of disposal; and
- its value-in use.

We use a discounted cash flow methodology, and when applicable, other methodologies (such as capitalisation of earnings methodology), to determine the recoverable amount.

KEY JUDGEMENTS AND ESTIMATES

The ongoing impact of COVID-19 on the valuation of AmBank and PT Panin is uncertain. Significant management judgment is required to determine the key assumptions underpinning the VIU calculations. Factors that may change in subsequent periods and lead to potential future impairments include lower than forecast earnings levels in the near term and/or a decrease in the long term growth forecasts, increases to required levels of regulatory capital and an increase in the post-tax discount rate arising from an increase in the risk premium or risk-free rates.

The key assumptions used in the value-in-use calculation are outlined below:

As at 30 September 2020	AmBank	PT Panin
Post-tax discount rate	11.3%	15.2%
Terminal growth rate	4.8%	5.3%
Expected earnings growth (compound annual growth rate – 5 years)	2.8%	4.2%
Common Equity Tier 1 ratio (5 year average)	12.9%	12.8%

The VIU calculations are sensitive to changes in the underlying assumptions with reasonably possible changes in key assumptions having a positive or negative impact on the VIU outcome, and as such the recoverable amount of the investment.

- A change in the September 2020 post-tax discount rate by +/- 50bps would impact the VIU outcome for PT Panin by $(46 million) / $50 million, and $(87 million) / $99 million for AmBank.
- A change in the September 2020 terminal growth rate by +/- 25bps would impact the VIU outcome for PT Panin by $8 million / ($8 million) and $47 million / ($44 million) for Ambank.

  Neither investment would be impaired if the discount rate were increased or the terminal growth rate reduced by the reasonably possible changes above.

27. STRUCTURED ENTITIES

A Structured Entity (SE) is an entity that has been designed such that voting or similar rights are not the dominant factor in determining who controls the entity. SEs are generally established with restrictions on their ongoing activities in order to achieve narrow and well defined objectives.

SEs are classified as subsidiaries and consolidated when control exists. If the Group does not control a SE, then it is not consolidated. This note provides information on both consolidated and unconsolidated SEs.

The Group's involvement with SEs is as follows:

Type	Details
Securitisation	The Group controls SEs established to securitise customer loans and advances that it has originated, in order to diversify sources of funding for liquidity management. Such transactions involve transfers to an internal securitisation (bankruptcy remote) vehicle used to create assets that are eligible for repurchase under agreements with the applicable central bank. These internal securitisation SEs are consolidated. Refer to Note 28 Transfers of Financial Assets for further details. The Group also establishes SEs on behalf of customers to securitise their loans or receivables. The Group may manage these securitisation vehicles or provide liquidity or other support. Additionally, the Group may acquire interests in securitisation vehicles set up by third parties through holding securities issued by such entities. In limited circumstances where control exists, the Group consolidates the SE.
Covered bond issuances	Certain loans and advances have been assigned to bankruptcy remote SEs to provide security for issuances of debt securities by the Group. The Group retains control over these SEs and therefore they are consolidated. Refer to Note 28 Transfers of Financial Assets for further details.
Structured finance arrangements	The Group is involved with SEs established: • in connection with structured lending transactions to facilitate debt syndication and/or to ring-fence collateral; and • to own assets that are leased to customers in structured leasing transactions. The Group may manage the SE, hold minor amounts of the SE's capital, or provide risk management products (derivatives) to the SE. In most instances, the Group does not control these SEs. In limited circumstances where control exists, the Group consolidates the SE.
Funds management activities	The Group conducts investment management and other fiduciary activities as a responsible entity, trustee, custodian or manager for investment funds and trusts – including superannuation funds and wholesale and retail trusts (collectively 'Investment Funds'). The Investment Funds are financed through the issuance of puttable units to investors. The Group's exposure to Investment Funds is limited to receiving fees for services and derivatives entered into for risk management purposes. These interests do not create significant exposures to the funds that would allow the Group to control the funds. Therefore, the funds are not consolidated.

27. STRUCTURED ENTITIES (continued)

CONSOLIDATED STRUCTURED ENTITIES

FINANCIAL OR OTHER SUPPORT PROVIDED TO CONSOLIDATED STRUCTURED ENTITIES

The Group provides financial support to consolidated SEs as outlined below. As these are intra-group transactions, they are eliminated on consolidation:

Securitisation and covered bond issuances	The Group provides lending facilities, derivatives and commitments to these SEs and/or holds debt instruments that they have issued.
Structured finance arrangements	The assets held by these SEs are normally pledged as collateral for financing provided. Certain consolidated SEs are financed entirely by the Group while others are financed by syndicated loan facilities in which the Group is a participant. The financing provided by the Group includes lending facilities where the Group's exposure is limited to the amount of the loan and any undrawn amount. Additionally, the Group has provided Letters of Support to these consolidated SEs confirming that the Group will not demand repayment of the financing provided for the ensuing 12 month period.

The Group did not provide any non-contractual support to consolidated SEs during the year (2019: nil). Other than as disclosed above, the Group does not have any current intention to provide financial or other support to consolidated SEs.

UNCONSOLIDATED STRUCTURED ENTITIES

GROUP'S INTEREST IN UNCONSOLIDATED STRUCTURED ENTITIES

An 'interest' in an unconsolidated SE is any form of contractual or non-contractual involvement with a SE that exposes the Group to variability of returns from the performance of that SE. These interests include, but are not limited to: holdings of debt or equity securities; derivatives that pass-on risks specific to the performance of the SE; lending; loan commitments; financial guarantees; and fees from funds management activities.

For the purpose of disclosing interests in unconsolidated SEs:

- no disclosure is made if the Group's involvement is not more than a passive interest - for example: when the Group's involvement constitutes a typical customer-supplier relationship. On this basis, exposures to unconsolidated SEs that arise from lending, trading and investing activities are not considered disclosable interests - unless the design of the structured entity allows the Group to participate in decisions about the relevant activities (being those that significantly affect the entity's returns).
- 'interests' do not include derivatives intended to expose the Group to market-risk (rather than performance risk specific to the SE) or derivatives through which the Group creates, rather than absorbs, variability of the unconsolidated SE (such as purchase of credit protection under a credit default swap).

The table below sets out the Group's interests in unconsolidated SEs together with the maximum exposure to loss that could arise from those interests:

	Securitisation		Structured finance		Total	
	2020 $m	2019 $m	2020 $m	2019 $m	2020 $m	2019 $m
On-balance sheet interests						
Investment securities	**2,280**	1,923	**-**	-	**2,280**	1,923
Gross loans and advances	**8,479**	7,679	**74**	110	**8,553**	7,789
Total on-balance sheet	**10,759**	**9,602**	**74**	**110**	**10,833**	**9,712**
Off-balance sheet interests						
Commitments (facilities undrawn)	**2,072**	1,531	**22**	9	**2,094**	1,540
Guarantees	**40**	67	**-**	-	**40**	67
Total off-balance sheet	**2,112**	**1,598**	**22**	**9**	**2,134**	**1,607**
Maximum exposure to loss	**12,871**	11,200	**96**	119	**12,967**	11,319

In addition to the interests above, the Group earned funds management fees from unconsolidated investment funds of $285 million (2019: $509 million) during the year.

27. STRUCTURED ENTITIES (continued)

The Group's maximum exposure to loss represents the maximum amount of loss that the Group could incur as a result of its involvement with unconsolidated SEs if loss events were to take place — regardless of the probability of occurrence. This does not in any way represent the actual losses expected to be incurred. Furthermore, the maximum exposure to loss is stated gross of the effects of hedging and collateral arrangements entered into to mitigate ANZ's exposure to loss.

The maximum exposure to loss has been determined as:

- the carrying amount of Investment securities measured at amortised cost; and
- the carrying amount plus the undrawn amount of any committed loans and advances.

The size of unconsolidated SEs is indicated by total assets which vary by SE with a maximum value of approximately $5.1 billion.

The Group did not provide any non-contractual support to unconsolidated SEs during the year (2019: nil) nor does it have any current intention to provide financial or other support to unconsolidated SEs.

SPONSORED UNCONSOLIDATED STRUCTURED ENTITIES

The Group may also sponsor unconsolidated SEs in which it has no disclosable interest.

For the purposes of this disclosure, the Group considers itself the 'sponsor' of an unconsolidated SE if it is the primary party involved in the design and establishment of that SE and:

- the Group is the major user of that SE; or
- the Group's name appears in the name of that SE, or on its products; or
- the Group provides implicit or explicit guarantees of that SE's performance.

The Group has sponsored the ANZ PIE Fund in New Zealand, which invests only in deposits with ANZ Bank New Zealand Limited. The Group does not provide any implicit or explicit guarantees of the capital value or performance of investments in the ANZ PIE Fund. There was no income received from, nor assets transferred to, this entity during the year.

KEY JUDGEMENTS AND ESTIMATES

Significant judgement is required in assessing whether the Group has control over Structured Entities. Judgement is required to determine the existence of:

- power over the relevant activities (being those that significantly affect the entity's returns);
- exposure to variable returns of the entity; and
- the ability to use its power over the entity to affect the Group's returns.

28. TRANSFERS OF FINANCIAL ASSETS

In the normal course of business the Group enters into transactions where it transfers financial assets directly to third parties or to SEs. These transfers may give rise to the Group fully, or partially, derecognising those financial assets - depending on the Group's exposure to the risks and rewards or control over the transferred assets. If the Group retains substantially all of the risk and rewards of a transferred asset, the transfer does not qualify for derecognition and the asset remains on the Group's balance sheet in its entirety.

SECURITISATIONS

Net loans and advances include residential mortgages securitised under the Group's securitisation programs which are assigned to bankruptcy remote SEs to provide security for obligations payable on the notes issued by the SEs. The holders of the issued notes have full recourse to the pool of residential mortgages which have been securitised and the Group cannot otherwise pledge or dispose of the transferred assets.

In some instances the Group is also the holder of the securitised notes. In addition, the Group is entitled to any residual income of the SEs and sometimes enters into derivatives with the SEs. The Group retains the risks and rewards of the residential mortgages and continues to recognise the mortgages as financial assets. The obligation to pay this amount to the SE is recognised as a financial liability of the Group.

The Group is exposed to variable returns from its involvement with these securitisation SEs and has the ability to affect those returns through its power over the SEs activities. The SEs are therefore consolidated by the Group.

COVERED BONDS

The Group operates various global covered bond programs to raise funding in its primary markets. Net loans and advances include residential mortgages assigned to bankruptcy remote SEs associated with these covered bond programs. The mortgages provide security for the obligations payable on the issued covered bonds.

The covered bond holders have dual recourse to the issuer and the cover pool of assets. The issuer cannot otherwise pledge or dispose of the transferred assets, however, subject to legal arrangements it may repurchase and substitute assets as long as the required cover is maintained.

The Group is required to maintain the cover pool at a level sufficient to cover the bond obligations. In addition, the Group is entitled to any residual income of the covered bond SEs and enters into derivatives with the SEs. The Group retains the majority of the risks and rewards of the residential mortgages and continues to recognise the mortgages as financial assets. The obligation to pay this amount to the SEs is recognised as a financial liability of the Group.

The Group is exposed to variable returns from its involvement with the covered bond SEs and has the ability to affect those returns through its power over the SEs activities. The SEs are therefore consolidated by the Group. The covered bonds issued externally are included within debt issuances.

REPURCHASE AGREEMENTS

When the Group sells securities subject to repurchase agreements under which we retain substantially all the risks and rewards of ownership, then those assets do not qualify for derecognition. An associated liability is recognised for the consideration received from the counterparty.

STRUCTURED FINANCE ARRANGEMENTS

The Group arranges funding for certain customer transactions through structured leasing and commodity prepayment arrangements. These transactions are recognised on Group's balance sheet as lease receivables or loans. At times, other financial institutions participate in the funding of these arrangements. This participation involves a proportionate transfer of the rights to the assets recognised by the Group. The participating banks have limited recourse to the leased assets or financed commodity and related proceeds. Where the Group continues to be exposed to some of the risks of the transferred assets through a derivative or other continuing involvement, the Group does not derecognise the lease receivable or loan. Instead, the Group recognises an associated liability representing its obligations to the participating financial institutions.

The table below sets out the balance of assets transferred that do not qualify for derecognition, along with the associated liabilities:

	Securitisations[1,2]		Covered bonds		Repurchase agreements		Structured finance arrangements	
	2020 $m	2019 $m	2020 $m	2019 $m	2020 $m	2019 $m	2020 $m	2019 $m
Current carrying amount of assets transferred	**1,831**	2,422	**28,559**	30,799	**61,415**	43,213	**67**	81
Carrying amount of associated liabilities	**1,824**	2,411	**15,948**	20,957	**55,716**	41,367	**67**	81

1. Does not include transfers to internal structured entities where there are no external investors.
2. The securitisation noteholders have recourse only to the pool of residential mortgages which have been securitised. The carrying value of securitised assets and the associated liabilities approximates their fair value.

29. DISCONTINUED OPERATIONS AND ASSETS AND LIABILITIES HELD FOR SALE

DISCONTINUED OPERATIONS

In October 2017, the Group announced it had agreed to sell its OnePath pensions and investments (OnePath P&I) business and Aligned Dealer Groups (ADGs) businesses to IOOF. The sale of the ADG business completed on 1 October 2018 and the sale of OnePath P&I business was completed on 31 January 2020.

In December 2017, the Group announced that it had agreed to the sale of its life insurance business to Zurich Financial Services Australia (Zurich) and the transaction was completed on 31 May 2019.

As a result of the sale transactions outlined above, the financial results of the businesses to be divested and associated Group reclassification and consolidation impacts are treated as discontinued operations from a financial reporting perspective.

Details of the financial performance and cash flows of discontinued operations are shown below.

Income Statement

	2020 $m	2019 $m
Net interest income	(5)	(76)
Other operating income[1]	(46)	245
Operating income	(51)	169
Operating expenses[1]	(200)	(449)
Profit/(Loss) before credit impairment and income tax	(251)	(280)
Credit impairment (charge)/release	-	1
Profit/(Loss) before income tax	(251)	(279)
Income tax expense[1]	153	(64)
Profit/(Loss) for the period attributable to shareholders of the Company[1,2]	(98)	(343)

1. Includes customer remediation of $96 million post-tax recognised in the September 2020 financial year (2019: $207 million) comprising $128 million customer remediation recognised in other operating income (2019: $161 million), -$2 million of remediation costs recognised in Operating expenses (2019: $80 million), and $30 million income tax benefit (2019: $34 million).
2. Includes the results of the OnePath P&I business up to the sale completion in January 2020 and the life insurance business up to the sale completion in May 2019.

Cash Flow Statement

	2020 $m	2019 $m
Net cash provided by/(used in) operating activities	(25)	(552)
Net cash provided by/(used in) investing activities	-	837
Net cash provided by/(used in) financing activities	25	(290)
Net increase/(decrease) in cash and cash equivalents	-	(5)

ASSETS AND LIABILITIES HELD FOR SALE

Assets and liabilities held for sale are re-measured at the lower of their existing carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, financial assets and contractual rights under insurance contracts, which are specifically exempt from this requirement and continue to be recognised at their existing carrying value.

29. DISCONTINUED OPERATIONS AND ASSETS AND LIABILITIES HELD FOR SALE (continued)

As at 30 September [1]	2019 Discontinued Operations $m
Trading securities	919
Deferred tax assets	16
Goodwill and other intangible assets	394
Premises and equipment	1
Other assets	501
Total assets held for sale	1,831
Current tax liabilities	3
Deferred tax liabilities	105
Payables and other liabilities	1,914
Provisions[2]	99
Total liabilities held for sale	2,121

1. Amounts in the table above are shown net of intercompany balances.
2. Includes employee entitlements of $8 million and other provisions of $91 million.

INCOME STATEMENT IMPACT RELATING TO ASSETS AND LIABILITIES HELD FOR SALE

During the 2020 financial year, the Group recognised the following impacts in relation to assets and liabilities held for sale that were recognised in discontinued operations:

- $13 million loss after tax recorded in operating income attributable to sale completion costs.
- $126 million of customer remediation charges ($128 million recorded in operating income and a release of $2 million recorded in operating expenses) and an associated $30 million tax benefit.
- $101 million charge was recorded in operating income offset by a $101 million tax benefit within income tax expense relating to the finalisation of the policyholder tax position associated with the sale of the life insurance business to Zurich.

During the 2019 financial year, the Group recognised the following impacts in relation to assets and liabilities held for sale:

- $65 million loss after tax on discontinued operations, comprising a net loss of $1 million from sale related adjustments and write-downs, partially offset by the recycling of gains previously deferred in equity reserves on sale completion, and a $64 million income tax expense. This loss was recognised in discontinued operations.
- $10 million gain after tax relating to the sale of Cambodia JV, comprising a $30 million release from the foreign currency translation reserve, a $17 million dividend withholding tax associated with the sale completion and $3 million of asset write-offs. The gain was recognised in continuing operations.
- $1 million gain after tax relating to the sale of PNG Retail, Commercial and SME, net of costs associated with the sale. The gain was recognised in continuing operations.
- $76 million gain after tax relating to the sale of the OPL NZ business, comprising a $56 million gain on sale, a $26 million release from the foreign currency translation reserve, a $7 million provision release and a $13 million income tax expense. The gain was recognised in continuing operations.
- $37 million gain after tax relating to the sale of the Paymark. The gain was recognised in continuing operations.

29. DISCONTINUED OPERATIONS AND ASSETS AND LIABILITIES HELD FOR SALE (continued)

RECOGNITION AND MEASUREMENT

LIFE INSURANCE CONTRACT LIABILITIES AND LIABILITIES CEDED UNDER REINSURANCE CONTRACTS

We calculate Life insurance contract Liabilities under the Margin on Service (MoS) model using a projection method based on actuarial principles and standards.

We discount the expected future cash flows of these contracts at the risk-free discount rate.

LIFE INVESTMENT CONTRACT LIABILITIES

A life investment contract liability is measured at fair value and is directly linked to the fair value of the assets that back it. For guaranteed policies, we determine the liability as the net present value of expected cash flows, subject to a minimum of current surrender value.

KEY JUDGEMENTS AND ESTIMATES

A significant level of judgement is used by the Group to determine:

- whether an asset or group of assets is classified and presented as held for sale or as a discontinued operation; and
- the fair value of the assets and liabilities classified as being held for sale.

Management is required to exercise significant judgement when assessing the fair value less costs to sell for assets and liabilities held for sale. The judgemental factors include determining: costs to sell, allocation of goodwill, indemnities provided under the sale contract and consideration received - particularly where elements of consideration are contingent in nature. Any impairment we record is based on the best available evidence of fair value compared to the carrying value before the impairment. The final sale price may be different to the fair value we estimate when recording the impairment. Management regularly assess the appropriateness of the underlying assumptions against actual outcomes and other relevant evidence and adjustments are made to fair value where appropriate. We expect that the sales will complete within 12 months after balance date, subject to the relevant regulatory approvals and customary terms of sale for such assets.

30. SUPERANNUATION AND POST EMPLOYMENT BENEFIT OBLIGATIONS

Set out below is a summary of amounts recognised in the Balance Sheet in respect of the defined benefit superannuation schemes:

	2020 $m	2019 $m
Defined benefit obligation and scheme assets		
Present value of funded defined benefit obligation	(1,478)	(1,538)
Fair value of scheme assets	1,693	1,739
Net defined benefit asset	215	201
As represented in the Balance Sheet		
Net liabilities arising from defined benefit obligations included in payables and other liabilities	(59)	(54)
Net assets arising from defined benefit obligations included in other assets	274	255
Net defined benefit asset	215	201
Weighted average duration of the benefit payments reflected in the defined benefit obligation (years)	14.9	14.9

As at the most recent reporting dates of the schemes, the aggregate surplus of net market value of assets over the value of accrued benefits on a funding basis was $104 million (2019 surplus of $48 million). In 2020, the Group made defined benefit contributions totaling $4 million (2019: $3 million). It expects to make contributions of around $3 million next financial year.

GOVERNANCE OF THE SCHEMES AND FUNDING OF THE DEFINED BENEFIT SECTIONS

The main defined benefit superannuation schemes in which the Group participates operate under trust law and are managed and administered on behalf of the members in accordance with the terms of the relevant trust deed and rules and all relevant legislation. These schemes have corporate trustees, which are wholly owned subsidiaries of the Group. The trustees are the legal owners of the assets, which are held separately from the assets of the Group, and are responsible for setting investment policy and agreeing funding requirements with the employer through the triennial actuarial valuation process.

The Group has defined benefit arrangements in Australia, Japan, New Zealand, Philippines, Taiwan and United Kingdom. The defined benefit section of the ANZ Australian Staff Superannuation Scheme, the ANZ UK Staff Pension Scheme and the ANZ National Retirement Scheme in New Zealand are the three largest plans. They have been closed to new members since 1987, 2004 and 1991 respectively. None of the schemes had a material deficit, or surplus, at the last funding valuation. The Group has no present liability under any of the schemes' trust deeds to fund a deficit (measured on a funding basis). A contingent liability of the Group may arise if any of the schemes were wound up.

RECOGNITION AND MEASUREMENT

Defined benefit superannuation schemes

The Group operates a small number of defined benefit schemes. Independent actuaries calculate the liability and expenses related to providing benefits to employees under each defined benefit scheme. They use the Projected Unit Credit Method to value the liabilities. The balance sheet includes:

- a defined benefit liability if the obligation is greater than the fair value of the schemes assets; and
- an asset (capped to its recoverable amount) if the fair value of the assets is greater than the obligation.

In each reporting period, the movements in the net defined benefit liability are recognised as follows:

- the net movement relating to the current period's service cost, net interest on the defined benefit liability, past service costs and other costs (such as the effects of any curtailments and settlements) as operating expenses;
- remeasurements of the net defined benefit liability (which comprise actuarial gains and losses and return on scheme assets, excluding interest income included in net interest) directly in retained earnings through other comprehensive income; and
- contributions of the Group directly against the net defined benefit position.

Defined contribution superannuation schemes

The Group operates a number of defined contribution schemes. It also contributes (according to local law, in the various countries in which it operates) to Government and other plans that have the characteristics of defined contribution plans. The Group's contributions to these schemes are recognised as personnel expenses when they are incurred.

30. SUPERANNUATION AND POST EMPLOYMENT BENEFIT OBLIGATIONS (continued)

KEY JUDGEMENTS AND ESTIMATES

The main assumptions we use in valuing defined benefit obligations are listed in the table below. A change to any assumptions, or applying different assumptions, could have an affect on the Statement of Other Comprehensive Income and Balance Sheet.

Assumptions	2020	2019	Sensitivity analysis change in significant assumptions	Increase/(decrease) in defined benefit obligation 2020 $m	2019 $m
Discount rate (% p.a.)	0.5 - 1.7	1.1 - 2.0	0.5% increase	(103)	(107)
Future salary increases (% p.a.)	1.6 - 3.0	1.7 - 3.2			
Future pension indexation					
In payment (% p.a.)/In deferment (% p.a)	1.1 - 2.8/2.2	1.7 - 3.0/2.3	0.5% increase	85	80
Life expectancy at age 60 for current pensioners			1 year increase	73	70
– Males (years)	26.0 - 28.7	25.6 - 28.6			
– Females (years)	28.9 - 30.4	28.8 - 30.3			

31. EMPLOYEE SHARE AND OPTION PLANS

ANZ operates a number of employee share and option schemes under the ANZ Employee Share Acquisition Plan and the ANZ Share Option Plan.

ANZ EMPLOYEE SHARE ACQUISITION PLAN

ANZ Employee Share Acquisition Plan schemes that operated during the 2020 and 2019 years were the Employee Share Offer and the Deferred Share Plan.

Employee Share Offer

Eligibility	Most permanent employees employed in either Australia or New Zealand with three years continuous service for the most recent financial year.
Grant	Up to AUD 1,000 in Australia (and AUD 800 in New Zealand) of ANZ shares, subject to Board approval.
Allocation value	One week Volume Weighted Average Price (VWAP) of ANZ shares traded on the ASX in the week leading up to and including the date of grant.
Australia	ANZ ordinary shares are granted to eligible employees for nil consideration. The shares vest on grant and are held in trust for three years from grant date, after which time they may remain in trust, be transferred to the employee's name or sold. Dividends are automatically reinvested in the Dividend Reinvestment Plan.
New Zealand	Shares are granted to eligible employees on payment of NZD one cent per share. Shares vest subject to satisfaction of a three-year service period, after which they may remain in trust, be transferred to the employee's name or sold. Unvested shares are forfeited if the employee resigns or is dismissed for serious misconduct. Dividends are either paid in cash or reinvested into the Dividend Reinvestment Plan.
Expensing value (fair value)	In Australia, the fair value of the shares is expensed in the year shares are granted, as they are not subject to forfeiture. In New Zealand, the fair value is expensed on a straight-line basis over the three year vesting period. The expense is recognised as a share-based compensation expense with a corresponding increase in equity.
2020 and 2019 grants	698,862 shares were granted on 2 December 2019 at an issue price of $24.96, noting this is the final Employee Share Offer in its current form following changes to variable remuneration (effective financial year 2020) as part of the Reimagining Reward initiative. 656,738 shares were granted on 3 December 2018 at an issue price of $26.91.

31. EMPLOYEE SHARE AND OPTION PLANS (continued)

Deferred Share Plan

i) ANZ Incentive Plan (ANZIP) - Chief Executive Officer (CEO), Group Executive Committee (ExCo) and other Banking Executive Accountability Regime (BEAR) Accountable Executives	
Eligibility	Group CEO, ExCo and Group General Manager Internal Audit (GGM IA).
Grant	50% of the CEO's Annual Variable Remuneration (AVR), 25% of ExCo's Variable Remuneration (VR) (except for the Chief Risk Officer (CRO)), and 33% of the CRO and GGM IA's VR, is received as deferred shares.
Conditions	Deferred over at least one to four years from the date the Board approved the variable remuneration award.
ii) ANZIP (all employees excluding the CEO, ExCo and other BEAR Accountable Executives[1]) and Business Unit Incentive Plans (BUIPs)	
Eligibility	All employees excluding the CEO, ExCo and GGM IA (i.e. other BEAR Accountable Executive).
Grant	If VR is at or exceeds AUD 150,000, then 60% of VR amounts exceeding AUD 80,000 (subject to a minimum deferral amount of AUD 42,000) is deferred as shares.
Conditions	Deferred over three years from grant date.
iii) Long Term Incentives (LTIs)	
Eligibility	Selected employees (excludes the CEO, ExCo and GGM IA (i.e. other BEAR Accountable Executive).
Grant	100% deferred shares.
Conditions	Vest three years from grant date.
iv) Exceptional circumstances	
Remuneration foregone	In exceptional circumstances, we grant deferred shares to certain employees when they start with ANZ to compensate them for remuneration they have foregone from their previous employer. The vesting period generally aligns with the remaining vesting period of the remuneration they have foregone, and therefore varies between grants.
Retention	We may grant deferred shares to high performing employees who are regarded as a significant retention risk to ANZ.
v) Further information	
Cessation	Unless the Board decides otherwise, employees forfeit their unvested deferred shares if they resign, are terminated on notice, or are dismissed for serious misconduct. The deferred shares may be held in trust beyond the deferral period.
Dividends	Dividends are paid in cash or reinvested in the Dividend Reinvestment Plan.
Instrument	Deferred share rights may be granted instead of deferred shares in some countries as locally appropriate (see deferred share rights section).
Allocation value	All deferred shares are issued based on the VWAP of ANZ shares traded on the ASX in the week leading up to and including the date of grant.
Expensing value (fair value)	We expense the fair value of deferred shares on a straight-line basis over the relevant vesting period and we recognise the expense as a share-based compensation expense with a corresponding increase in equity.
2020 and 2019 grants	During the 2020 year, we granted 2,259,897 deferred shares (2019: 1,945,668) with a weighted average grant price of $24.94 (2019: $25.39).
Malus (downward adjustment)	Deferred shares remain at risk and the Board has the discretion to adjust the number of deferred shares downwards, including to zero at any time before the vesting date. ANZ's malus (downward adjustment) provisions are detailed in section 5.3 of the 2020 Remuneration Report. Board discretion was not exercised to adjust downward any deferred shares in 2020 (2019: 9,810).

1. Specific deferral arrangements also exist under ANZIP for roles defined as United Kingdom Material Risk Takers and China Material Risk Takers, in line with local regulatory requirements.

Expensing of the ANZ Employee Share Acquisition Plan

Expensing value (fair value)	The fair value of shares we granted during 2020 under the Employee Share Offer and the Deferred Share Plan, measured as at the date of grant of the shares, is $73.4 million (2019: $67.7 million) based on 2,958,759 shares (2019: 2,602,406) at VWAP of $24.81 (2019: $26.01).

31. EMPLOYEE SHARE AND OPTION PLANS (continued)

ANZ SHARE OPTION PLAN

Allocation	We may grant selected employees options/rights which entitle them to acquire fully paid ordinary ANZ shares at a fixed price at the time the options/rights vest. Voting and dividend rights will be attached to the ordinary shares allocated on exercise of the options/rights. Each option/right entitles the holder to one ordinary share subject to the terms and conditions imposed on grant. Exercise price of options, determined in accordance with the rules of the plan, is generally based on the VWAP of the shares traded on the ASX in the week leading up to and including the date of grant. For rights, the exercise price is nil.
Rules	Prior to the exercise of the option/right if ANZ changes its share capital due to a bonus share issue, pro-rata new share issue or reorganisation the following adjustments are required: • Issue of bonus shares - When the holder exercises their option, they are also entitled to be issued the number of bonus shares they would have been entitled to had they held the underlying shares at the time of the bonus issue; • Pro-rata share offer - We will adjust the exercise price of the option in the manner set out in the ASX Listing Rules; and • Reorganisation - In respect of rights, if there is a bonus issue or reorganisation of ANZ's share capital, then the Board may adjust the number of rights or the number of underlying shares so that there is no advantage or disadvantage to the holder. Holders otherwise have no other entitlements to participate: • in any new issue of ANZ securities before they exercise their options/rights; or • in a share issue of a body corporate other than ANZ (such as a subsidiary). Any portion of the award which vests may, at the Board's discretion, be satisfied by a cash equivalent payment rather than shares.
Expensing	We expense the fair value of options/rights on a straight-line basis over the relevant vesting period and we recognise the expense as a share-based compensation expense with a corresponding increase in equity.
Cessation	The provisions that apply if the employee's employment ends are in section 8.2.3 of the 2020 Remuneration Report.
Malus (downward adjustment)	ANZ's malus (downward adjustment) provisions are detailed in section 5.3 of the 2020 Remuneration Report.

Option Plans that operated during 2020 and 2019

i) Performance Rights

Allocation	We grant performance rights to the CEO and ExCo, and have granted performance rights to selected employees, as part of ANZ's variable remuneration plans. Performance rights provide the holder with the right to acquire ANZ shares at nil cost, subject to a four-year vesting period[1] and Total Shareholder Return (TSR) performance hurdles. Further details on the performance hurdles are in section 5.2.3a of the 2020 Remuneration Report.
Satisfying vesting	Any portion of the award of performance rights (that have met the performance hurdles) may be satisfied by a cash equivalent payment rather than shares at the Board's discretion. In 2020, all performance rights lapsed due to not meeting the performance hurdles. In 2019, the performance rights that vested were satisfied through a share allocation, other than 47,195 performance rights for which a cash payment was made.
2020 and 2019 grants	During the 2020 year, we granted 520,172 performance rights (2019: 885,810).
Malus (downward adjustment)	Board discretion was not exercised to adjust downward any performance rights in 2020 (2019: 59,012).

1. Three years for grants during 2019.

31. EMPLOYEE SHARE AND OPTION PLANS (continued)

ii) Deferred Share Rights (no performance hurdles)	
Allocation	Deferred share rights provide the holder with the right to acquire ANZ shares at nil cost after a specified vesting period. We adjust the fair value of rights for the absence of dividends during the restriction period.
Satisfying vesting	Any portion of the award of share rights may be satisfied by a cash equivalent payment rather than shares at the Board's discretion. All share rights were satisfied through a share allocation, other than 99,891 deferred share rights (2019: 68,357) for which a cash payment was made.
2020 and 2019 grants	During the 2020 year, 2,393,424 deferred share rights (no performance hurdles) were granted (2019: 2,078,427).
Malus (downward adjustment)	Board discretion was not exercised to adjust downward any deferred share rights in 2020 (2019: 11,824).

Options, Deferred Share Rights and Performance Rights on Issue

As at 4 November 2020, there were 543 holders of 4,489,045 deferred share rights on issue and 125 holders of 2,216,062 performance rights on issue.

Options/Rights Movements

This table shows the options/rights over unissued ANZ shares and their related weighted average (WA) exercise prices as at the beginning and end of 2020 and the movements during 2020:

	Opening balance 1 Oct 2019	Options/ rights granted	Options/ rights forfeited[1]	Options/ rights expired	Options/ rights exercised	Closing balance 30 Sep 2020
Number of options/rights	6,688,538	2,913,596	(976,468)	0	(1,901,109)	6,724,557
WA exercise price	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
WA closing share price						$19.94
WA remaining contractual life						1.9 years
WA exercise price of all exercisable options/rights outstanding						$0.00
Outstanding exercisable options/rights						151,829

This table shows the options/rights over unissued ANZ shares and their related weighted average exercise prices as at the beginning and end of 2019 and the movements during 2019:

	Opening balance 1 Oct 2018	Options/ rights granted	Options/ rights forfeited[1]	Options/ rights expired	Options/ rights exercised	Closing balance 30 Sep 2019
Number of options/rights	7,148,573	2,964,237	(1,589,109)	0	(1,835,163)	6,688,538
WA exercise price	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
WA closing share price						$26.66
WA remaining contractual life						1.9 years
WA exercise price of all exercisable options/rights outstanding						$0.00
Outstanding exercisable options/rights						181,581

1. Refers to any circumstance where equity can be forfeited (for example on cessation, downward adjustment or performance conditions not met).

All of the shares issued as a result of the exercise of options/rights during 2020 and 2019, were issued at a nil exercise price.

As at the date of the signing of the Directors' Report on 4 November 2020:

- no options/rights over ordinary shares have been granted since the end of 2020; and
- 15,592 shares issued as a result of the exercise of options/rights since the end of 2020, all with nil exercise prices.

31. EMPLOYEE SHARE AND OPTION PLANS (continued)

Fair Value Assumptions

When determining the fair value, we apply the standard market techniques for valuation, including Monte Carlo and/or Black Scholes pricing models. We do so in accordance with the requirements of AASB 2 *Share-based Payments*. The models take into account early exercise of vested equity, non-transferability and internal/external performance hurdles (if any).

The table below shows the significant assumptions we used as inputs into our fair value calculation of instruments granted during the period. We present the values as weighted averages, but the specific values we use for each allocation are the ones we use for the fair value calculation.

	2020		2019	
	Deferred share rights	Performance rights	Deferred share rights	Performance rights
Exercise price ($)	0.00	0.00	0.00	0.00
Share closing price at grant date ($)	24.78	24.93	25.83	25.52
Expected volatility of ANZ share price (%)[1]	20.0	20.0	20.0	20.0
Equity term (years)	2.5	6.0	2.5	4.8
Vesting period (years)	2.1	4.0	2.1	3.0
Expected life (years)	2.1	4.0	2.1	3.0
Expected dividend yield (%)	6.0	6.0	6.0	6.0
Risk free interest rate (%)	0.77	0.74	1.96	2.05
Fair value ($)	21.95	9.07	22.87	9.40

1. Expected volatility represents a measure of the amount by which ANZ's share price is expected to fluctuate over the life of the rights. The measure of volatility used in the model is the annualised standard deviation of the continuously compounded rates of return on the historical share price over a deferred period of time preceding the date of grant. This historical average annualised volatility is then used to estimate a reasonable expected volatility over the expected life of the rights.

SATISFYING EQUITY AWARDS

All shares underpinning equity awards may be purchased on market, reallocated or be newly issued shares, or a combination.

The equity we purchased on market during the 2020 financial year (either under the ANZ Employee Share Acquisition Plan and the ANZ Share Option Plan, or to satisfy options or rights) for all employees amounted to 4,882,936 shares at an average price of $25.06 per share (2019: 4,317,094 shares at an average price of $25.99 per share).

32. RELATED PARTY DISCLOSURES

KEY MANAGEMENT PERSONNEL COMPENSATION

Key Management Personnel (KMP) are defined as all directors of the Group and those personnel with a key responsibility for the strategic direction and management of the Group and report directly to the CEO. KMP compensation included within total personnel expenses in Note 3 Operating Expenses is as follows:

	2020 $000	2019 $000[1]
Short-term benefits	19,260	15,784
Post-employment benefits	414	415
Other long-term benefits	397	213
Termination benefits	-	2,112
Share-based payments	8,198	6,184
Total	28,269	24,708

1. Includes former disclosed KMP until the end of their employment.

KEY MANAGEMENT PERSONNEL LOAN TRANSACTIONS

Loans made to KMP are made in the ordinary course of business and on normal commercial terms and conditions that are no more favourable than those given to other employees or customers, including: the term of the loan, security required and the interest rate. No amounts have been written off during the period, or individual provision raised in respect of these balances. Details of the terms and conditions of lending products can be found on ANZ.com. The aggregate of loans (including credit card balances) made, guaranteed or secured, and undrawn facilities to KMP including their related parties, were as follows:

	2020 $000	2019 $000
Loans advanced[1,2]	31,808	26,884
Undrawn facilities	1,028	513
Interest charged[3]	888	739

1. Prior period balance has been restated to reflect minor timing variances and omissions.
2. Balances are as at the balance sheet date (for KMP in office at balance sheet date) or at the date of cessation of former KMP.
3. Interest charged is for all KMP's during the period.

KEY MANAGEMENT PERSONNEL HOLDINGS OF ANZ SECURITIES

KMP, including their related parties, held subordinated debt, shares, share rights and options over shares in the Company directly, indirectly or beneficially as shown below:

	2020 Number	2019 Number[1]
Shares, options and rights	2,211,879	1,892,754
Subordinated debt	21,052	11,802

1. Balances are as at the balance sheet date (for KMP in office at balance sheet date) or at the date of cessation of former KMP.

32. RELATED PARTY DISCLOSURES (continued)

OTHER TRANSACTIONS OF KEY MANAGEMENT PERSONNEL AND THEIR RELATED PARTIES

The aggregate of deposits of KMP and their related parties with the Group were $48.4 million (2019: $60 million).

Other transactions with KMP and their related parties included amounts paid to the Group in respect of investment management service fees, brokerage and bank fees and charges. The Group has reimbursed KMP for the costs incurred for security and secretarial services associated with the performance of their duties. These transactions are conducted on normal commercial terms and conditions no more favourable than those given to other employees or customers.

ASSOCIATES

We disclose significant associates in Note 26 Investments in Associates. During the course of the financial year, transactions conducted with all associates were on terms equivalent to those made on an arm's length basis:

	2020 $000	2019 $000
Amounts receivable from associates	354	664
Amounts payable to associates	1,354	697
Interest income from associates	-	93
Other revenue from associates	500	-
Other expenses paid to associates	7,706	11,561
Dividend income from associates	32,465	50,014

There have been no material guarantees given or received. No amounts receivable from the associates have been written-off during the period, or individual provisions raised in respect of these balances.

33. COMMITMENTS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

CREDIT RELATED COMMITMENTS AND CONTINGENCIES

	2020 $m	2019 $m
Contract amount of:		
Undrawn facilities	**227,819**	209,340
Guarantees and letters of credit	**22,778**	22,339
Performance related contingencies	**17,017**	22,112
Total	**267,614**	253,791

UNDRAWN FACILITIES

The majority of undrawn facilities are subject to customers maintaining specific credit and other requirements or conditions. Many of these facilities are expected to be only partially used, and others may never be used at all. As such, the total of the nominal principal amounts is not necessarily representative of future liquidity risks or future cash requirements. Based on the earliest date on which the Group may be required to pay, the total undrawn facilities of $227,819 million (2019: $209,341 million) mature within 12 months.

GUARANTEES, LETTERS OF CREDIT AND PERFORMANCE RELATED CONTINGENCIES

Guarantees, letters of credit and performance related contingencies relate to transactions that the Group has entered into as principal – including: guarantees, standby letters of credit and documentary letters of credit.

Documentary letters of credit involve the Group issuing letters of credit guaranteeing payment in favour of an exporter. They are secured against an underlying shipment of goods or backed by a confirmatory letter of credit from another bank.

Performance related contingencies are liabilities that oblige the Group to make payments to a third party if the customer fails to fulfil its non-monetary obligations under the contract.

To reflect the risk associated with these transactions, we apply the same credit origination, portfolio management and collateral requirements that we apply to loans. The contract amount represents the maximum potential amount that we could lose if the counterparty fails to meet its financial obligations. As the facilities may expire without being drawn upon, the notional amounts do not necessarily reflect future cash requirements. Based on the earliest date on which the Group may be required to pay, the total guarantees and letters of credit of $22,778 million (2019: $22,339 million) and total performance related contingencies of $17,017 million (2019: $22,112 million) mature within 12 months.

33. COMMITMENTS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS (continued)

OTHER CONTINGENT LIABILITIES

As at 30 September 2020, the Group had contingent liabilities in respect of the matters outlined below. Where relevant, expert legal advice has been obtained and, in the light of such advice, provisions (refer to note 21) and/or disclosures as deemed appropriate have been made. In some instances we have not disclosed the estimated financial impact of the individual items either because it is not practicable to do so or because such disclosure may prejudice the interests of the Group.

REGULATORY AND CUSTOMER EXPOSURES

In recent years there has been an increase in the number of matters on which the Group engages with its regulators. There have also been significant increases in the nature and scale of regulatory investigations, surveillance and reviews, civil and criminal enforcement actions (whether by court action or otherwise), formal and informal inquiries, regulatory supervisory activities and the quantum of fines issued by regulators, particularly against financial institutions both in Australia and globally. The Group has received various notices and requests for information from its regulators as part of both industry-wide and Group-specific reviews and has also made disclosures to its regulators at its own instigation. The nature of these interactions can be wide ranging and, for example, currently include a range of matters including responsible lending practices, regulated lending requirements, product suitability and distribution, interest and fees and the entitlement to charge them, customer remediation, wealth advice, insurance distribution, pricing, competition, conduct in financial markets and financial transactions, capital market transactions, anti-money laundering and counter-terrorism financing obligations, reporting and disclosure obligations and product disclosure documentation. There may be exposures to customers which are additional to any regulatory exposures. These could include class actions, individual claims or customer remediation or compensation activities. The outcomes and total costs associated with such reviews and possible exposures remain uncertain.

BENCHMARK/RATE ACTIONS

In July and August 2016, class action complaints were brought in the United States District Court against local and international banks, including the Company – one action relating to the bank bill swap rate (BBSW), and one action relating to the Singapore Interbank Offered Rate (SIBOR) and the Singapore Swap Offer Rate (SOR). The class actions are expressed to apply to persons and entities that engaged in US-based transactions in financial instruments that were priced, benchmarked, and/or settled based on BBSW or SIBOR. The claimants seek damages or compensation in amounts not specified, and allege that the defendant banks, including the Company, violated US anti-trust laws and (in the BBSW case only) anti-racketeering laws, the *Commodity Exchange Act*, and unjust enrichment principles. The Company is defending the proceedings.

In February 2017, the South African Competition Commission commenced proceedings against local and international banks including the Company alleging breaches of the cartel provisions of the *South African Competition Act* in respect of trading in the South African rand. The potential civil penalty or other financial impact is uncertain.

CAPITAL RAISING ACTIONS

In June 2018, the Commonwealth Director of Public Prosecutions commenced criminal proceedings against the Company and a senior employee alleging that they were knowingly concerned in cartel conduct by the joint lead managers of the Company's August 2015 underwritten institutional equity placement of approximately 80.8 million ordinary shares. The Company and its senior employee are defending the allegations.

In September 2018, the Australian Securities and Investments Commission (ASIC) commenced civil penalty proceedings against the Company alleging failure to comply with continuous disclosure obligations in connection with the Company's August 2015 underwritten institutional equity placement. ASIC alleges the Company should have advised the market that the joint lead managers took up approximately 25.5 million ordinary shares of the placement. The Company is defending the allegations.

CONSUMER CREDIT INSURANCE LITIGATION

In February 2020, a class action was brought against the Company alleging breaches of financial advice obligations, misleading or deceptive conduct and unconscionable conduct in relation to the distribution of consumer credit insurance products. The issuers of the insurance products, QBE and OnePath Life, are also defendants to the claim. The Company is defending the allegations.

ESANDA DEALER CAR LOAN LITIGATION

In August 2020, a class action was brought against the Company alleging unfair conduct, misleading or deceptive conduct and equitable mistake in relation to the use of flex commissions in dealer arranged Esanda car loans. The Company is defending the allegations.

ROYAL COMMISSION

The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry released its final report on 4 February 2019. The findings and recommendations of the Commission are resulting in additional costs and may lead to further exposures, including exposures associated with further regulator activity or potential customer exposures such as class actions, individual claims or customer remediation or compensation activities. The outcomes and total costs associated with these possible exposures remain uncertain.

33. COMMITMENTS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS (continued)

SECURITY RECOVERY ACTIONS

Various claims have been made or are anticipated, arising from security recovery actions taken to resolve impaired assets. These claims will be defended.

WARRANTIES AND INDEMNITIES

The Group has provided warranties, indemnities and other commitments in favour of the purchaser and other persons in connection with various disposals of businesses and assets and other transactions, covering a range of matters and risks. It is exposed to claims under those warranties, indemnities and commitments.

CLEARING AND SETTLEMENT OBLIGATIONS

Certain group companies have a commitment to comply with rules governing various clearing and settlement arrangements which could result in a credit risk exposure and loss if another member institution fails to settle its payment clearing activities. The Group's potential exposure arising from these arrangements is unquantifiable in advance.

Certain group companies hold memberships of central clearing houses, including ASX Clear (Futures), London Clearing House (LCH) SwapClear and RepoClear, Korea Exchange (KRX), Hong Kong Exchange (HKEX), Clearing Corporation of India and the Shanghai Clearing House. These memberships allow the relevant group company to centrally clear derivative instruments in line with cross-border regulatory requirements. Common to all of these memberships is the requirement for the relevant group company to make default fund contributions. In the event of a default by another member, the relevant group company could potentially be required to commit additional default fund contributions which are unquantifiable in advance.

PARENT ENTITY GUARANTEES

The Company has issued letters of comfort and guarantees in respect of certain subsidiaries in the normal course of business. Under these letters and guarantees, the Company undertakes to ensure that those subsidiaries continue to meet their financial obligations, subject to certain conditions including that the entity remains a controlled entity of the Company.

SALE OF GRINDLAYS BUSINESSES

On 31 July 2000, the Company completed the sale to Standard Chartered Bank (SCB) of ANZ Grindlays Bank Limited (Grindlays) and certain other businesses. The Company provided warranties and indemnities relating to those businesses.

The indemnified matters include civil penalty proceedings and criminal prosecutions brought by Indian authorities against Grindlays and certain of its officers, in relation to certain transactions conducted in 1991 that are alleged to have breached the Foreign Exchange Regulation Act, 1973.

Civil penalties were imposed in 2007 which are the subject of appeals. The criminal prosecutions are being defended.

CONTINGENT ASSETS

NATIONAL HOUSING BANK

The Company is pursuing recovery of the proceeds of certain disputed cheques which were credited to the account of a former Grindlays customer in the early 1990s.

The disputed cheques were drawn on the National Housing Bank (NHB) in India. Proceedings between Grindlays and NHB concerning the proceeds of the cheques were resolved in early 2002.

Recovery is now being pursued from the estate of the Grindlays customer who received the cheque proceeds. Any amounts recovered are to be shared between the Company and NHB.

34. AUDITOR FEES

	2020 $'000	2019 $'000
KPMG Australia		
Audit or review of financial reports	8,059	9,036
Audit-related services[1]	3,693	3,392
Non-audit services[2]	25	114
Total[3]	11,777	12,542
Overseas related practices of KPMG Australia		
Audit or review of financial reports	6,049	5,691
Audit-related services[1]	1,677	2,316
Non-audit services[2]	98	2
Total	7,824	8,009
Total auditor fees	19,601	20,551

1. Comprises prudential and regulatory services of $3.61 million (2019: $4.47 million), comfort letters $0.75 million (2019: $0.48 million) and other services $1.01 million (2019: $0.76 million).
2. The nature of the non-audit services includes training and methodology and procedural reviews. Further details are provided in the Directors' Report.
3. Inclusive of goods and services tax.

The Group's Policy allows KPMG Australia or any of its related practices to provide assurance and other audit-related services that, while outside the scope of the statutory audit, are consistent with the role of an external auditor. These include regulatory and prudential reviews requested by regulators such as APRA. Any other services that are not audit or audit-related services are non-audit services. The Policy allows certain non-audit services to be provided where the service would not contravene auditor independence requirements. KPMG Australia or any of its related practices may not provide services that are perceived to be in conflict with the role of the external auditor or breach auditor independence. These include consulting advice and subcontracting of operational activities normally undertaken by management, and engagements where the external auditor may ultimately be required to express an opinion on its own work.

35. EVENTS SINCE THE END OF THE FINANCIAL YEAR

There have been no significant events from 30 September 2020 to the date of signing this report.

Directors' Declaration

The Directors of Australia and New Zealand Banking Group Limited declare that:

a) in the Directors' opinion, the financial statements and notes of the Consolidated Entity are in accordance with the *Corporations Act 2001*, including:

   i) section 296, that they comply with the Australian Accounting Standards and any further requirements of the *Corporations Regulations 2001*; and

   ii) section 297, that they give a true and fair view of the financial position of the Consolidated Entity as at 30 September 2020 and of its performance for the year ended on that date;

b) the notes to the financial statements of the Consolidated Entity include a statement that the financial statements and notes of the Consolidated Entity comply with International Financial Reporting Standards;

c) the Directors have been given the declarations required by section 295A of the *Corporations Act 2001*; and

d) in the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors.

Paul D O'Sullivan
Chairman

Shayne C Elliott
Managing Director

4 November 2020

TO THE SHAREHOLDERS OF AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL REPORT

OPINION

We have audited the Financial Report of Australia and New Zealand Banking Group Limited (the Company) and the entities it controlled at the year end and from time to time during the financial year (together, the Group).

In our opinion, the accompanying Financial Report of the Group is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the Group's financial position as at 30 September 2020 and of its financial performance for the year ended on that date; and
- complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

The Financial Report comprises the:

- consolidated balance sheet as at 30 September 2020;
- consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, and consolidated statement of cash flows for the year then ended;
- notes 1 to 35 including a summary of significant accounting policies; and
- Directors' Declaration.

BASIS FOR OPINION

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (the Code)* that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

KEY AUDIT MATTERS

The Key Audit Matters we identified are:

- Allowance for expected credit losses;
- Subjective and complex valuation of Financial Instruments held at Fair Value;
- Carrying value of goodwill;
- Carrying value of investment in Asian associates;
- Provisions for Customer Remediation; and
- IT Systems and controls.

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTERS (continued)

ALLOWANCE FOR EXPECTED CREDIT LOSSES ($5,899m)

Refer to the critical accounting estimates and judgements disclosures in relation to the allowance for expected credit losses in Note 13 to the Financial Report.

The Key Audit Matter

Allowance for expected credit losses is a key audit matter due to the significance of the loans and advances balance to the financial statements and the inherent complexity of the Group's Expected Credit Loss (ECL) models (ECL models) used to measure ECL allowances. These models are reliant on data and a number of estimates including the impact of multiple economic scenarios and other assumptions such as defining a significant increase in credit risk (SICR).

AASB 9 *Financial Instruments* requires the Group to measure ECLs on a forward-looking basis reflecting a range of economic conditions, of which GDP and unemployment levels are considered key assumptions. Post-model adjustments are made by the Group to address known ECL model limitations or emerging trends in the loan portfolios. We exercise significant judgement in challenging the economic scenarios used and the judgemental post model adjustments the Group applies to the ECL results.

The Group's criteria selected to identify a SICR, such as a decrease in customer credit rating (CCR), are key areas of judgement within the Group's ECL methodology as these criteria determine if a forward-looking 12 month or lifetime allowance is recorded.

The COVID-19 pandemic has meant that assumptions regarding the economic outlook are more uncertain which, combined with varying government responses, increases the level of judgement required by the Group in calculating the ECL, and the associated audit risk.

Additionally, allowances for individually assessed wholesale loans exceeding specific thresholds are individually assessed by the Group. We exercise significant judgment in challenging the assessment of specific allowances based on the expected future cash repayments and estimated proceeds from the value of the collateral held by the Group in respect of the loans.

How the matter was addressed in our audit

Our audit procedures for the allowance for ECL and disclosures included assessing the Group's significant accounting policies against the requirements of the accounting standard. Additionally, our procedures covered:

Testing key controls of the Group in relation to:

- The ECL model governance and validation processes which involved assessment of model performance;
- The assessment and approval of the forward-looking macroeconomic assumptions and scenario weightings through challenge applied by the Group's internal governance processes;
- Reconciliation of the data used in the ECL calculation process to gross balances recorded within the general ledger as well as source systems;
- Counterparty risk grading for wholesale loans (larger customer exposures are monitored individually). This covered elements such as: approval of new lending facilities against the Group's lending policies, monitoring of counterparty credit quality against the Group's exposure criteria for internal factors specific to the counterparty or external macroeconomic factors, and accuracy and timeliness of counterparty risk assessments and risk grading against the requirements of the Group's lending policies and regulatory requirements; and
- IT system controls which record retail loans lending arrears, group exposures into delinquency buckets, and re-calculate individual allowances. We tested automated calculation and change management controls and evaluated the Group's oversight of the portfolios, with a focus on controls over delinquency monitoring.

We tested relevant General Information Technology Controls (GITCs) over the key IT applications used by the Group in measuring ECL allowances as detailed in the IT Systems and Controls key audit matter below.

In addition to controls testing, our procedures included:

- Re-performing credit assessments of a sample of wholesale loans controlled by the Group's specialist workout and recovery team assessed as higher risk or impaired, and a sample of other loans, focusing on larger exposures assessed by the Group as showing signs of deterioration, or in areas of emerging risk (assessed against external market conditions and in particular considering the impacts of COVID-19 and climate change). For each loan sampled, we challenged the Group's CCR and Security Indicator (SI), taking into account our assessment of the customer's financial position and, where relevant, the risk of stranded assets, and our overall assessment of loan recoverability, the valuation of security, and the impact on the credit allowance. To do this, we used the information on the Group's loan file, discussed the facts and circumstances of the case with the loan officer, and performed our own assessment of recoverability. Exercising our judgment, our procedures included using our understanding of relevant industries and the macroeconomic environment and comparing data and assumptions used by the Group in recoverability assessments to externally sourced evidence, such as commodity prices, publicly available audited financial statements and comparable external valuations of collateral held. Where relevant we assessed the forecast timing of future cash flows in the context of underlying valuations and approved business plans and challenged key assumptions in the valuations;
- Obtaining an understanding of the Group's processes to determine ECL allowances, evaluating the Group's ECL model methodologies against established market practices and criteria in the accounting standards;

KEY AUDIT MATTERS (continued)

- Working with KPMG risk consulting specialists, we assessed the accuracy of the Group's ECL model estimates by re-performing, for a sample of loans, the ECL allowance using our independently derived calculation tools and comparing this to the amount recorded by the Group;
- Working with KPMG economic specialists, we challenged the Group's forward-looking macroeconomic assumptions and scenarios incorporated in the Group's ECL models. We compared the Group's forecast GDP, unemployment rates, CPI and property price indices to relevant publicly available macro-economic information, and considered other known variables and information obtained through our other audit procedures to identify contradictory indicators;
- Testing the implementation of the Group's SICR methodology by re-performing the staging calculation for a sample of loans taking into consideration movements in the CCR from loan origination CCR and comparing our expectation to actual staging applied on an individual account level in the Group's ECL model; and
- Assessing the accuracy of the data used in the ECL models by confirming a sample of data fields such as account balance and CCR to relevant source systems.

We challenged key assumptions in the components of the Group's post-model adjustments to the ECL allowance balance. This included:

- Assessing the requirement for additional allowances considering the Group's ECL model and data deficiencies identified by the Group's ECL model validation processes, particularly in light of the extreme volatility in economic scenarios caused by the current COVID-19 pandemic and government responses;
- Evaluating underlying data used in concentration risk and economic cycle allowances by comparing underlying loan portfolio characteristics to recent loss experience, current market conditions and specific risks in the Group's loan portfolios;
- Assessing the impacts on the modelled ECL and the requirement for out of model adjustments to account for the portion of customers on loan deferral packages that are not aged. We also assessed assumptions used to determine whether a SICR event has occurred; and
- Assessing the completeness of additional allowance overlays by checking the consistency of risks we identified in the loan portfolios against the Group's assessment.

We assessed the appropriateness of the Group's disclosures in the financial report using our understanding obtained from our testing and against the requirements of the accounting standard.

SUBJECTIVE AND COMPLEX VALUATION OF FINANCIAL INSTRUMENTS HELD AT FAIR VALUE:
- FAIR VALUE OF LEVEL 3 ASSET POSITIONS $1,183m
- FAIR VALUE OF LEVEL 2 ASSET POSITIONS $145,559m
- FAIR VALUE OF LEVEL 3 LIABILITY POSITIONS $55m
- FAIR VALUE OF LEVEL 2 LIABILITY POSITIONS $138,786m

Refer to the critical accounting estimates, judgements and disclosures of fair values in Note 17 to the Financial Report.

The Key Audit Matter

The fair value of the Group's Level 2 and 3 financial instruments is determined by the Group through the application of valuation techniques which often involve the exercise of judgement and the use of assumptions and estimates.

The valuation of Level 3 and level 2 financial instruments held at fair value is considered a Key Audit Matter due to:

- The high degree of estimation uncertainty and potentially significant range of reasonable outcomes associated with the valuation of financial instruments classified as Level 3 where significant pricing inputs used in the valuation methodology and models are not observable; and
- The complexity associated with the valuation methodology and models of certain more complex Level 2 financial instruments leading to an increase in subjectivity and estimation uncertainty. Level 2 financial instruments represented 53% of the Group's financial assets carried at fair value and 97% of the Group's financial liabilities carried at fair value.

Level 3 financial instruments represented 0.4% of the Group's financial assets carried at fair value and 0.04% of the Group's financial liabilities carried at fair value. This population is made up of:

- Investment securities at fair value through other comprehensive income;
- Derivative assets and liabilities; and
- Net loans and advances.

KEY AUDIT MATTERS (continued)

How the matter was addressed in our audit

Our audit procedures for the valuation of financial instruments held at fair value included:

- We performed an assessment of the population of Financial instruments held at fair value to identify portfolios that have a higher risk of misstatement arising from significant judgements over valuation either due to unobservable inputs or complex models.
- We tested the design and operating effectiveness of key controls relating specifically to these financial instruments, including:
  - Controls in relation to Independent Price Verification (IPV), including completeness of portfolios and valuation inputs subject to IPV;
  - Controls in relation to model validation at inception and periodically, including assessment of model limitation and assumptions;
  - Controls in relation to the review and challenge of daily profit and loss (P&L) by a control function;
  - Controls over the collateral management process, including review of margin reconciliations with clearing houses; and
  - Controls over fair value adjustments (FVAs), including exit price and portfolio level adjustments.
- With the assistance of KPMG valuation experts, we independently re-valued a selection of financial instruments and FVAs. This involved sourcing independent inputs from markets data providers or external sources and using our own valuation models. We challenged the Group where our revaluations significantly differed from the Group's.
- In relation to the subjective valuation of Level 3 Investment Securities, with our valuation specialists, we:
  - Assessed the reasonableness of key inputs and assumptions using comparable data in the market and available alternatives; and
  - Compared the Group's valuation methodology to industry practice and the criteria in the accounting standards.
- We assessed the Group's financial statements disclosures, including key judgements and assumptions using our understanding obtained from our testing and against the relevant accounting standard requirements.

CARRYING VALUE OF GOODWILL ($3,264m)

Refer to the critical accounting estimates, judgements and disclosures in Notes 20 to the Financial Report.

The Key Audit Matter

Carrying value of goodwill is a key audit matter as:

- The Group's net assets exceeded its market capitalisation at year-end. This increased the potential for impairment and our audit effort in this area.
- We focussed on the significant forward-looking assumptions the Group applied in their value in use (VIU) and fair value less costs of disposal (FVLCOD) models, including:
  - Growth rates, and terminal growth rates in the VIU model, and future maintainable earnings and price earnings multiples applied in the FVLCOD model. The Group's models are highly sensitive to small changes in these assumptions, reducing available headroom or indicating possible impairment. This drives additional audit effort specific to their feasibility and consistency of application to the Group's strategy; and
  - Discount rates in the VIU model and the control premium in the FVLCOD. These are complicated in nature and vary according to the conditions and environment the specific Cash Generating Unit (CGU) is subject to from time to time.
- Significant judgement was required by the Group as a result of the current COVID-19 environment. COVID-19 has caused significant estimation uncertainty and as a result there is increased judgement in forecasting cash flows and assumptions used in the discounted cash flow models and future maintainable earnings and market multiples used in its fair value calculations. These conditions and the uncertainty of their continuation increase the possibility of goodwill being impaired, plus the risk of inaccurate forecasts or a significantly wider range of possible outcomes, for us to consider.
- The Group recorded an impairment charge of $50m against goodwill in the Pacific CGU further increasing our audit effort in this key audit area.
- We involved valuation specialists to supplement our senior team members in assessing this key audit matter.

How the matter was addressed in our audit

Working with our valuation specialists, our procedures included:

- We considered the appropriateness of the valuation method (value in use or fair value less costs of disposal) applied by the Group to perform their annual test for impairment against the requirements of the accounting standards;
- We assessed the integrity of the value in use and fair value less costs of disposal models used, including the accuracy of the underlying calculation formulas;
- We assessed the accuracy of previous Group forecasts to inform our evaluation of forecasts incorporated in the models;
- We assessed the Group's key assumptions used in the fair value less costs of disposal model, such as, future maintainable earnings, the control premium and compared the implied multiples from comparable market transactions to the implied multiple used in the model;

KEY AUDIT MATTERS (continued)

- We assessed the Group's key assumptions used in the discounted cash flow model, such as, discount rates, growth rates, forecast earnings and terminal growth rate by comparing to external observable metrics, historical experience, our knowledge of the markets and current market practice;
- We independently developed a discount rate range considered comparable using publicly available market data for comparable entities, adjusted for factors specific to the Group and industry it operates in;
- We compared the forecast cash flows contained in the models to revised Strategic Plan reflecting the Group's COVID-19 impacts;
- We considered and challenged the Group's assessment of the impact of COVID-19 on cash flows and assumptions as well as its assessment of the likely recovery period;
- We considered the sensitivity of the models by varying key assumptions, such as market multiples, terminal growth rates and discount rates, within a reasonable possible range and included specific analysis of reasonable possible impacts of COVID-19;
- We recalculated the impairment charge against the recorded amount disclosed; and
- We assessed the disclosures in the financial report using our understanding obtained from our testing and against the requirements of the accounting standards.

CARRYING VALUE OF INVESTMENT IN ASIAN ASSOCIATES ($2,140M)

Refer to the critical accounting estimates, judgements and disclosures in Notes 26 to the Financial Report.

The Key Audit Matter

Carrying value of investment in Asian associates (PT Panin and AmBank) is a key audit matter as:

- The Group's impairment assessment of non-lending assets identified that two of the Group's associate investments (PT Panin and AmBank) had indicators of impairment.
- Significant judgement was required by the Group as a result of the business disruption and economic impacts of COVID-19 pandemic, raising estimation uncertainty. These conditions and the uncertainty of their continuation increase the possibility of the associates being impaired, plus the risk of inaccurate forecasts or a significantly wider range of possible outcomes in the cash flow models.
- Our evaluation of potential impairment involves critically evaluating the Group's judgement in relation to the Group's Asian associates key forward-looking assumptions. Instances where the Group's judgement is evaluated include:
  - Forecast earnings and terminal growth rates – The Group's models are highly sensitive to small changes in these assumptions, reducing available headroom or indicating possible impairment. This drives additional audit effort specific to their feasibility and consistency of application to the Group's strategy; and
  - Discount rates – These are complicated in nature and vary according to the conditions and environment the specific associate investments operate in.
- The Group recorded impairment charges in relation to the investment in Ambank of $595m and PT Panin of $220m further increasing our audit effort in this key audit area.
- We involved valuation specialists to supplement our senior team members in assessing this key audit matter.

How the matter was addressed in our audit

Working with our valuation specialists, our procedures included:

- We considered the appropriateness of the value in use valuation method applied by the Group to perform their annual test for impairment against the requirements of the accounting standards;
- We assessed the integrity of the models used, including the accuracy of the underlying calculation formulas;
- We assessed the Group's key assumptions used in the discounted cash flow model, such as, discount rates, growth rates, forecast earnings and terminal growth rate by comparing to external observable metrics, historical experience, our knowledge of the markets and current market practice;
- We independently developed a discount rate estimate or range considered comparable using publicly available market data for comparable entities, adjusted for factors specific to the Asian associates and the market and industry they operate in;
- We compared the forecast cash flows contained in the models to recent broker consensus reports, reflecting the COVID-19 impacts;
- We considered and challenged the Group's assessment of the impact of COVID-19 on cash flows and assumptions as well as its assessment of the likely recovery period;
- We considered the sensitivity of the models by varying key assumptions, such as, forecast growth rates, terminal growth rates and discount rates, within a reasonable possible range and included specific analysis of reasonable possible impacts of COVID-19;
- We recalculated the impairment charge against the recorded amount disclosed; and
- We assessed the disclosures in the financial report using our understanding obtained from our testing and against the requirements of the accounting standards.

KEY AUDIT MATTERS (continued)

PROVISIONS FOR CUSTOMER REMEDIATION ($1,109m)

Refer to the critical accounting estimates, judgements and disclosures in Notes 21 and 33 to the Financial Report.

The Key Audit Matter

The Group has assessed the need to recognise provisions in relation to certain customer remediation activities arising from both internal and external investigations and reviews.

The provision for customer remediation activities is a Key Audit Matter due to the number of investigations, the quantum of amounts involved, and the judgements required by us in assessing the Group's determination of:

- The existence of a present legal or constructive obligation arising from a past event using the conditions of the event against the criteria in the accounting standards;
- The number of investigations and the quantum of amounts being paid arising from the present obligation;
- Reliable estimates of the amounts which may be paid arising from investigations, including estimates of related costs; and
- The potential for legal proceedings, further investigations, and reviews from its regulators leading to a wider range of estimation outcomes for us to consider.

How the matter was addressed in our audit

Our audit procedures for customer remediation provisions included:

- Obtaining an understanding of the Group's processes and controls for identifying and assessing the potential impact of the investigations into customer remediation activities;
- Enquiring with the Group regarding ongoing legal, regulatory and other investigation into remediation activities;
- Conducting independent discussions on significant matters with external legal counsel;
- Reading the minutes and other relevant documentation of the Group's Board of Directors, Board Committees, various management committees, and attending the Group's Audit and Risk Committee meetings;
- Inspecting correspondence with relevant regulatory bodies;
- For a sample of individual customer remediation matters, assessing the basis for recognition of a provision and associated costs against the requirements of the accounting standards. We did this by understanding and challenging the provisioning methodologies and underlying assumptions;
- Testing completeness by evaluating where exposures may have arisen based upon our knowledge and experience of broader industry matters, the Group's documentation and the current regulatory environment. We also checked the features of these exposures against the criteria defining a provision or a contingency in the accounting standards;
- Assessing the appropriateness of the Group's conclusions against the requirements of *Australian Accounting Standards* where estimates were unable to be reliably made for a provision to be recognised; and
- Evaluating the related disclosures using our understanding obtained from our testing and against the requirements of *Australian Accounting Standards*.

KEY AUDIT MATTERS (continued)

IT SYSTEMS AND CONTROLS

The Key Audit Matter

As a major Australian bank, the Group's businesses utilise many complex, interdependent Information Technology (IT) systems to process and record a high volume of transactions. Controls over access and changes to IT systems are critical to the recording of financial information and the preparation of a financial report which provides a true and fair view of the Group's financial position and performance.

The IT systems and controls, as they impact the financial recording and reporting of transactions, is a key audit matter as our audit approach could significantly differ depending on the effective operation of the Group's IT controls. We work with our KPMG IT specialists as a core part of our audit team.

How the matter was addressed in our audit

We tested the technology control environment for key IT applications (systems) used in processing significant transactions and recording balances in the general ledger. We also tested automated controls embedded within these systems which link the technology-enabled business processes. Our further audit procedures included:

- Assessing the governance and higher-level controls across the IT Environment, including those regarding Group policy design, review and awareness, and IT Risk Management practices;
- Design and operating effectiveness testing of controls across the User Access Management Lifecycle, including how users are on-boarded, reviewed, and removed on a timely basis from critical IT applications and supporting infrastructure. We also examined how privileged roles and functions are managed across each IT Application and the supporting infrastructure;
- Design and operating effectiveness testing of controls to enable Change Management including how changes are initiated, documented, approved, tested and authorised prior to migration into the production environment of critical IT Applications. We assessed the appropriateness of users with access to release changes to IT application production environments across the Group;
- Design and operating effectiveness testing of controls used by the Group's technology teams to schedule system jobs and monitor system integrity;
- Design and operating effectiveness testing of controls related to significant IT application programs delivered per the ANZ Delivery Framework;
- Design and operating effectiveness testing of automated business process controls including those relating to enforcing segregation of duties to avoid conflicts from inappropriate role combinations within IT applications. We tested:
  - Configurations in place to perform calculations, mappings and flagging of financial transactions, and automated reconciliation controls (both between systems and intra-system); and
  - Data integrity of critical system reporting used by us in our audit to select samples and analyse data used by management to generate financial reporting.

OTHER INFORMATION

Other Information is both financial and non-financial information in Australia and New Zealand Banking Group Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report, we have nothing to report.

RESPONSIBILITIES OF DIRECTORS FOR THE FINANCIAL REPORT

The Directors are responsible for:

- preparing a Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Group's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

KEY AUDIT MATTERS (continued)

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL REPORT

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists. Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the Auditing and Assurance Standards Board website at: https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf. This description forms part of our Auditor's Report.

REPORT ON THE REMUNERATION REPORT

In our opinion, the Remuneration Report of Australia and New Zealand Banking Group Limited for the year ended 30 September 2020, complies with *Section 300A* of the *Corporations Act 2001*.

DIRECTORS' RESPONSIBILITIES

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A* of the *Corporations Act 2001*.

OUR RESPONSIBILITIES

We have audited the Remuneration Report included in the Directors' report for the year ended 30 September 2020.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.

KPMG

Alison Kitchen
Partner

Melbourne
4 November 2020

We are adapting to the changing environment, protecting our people, customers and shareholders, engaging proactively with our stakeholders and, together, preparing for the future.

shareholder.anz.com

Australia and New Zealand Banking Group Limited (ANZ) ABN 11 005 357 522.

AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED

ABN 11 005 357 522

THE COMPANY

2020 Financial Report

30 September 2020

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

FINANCIAL REPORT

INCOME STATEMENT

For the year ended 30 September	Note	2020 $m	2019 $m
Interest income[1]		21,739	27,599
Interest expense		(11,855)	(17,452)
Net interest income	2	9,884	10,147
Other operating income	2	4,204	4,553
Net income from insurance business	2	-	7
Share of associates' (loss)/profit	2	(1)	(1)
Operating income		14,087	14,706
Operating expenses	3	(7,788)	(7,784)
Profit before credit impairment and income tax		6,299	6,922
Credit impairment charge	12	(2,337)	(714)
Profit before income tax		3,962	6,208
Income tax expense	4	(1,156)	(1,761)
Profit for the year		2,806	4,447

1. Includes interest income calculated using the effective interest method of $18,232 million on financial assets measured at amortised cost or fair value through other comprehensive income (2019: $23,678 million).

The notes appearing on pages 8 to 89 form an integral part of these financial statements.

FINANCIAL REPORT (continued)

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 September	2020 $m	2019 $m
Profit for the year	2,806	4,447
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss		
Investment securities - equity securities at FVOCI	(151)	45
Other reserve movements	23	98
Items that may be reclassified subsequently to profit or loss		
Foreign currency translation reserve	(109)	209
Other reserve movements	587	915
Income tax attributable to the above items	(149)	(301)
Other comprehensive income after tax	201	966
Total comprehensive income for the year	3,007	5,413

The notes appearing on pages 8 to 89 form an integral part of the financial statements.

BALANCE SHEET

As at 30 September	Note	2020 $m	2019 $m
Assets			
Cash and cash equivalents	7	98,083	77,949
Settlement balances owed to ANZ		7,116	3,442
Collateral paid		13,012	13,461
Trading securities	8	38,423	34,217
Derivative financial instruments	9	130,552	116,544
Investment securities	10	80,284	73,355
Net loans and advances	11	488,002	484,655
Regulatory deposits		199	215
Due from controlled entities		100,654	88,874
Shares in controlled entities	23	15,022	15,467
Investments in associates		20	18
Current tax assets		155	254
Deferred tax assets[1]		1,744	1,245
Goodwill and other intangible assets	19	1,097	1,367
Premises and equipment[1]		2,643	971
Other assets		2,072	2,798
Total assets		979,078	914,832
Liabilities			
Settlement balances owed by ANZ		19,556	9,342
Collateral received		8,074	7,005
Deposits and other borrowings	13	558,136	524,241
Derivative financial instruments	9	131,230	117,340
Due to controlled entities		100,932	89,683
Current tax liabilities		81	118
Deferred tax liabilities		79	67
Payables and other liabilities[1]		8,070	6,621
Employee entitlements		441	450
Other provisions	20	2,157	1,905
Debt issuances	14	97,050	104,846
Total liabilities		925,806	861,618
Net assets		53,272	53,214
Shareholders' equity			
Ordinary share capital	21	26,454	26,413
Reserves	21	1,018	840
Retained earnings[1]	21	25,800	25,961
Total shareholders' equity	21	53,272	53,214

1. On adoption of AASB 16 on 1 October 2019, ANZ recognised right-of-use assets of $2.1 billion presented within Premises and equipment and lease liabilities of $2.1 billion presented within Payables and other liabilities. This resulted in a reduction to opening retained earnings of $72 million and an increase in deferred tax assets of $31 million. Comparative information has not been restated. Refer to Note 1 for further details.

The notes appearing on pages 8 to 89 form an integral part of the financial statements.

FINANCIAL REPORT (continued)

CASH FLOW STATEMENT

For the year ended 30 September	2020 $m	2019 $m
Profit after income tax	2,806	4,447
Adjustments to reconcile to net cash provided by/(used in) operating activities:		
Allowance for expected credit losses	2,337	714
Depreciation and amortisation[1, 2]	1,214	738
Goodwill impairment	10	-
Net derivatives/foreign exchange adjustment	(2,175)	5,004
Impairment of investment in Wealth Australia	42	-
Impairment of investment in ANZ Share Investing	2	147
(Gain)/Loss on sale from divestments	11	(273)
Other non-cash movements	20	31
Net(increase)/decrease in operating assets:		
Collateral paid	33	(3,839)
Trading securities	1,908	(6,393)
Net loans and advances	(7,526)	(3,740)
Net intra-group loans and advances	(393)	5,301
Other assets	(26)	(85)
Net increase/(decrease) in operating liabilities:		
Deposits and other borrowings	40,662	(1,109)
Settlement balances owed by ANZ	10,286	(642)
Collateral received	1,426	619
Other liabilities	(9,121)	955
Total adjustments	38,710	(2,572)
Net cash provided by operating activities[3]	41,516	1,875
Cash flows from investing activities		
Investment securities assets:		
Purchases	(33,731)	(22,583)
Proceeds from sale or maturity	25,346	18,440
(Repayment of)/Proceeds from IOOF secured notes	(800)	800
Proceeds from divestments, net of cash disposed	688	185
Net movement in shares in controlled entities	(75)	(132)
Other assets	(567)	(648)
Net cash (used in) investing activities	(9,139)	(3,938)
Cash flows from financing activities		
Debt issuances:[4]		
Issue proceeds	10,064	20,450
Redemptions	(17,179)	(18,938)
Dividends paid[5]	(2,861)	(4,481)
On market purchase of treasury shares	(122)	(112)
Repayment of lease liabilities[6]	(267)	-
Share buy-back	-	(1,120)
Net cash (used in)/provided by financing activities	(10,365)	(4,201)
Net (decrease)/increase in cash and cash equivalents	22,012	(6,264)
Cash and cash equivalents at beginning of year	77,949	80,227
Effects of exchange rate changes on cash and cash equivalents	(1,878)	3,986
Cash and cash equivalents at end of year	98,083	77,949

1. Includes depreciation of right-of-use assets recognised on 1 October 2019 following the adoption of AASB 16. Comparatives have not been restated.
2. Includes accelerated amortisation of $184 million following the Company's change in the application of its software amortisation policy to reflect the shorter useful life of software caused by rapidly changing technology and business requirements. Refer to Note 19 Goodwill and Other Intangible Assets for further details.
3. Net cash provided by operating activities includes income taxes paid of $1,596 million (2019: $1,875 million).
4. Non-cash changes in debt issuances includes fair value hedging losses of $532 million (2019: $2,106 million loss) and foreign exchange gains of $858 million (2019: foreign exchange losses $3,290 million).
5. Cash outflow for shares purchased to satisfy the dividend reinvestment plan are classified in Dividends paid.
6. Relates to repayments of lease liabilities which the Company commenced recognising on 1 October 2019 following the adoption of AASB 16. Comparative information has not been restated.

The notes appearing on pages 8 to 89 form an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY

	Ordinary share capital $m	Reserves $m	Retained earnings $m	Total shareholders' equity $m
As at 1 October 2018	27,533	(56)	26,399	53,876
Impact on transition to AASB 9	-	5	(483)	(478)
Profit for the year	-	-	4,447	4,447
Other comprehensive income for the year	-	894	72	966
Total comprehensive income for the year	**-**	**894**	**4,519**	**5,413**
Transactions with equity holders in their capacity as equity holders:				-
Dividends paid	-	-	(4,481)	(4,481)
Group share buy-back[2]	(1,120)	-	-	(1,120)
Other equity movements:				
Other items	-	(3)	7	4
As at 30 September 2019	26,413	840	25,961	53,214
Impact on transition to AASB 16			(72)	(72)
Profit for the year	-	-	2,806	2,806
Other comprehensive income for the year	-	183	18	201
Total comprehensive income for the year	-	183	2,824	3,007
Transactions with equity holders in their capacity as equity holders:				
Dividends paid	-	-	(2,922)	(2,922)
Dividend Reinvestment Plan[1]	61	-	-	61
Other equity movements:				
Group employee share acquisition scheme	(20)	-	-	(20)
Other items	-	(5)	9	4
As at 30 September 2020	26,454	1,018	25,800	53,272

1. 3.4 million shares were issued under the Dividend Reinvestment Plan (DRP) for the 2020 interim dividend (nil shares for the 2019 final dividend; nil shares for the 2019 interim dividend as the shares were purchased on-market and provided directly to shareholders participating in the DRP). On-market share purchases for the DRP in 2020 were $185 million (Sep 19 full year: $432 million).
2. The Company has completed a $3.0 billion on-market share buy-back of ANZ ordinary shares purchasing $1,120 million worth of shares in 2019 resulting in 42.0 million shares being cancelled in 2019.

The notes appearing on pages 8 to 89 form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. ABOUT THE FINANCIAL STATEMENTS

These are the financial statements for Australia and New Zealand Banking Group Limited (the Company or ANZ) for the year ended 30 September 2020. The Company is incorporated and domiciled in Australia. The address of the Company's registered office and its principal place of business is ANZ Centre, 833 Collins Street, Docklands, Victoria, Australia 3008.

On 4 November 2020, the Directors resolved to authorise the issue of these financial statements.

Information in the financial statements is included only to the extent we consider it material and relevant to the understanding of the financial statements. A disclosure is considered material and relevant if, for example:

- the amount is significant in size (quantitative factor);
- the information is significant by nature (qualitative factor);
- the user cannot understand the Company's results without the specific disclosure (qualitative factor);
- the information is critical to a user's understanding of the impact of significant changes in the Company's business during the period, for example: business acquisitions or disposals (qualitative factor); or
- the information relates to an aspect of the Company's operations that is important to its future performance (qualitative factor) and;
- the information is required under legislative requirements of the *Corporations Act 2001, the Banking Act 1959 (Cth)* or by the Company's principal regulators, including the Australian Securities and Investments Commission (ASIC) and the Australian Prudential Regulation Authority (APRA).

This section of the financial statements:

- outlines the basis upon which the Company's financial statements have been prepared; and
- discusses any new accounting standards or regulations that directly impact the financial statements.

BASIS OF PREPARATION

This financial report is a general purpose (Tier 1) financial report (as defined under the Corporations law) prepared by a 'for profit' entity, in accordance with *Australian Accounting Standards (AASs)* and other authoritative pronouncements of the *Australian Accounting Standards Board (AASB)* the *Corporations Act 2001*, and the *International Financial Reporting Standards (IFRS)* and interpretations published by the *International Accounting Standards Board (IASB)*.

The Company is a reporting entity under the *Corporations Act 2001*, and is not exempt from preparing consolidated financial statements. The financial statements for the Company have been prepared for the purpose of the Company fulfilling its financial reporting obligations under part 7.8 of the *Corporations Act 2001*, as required for Australian Financial Services Licensees.

The Company is the ultimate parent entity of the ANZ Group. The Company consists of the following operations undertaken in Australia and in its overseas branches:

- Retail and Commercial operations,
- Institutional operations, and
- Technology Services & Operations and Group Centre operations.

The consolidated financial statements of the Group can be found as part of the 2020 Annual Report at https://www.anz.com/shareholder/centre/reporting/annual-report-annual-review/ and copies are available from the Company's registered office and principal place of business.

We present these financial statements in Australian dollars, which is the Company's functional and presentation currency. We have rounded values to the nearest million dollars ($m), unless otherwise stated, as allowed under the *Australian Securities and Investments Commission (ASIC) Corporations (Rounding in Financial/Directors Report) Instrument 2016/191*.

BASIS OF MEASUREMENT

We have prepared the financial information in accordance with the historical cost basis - except the following assets and liabilities which we have stated at their fair value:

- derivative financial instruments and in the case of fair value hedging, a fair value adjustment made to the underlying hedging exposure;
- financial instruments held for trading;
- financial assets and liabilities designated at fair value through profit and loss; and
- financial assets at fair value through other comprehensive income.

In accordance with AASB 119 *Employee Benefits* defined benefit obligations are measured using the Projected Unit Credit Method.

1. ABOUT THE FINANCIAL STATEMENTS (continued)

FOREIGN CURRENCY TRANSLATION

TRANSACTIONS AND BALANCES

Foreign currency transactions are translated into the relevant functional currency at the exchange rate prevailing at the date of the transaction. At the reporting date, monetary assets and liabilities denominated in foreign currencies are translated into Australian dollars, being the functional currency, at the relevant spot rate. Any foreign currency translation gains or losses are included in profit or loss in the period they arise.

We measure translation differences on non-monetary items at fair value through profit or loss and report them as part of the fair value gain or loss on these items. For non-monetary items classified as investment securities measured at fair value through other comprehensive income the translation differences are included as part of the fair value gains or losses recorded in other comprehensive income.

KEY JUDGEMENTS AND ESTIMATES

In the process of applying the Company's accounting policies, management has made a number of judgements and applied estimates and assumptions about past and future events. Further information on the key judgements and estimates that we consider material to the financial statements are contained within the relevant note to the financial statements.

Coronavirus (COVID-19) pandemic

The COVID-19 pandemic and its effect on the global economy have impacted our customers, operations and Company performance. The outbreak necessitated governments to respond at unprecedented levels to protect the health of the population, local economies and livelihoods. It has affected different regions at different times and at varying degrees and there remains a risk of subsequent waves of infection. Thus the pandemic has significantly increased the estimation uncertainty in the preparation of these financial statements including:

- the extent and duration of the disruption to business arising from the actions of governments, businesses and consumers to contain the spread of the virus;
- the extent and duration of the expected economic downturn, and subsequent recovery. This includes the impacts on capital markets and liquidity, credit quality, increasing unemployment, declines in consumer spending, reductions in production, and other restructuring activities; and
- the effectiveness of government and central bank measures to support businesses and consumers through this disruption and economic downturn.

The Company has made various accounting estimates in these financial statements based on forecasts of economic conditions which reflect expectations and assumptions as at 30 September 2020 about future events that the Directors believe are reasonable in the circumstances. There is a considerable degree of judgement involved in preparing these estimates. The underlying assumptions are also subject to uncertainties which are often outside the control of the Company. Accordingly, actual economic conditions are likely to be different from those forecast since anticipated events frequently do not occur as expected, and the effect of those differences may significantly impact accounting estimates included in these financial statements.

The significant accounting estimates impacted by these forecasts and associated uncertainties are predominantly related to expected credit losses, fair value measurement, and the assessment of the recoverable amount of non-financial assets.

The impact of the COVID-19 pandemic on each of these estimates is discussed further in the relevant note of these financial statements. Readers should carefully consider these disclosures in light of the inherent uncertainty described above.

1. ABOUT THE FINANCIAL STATEMENTS (CONTINUED)

ACCOUNTING STANDARDS ADOPTED IN THE PERIOD

AASB 16 *Leases (AASB 16)*

AASB 16 became effective for the Company from 1 October 2019 and replaced the previous standard AASB 117 *Leases* (AASB 117). AASB 16 primarily impacts the Company's property and technology leases which were previously classified as operating leases. Under AASB 117, operating leases were not recognised on balance sheet and rent payments were expensed over the lease term.

Under AASB 16, the Company recognises all leases (except for leases of low value assets and short term leases) on balance sheet under a single accounting model. Accordingly, the Company recognises its right to use an underlying leased asset over the lease term as a right-of-use (ROU) asset, and its obligation to make lease payments as a lease liability. In the income statement, the Company recognises depreciation expense on the ROU asset and interest expense on the lease liability. As a result, lease expenses will be higher in the early periods of a lease and lower in the later periods of the lease compared to the previous standard where expenses were constant over the lease term. Cumulative expenses over the life of a lease will not change.

As permitted by the standard, the Company does not recognise ROU assets and lease liabilities for leases of low value items and short term leases (less than 12 months). Instead, the lease payments associated with these leases are recognised as an operating expense in the income statement on a straight-line basis over the lease term.

The Company has applied the modified retrospective transition approach whereby initial lease liabilities are recognised based on the present value of remaining lease payments as of the transition date. The initial ROU asset recognised for certain large commercial and retail leases was measured as if AASB 16 had always been applied to the leases. For all other leases, the initial ROU asset was measured as equal to the initial lease liability.

The implementation of AASB 16 requires management to make certain key judgements including the determination of lease terms, discount rates and identifying arrangements that contain a lease. Extension options are included in the lease term if the Company is reasonably certain the option will be exercised. This assessment includes consideration of facts and circumstances that create an economic incentive for the Company to exercise the option.

Based on the modified retrospective transition approach, the Company recognised lease liabilities of $2.1 billion presented within Payables and other liabilities and ROU assets of $2.1 billion presented within Premises and equipment. This resulted in a reduction to opening retained earnings of $72 million and an increase in deferred tax assets of $31 million as of 1 October 2019. Comparatives have not been restated.

In addition, the Company elected to apply the following practical expedients as permitted under the modified retrospective transition approach:

a) Impairment of ROU assets at the transition date was assessed by relying on onerous lease provisions previously recognised as of 30 September 2019 under AASB 117;

b) Initial direct costs associated with entering leases prior to the transition date were excluded from the carrying value of ROU assets recognised at transition;

c) No ROU assets or lease liabilities were recognised for certain leases with less than 12 months remaining as of the transition date; these leases were treated as short-term leases with all lease payments recognised in rent expense as incurred; and

d) Hindsight was used to determine the lease term of contracts that contained options to extend the lease.

1. ABOUT THE FINANCIAL STATEMENTS (continued)

ACCOUNTING STANDARDS ADOPTED IN THE PERIOD (continued)

The following table reconciles the operating lease commitments disclosed under AASB 117 as at 30 September 2019 to the opening lease liabilities recognised under AASB 16 as at 1 October 2019.

	$m
Operating Lease Commitments as at 30 September 2019	1,757
Increase in lease term for extension options	559
Exclusion of low value leases and leases of less than 12 months	(19)
Exclusion of service components	(8)
Other	(3)
Total Undiscounted Lease Payments	**2,286**
Effect of discounting at a weighted average incremental borrowing rate of 2.06%	(138)
Total lease liabilities under AASB 16 as at 1 October 2019	**2,148**

During the reporting period, ANZ recognised the following amounts in the income statement

	$m
Depreciation expense on ROU assets	353
Interest expense on lease liabilities	43
Interest expense on makegood provisions	1
Rent expense in relation to low value leases and leases of less than 12 months	13
Other income in relation to subleases	21

The Company's accounting policies with respect to lease arrangements where it acts as lessor have not changed under AASB 16 except where the Company subleases certain leased properties. Where the Company acts as intermediate lessor, it classifies the sublease as either a finance lease or operating lease by reference to the ROU asset of the head lease. Income from operating subleases is recognised in Other operating income in the Income Statement.

Interest Rate Benchmark Reform

Background

Interbank offered rates (IBORs), such as the London Interbank Offered Rate (LIBOR), play a critical role in global financial markets, serving as reference rates for derivatives, loans and securities, and as parameters in the valuation of financial instruments.

Uncertainty surrounding the integrity of IBOR rates has in recent years, led regulators, central banks and market participants to work towards a transition to alternative risk-free benchmark reference rates (RFRs) and market-led working groups in respective jurisdictions have recommended alternative risk-free reference rates, which are gradually being adopted. Progress in the transition to these new benchmarks has resulted in significant uncertainty in the future of IBOR benchmarks beyond 1 January 2022.

Accounting amendments

In response to the uncertainty about the long-term viability of these benchmark rates, and LIBOR in particular, the *International Accounting Standards Board (IASB)* has established a project to consider the financial reporting implications of the reform. The transition from IBORs is expected to have an impact on various elements of financial instrument accounting, including hedge accounting, as well as fair value methodologies and disclosures.

In October 2019, the AASB issued AASB 2019-3 *Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform*, which amends certain existing hedge accounting requirements to provide relief from potential effects of the uncertainty caused by the interest rate benchmark reform. The Company elected to early adopt the amendments from 1 October 2019 which have not had a significant impact on the Company. These amendments address the accounting effects of uncertainty in the period leading up to the reform arising from the Company's ability to satisfy the existing prospective hedge effectiveness requirements of AASB 139. This uncertainty arises as it is not known when the hedged items (such as debt issuances) and associated hedging instruments (such as interest rate swaps) will be changed to reference the RFRs, or if both the hedging item and the associated hedging instrument will move to the new rates at the same time. The Company has applied this amendment to all hedge accounted relationships (cash flow or fair value hedges) where the reform gives rise to uncertainties about the timing or amount of IBOR based cash flows of the hedged item or hedging instrument.

In September 2020, the AASB issued AASB 2020-8 *Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform – Phase 2* which is mandatory for the Company for the 2022 financial year. This standard addresses issues that may affect the Company at the point of transition from an existing IBOR rate to a RFR, including the effects of changes to contractual cash flows or hedging relationships. The standard includes amendments in respect of:

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. ABOUT THE FINANCIAL STATEMENTS (continued)

ACCOUNTING STANDARDS ADOPTED IN THE PERIOD (continued)

- Modification of a financial asset or a financial liability measured at amortised cost

  IBOR reform is expected to result in a change to the basis for determining contractual cash flows of impacted assets and liabilities of the Company. The amendments provide a practical expedient to account for a change in the basis for determining the contractual cash flows as a result of IBOR reform by updating the effective interest rate. As a result, no immediate gain or loss is recognised. This applies only when the change is necessary as a direct consequence of the reform, and the new basis for determining the contractual cash flows is economically equivalent to the previous basis.

- Additional relief for hedging relationships

  The Standard also amends a number of existing hedge accounting requirements that will assist the Company to maintain its existing hedge accounted relationships post IBOR transition. The Company will continue to record any ongoing hedge ineffectiveness, including that generated by changes as a result of interest rate reform, within the Income statement.

The Company is in the process of assessing the impact of the new standard on its financial statements.

Impact of IBOR reform

The Company has exposure to IBOR through its issuance of debt, the structural interest rate risk position, holdings of investment securities, products denominated in foreign currencies and associated hedging activities in our treasury and markets businesses within the TSO and Group Centre and Institutional divisions respectively.

The Company has established an enterprise-wide Benchmark Transition Program to manage the transition. The program includes the assessment and actions necessary to accommodate the transition to RFRs as they apply to internal processes and systems including pricing, risk management, documentation and hedge arrangements. The program includes management of the impact on customers.

Impact of IBOR reform on the Company's hedging relationships

Certain IBOR rates are subject to replacement by RFRs. The Company has hedge accounted relationships referencing IBORs, with the most significant interest rate benchmarks to which the Company's hedging relationships are exposed to are USD LIBOR, Euro Interbank Offered Rate (EURIBOR), Bank Bill Swap Rate (BBSW) and Bank Bill Market (BKBM).

Of these benchmarks the Company expects BBSW, BKBM and EURIBOR to exist as benchmark rates for the foreseeable future and therefore does not believe its BBSW, BKBM or EURIBOR benchmark fair value or cash flow hedges will be directly impacted by IBOR reform.

The table below details the carrying values of the Company's exposures designated in hedge accounting relationships that will be impacted by IBOR reform, principally USD LIBOR. The nominal value of the associated hedging instruments is also included:

			As at 30 September 2020
Hedged items			USD LIBOR exposures $m
Investment securities at FVOCI			15,002
Net loans and advances			111
Debt issuances			23,701
Hedging instruments	Notional designated up to 31 December 2021 $m	Notional designated beyond 31 December 2021 $m	Total Notional Amount $m
Fair value hedges	10,316	26,625	36,941
Cash flow hedges	-	1,055	1,055

As at 30 September 2020 the Company also has GBP LIBOR and JPY LIBOR exposures designated in hedge accounting relationships of $927 million and $2,131 million respectively.

In addition to hedge accounted relationships that will be impacted by IBOR reform, the Company has exposures to other financial instruments referencing an IBOR rate that are also subject to reform. The Company is continuing to monitor market developments in relation to the transition to RFRs from IBOR rates and their impact on the Company's financial assets and liabilities to ensure that there are no unexpected consequences or disruption from the transition.

AASB Interpretation 23 *Uncertainty over Income Tax Treatments* (AASB Interpretation 23)

AASB Interpretation 23 became effective for the Company from 1 October 2019. The interpretation clarifies application of recognition and measurement requirements in AASB 112 *Income Taxes* where there is uncertainty over income tax treatments. As the Company's existing policy aligned with the requirements of AASB Interpretation 23, the interpretation had no material impact on the Company.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. ABOUT THE FINANCIAL STATEMENTS (continued)

ACCOUNTING STANDARDS NOT EARLY ADOPTED

A number of new standards, amendments to standards and interpretations have been published but are not mandatory for the financial statements for the year ended 30 September 2020, and have not been applied by the Company in preparing these financial statements. Further details of these are set out below.

GENERAL HEDGE ACCOUNTING

AASB 9 introduces new hedge accounting requirements which more closely align accounting with risk management activities undertaken when hedging financial and non-financial risks. AASB 9 provides the Company with an accounting policy choice to continue to apply the AASB 139 hedge accounting requirements until the *International Accounting Standards Board*'s ongoing project on macro hedge accounting is completed. The Company currently applies the hedge accounting requirements of AASB 139.

AASB 17 *Insurance Contracts* (AASB 17)

The final version of AASB 17 was issued in July 2017 and is not effective for the Company until 1 October 2023. It will replace AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*. AASB 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts.

The measurement, presentation and disclosure requirements under AASB 17 are significantly different from current accounting standards. Although the overall profit recognised in respect of insurance contracts will not change, it is expected that the timing of profit recognition will change.

AASB 17 is not expected to have a material impact on the Company.

REVISED CONCEPTUAL FRAMEWORK

In June 2019 the AASB issued a revised Conceptual Framework for Financial Reporting. The new Framework includes updated definitions and criteria for the recognition and derecognition of assets and liabilities. Additionally, it introduces new concepts on measurement, including factors to consider when selecting a measurement basis. The revised Conceptual Framework will apply to the Company from 1 October 2020 and is not expected to have a material impact on the Company.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. OPERATING INCOME

	2020 $m	2019 $m
Net interest income		
Interest income by type of financial asset		
Investment securities - FVOCI	883	1,329
Financial assets at amortised cost	17,349	22,349
Trading securities	429	627
Interest income - external	18,661	24,305
Interest income - controlled entities	3,078	3,294
Interest income	21,739	27,599
Interest expense by type of financial liability		
Financial liabilities at amortised cost	(7,602)	(13,191)
Securities sold short	(91)	(104)
Financial liabilities designated at fair value through profit or loss	(65)	(81)
Interest expense - external	(7,758)	(13,376)
Interest expense - controlled entities	(3,691)	(3,713)
Interest expense	(11,449)	(17,089)
Major bank levy	(406)	(363)
Net interest income	9,884	10,147
Other operating income		
i) Fee and commission income		
Lending fees[1]	532	546
Non-lending fees	2,087	2,241
Commissions	67	76
Funds management income	34	25
Fee and commission income - external	2,720	2,888
Fee and commission income - controlled entities	855	905
Fee and commission income	3,575	3,793
Fee and commission expense	(999)	(999)
Net fee and commission income	2,576	2,794
ii) Other income		
Net foreign exchange earnings and other financial instruments income[2]	1,443	896
Dividends received from controlled entities	195	873
Gain/(Loss) on divestments	(11)	69
Write down of investments	(2)	(147)
Dividend income on equity securities	26	28
Other	(23)	40
Other income[3]	1,628	1,759
Other operating income	4,204	4,553
Net income from insurance business	-	7
Share of associates' (loss) / profit	(1)	(1)
Operating income[4]	14,087	14,706

1. Lending fees excludes fees treated as part of the effective yield calculation in interest income.
2. Includes fair value movements (excluding realised and accrued interest) on derivatives not designated as accounting hedges entered into to manage interest rate and foreign exchange risk on funding instruments, ineffective portions of cash flow hedges, and fair value movements in financial assets and liabilities designated at fair value through profit or loss.
3. Total other income includes external dividend income from Bank of Tianjin of $26 million (2019: $27 million).
4. Includes charges to customer remediation of $286 million for 2020 (2019: $226 million).

2. OPERATING INCOME (continued)

RECOGNITION AND MEASUREMENT

NET INTEREST INCOME

Interest Income and Expense

We recognise interest income and expense for all financial instruments, including those classified as held for trading, assets measured at fair value through other comprehensive income or designated at fair value, through profit or loss in net interest income. The Company uses the effective interest rate method to calculate the amortised cost of assets held at amortised cost and to recognise interest income on financial assets measured at fair value through other comprehensive income. The effective interest rate is the rate that discounts the stream of estimated future cash receipts or payments over the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or liability. For assets subject to prepayment, we determine their expected life on the basis of historical behaviour of the particular asset portfolio - taking into account contractual obligations and prepayment experience.

We recognise fees and costs, which form an integral part of the financial instrument (for example loan origination fees and costs), using the effective interest method. This is presented as part of interest income or expense depending on whether the underlying financial instrument is a financial asset or financial liability.

Major Bank Levy

The *Major Bank Levy Act 2017* ('Levy' or 'Major bank levy') applies a rate of 0.06% to certain liabilities of the Company. The Company has determined that the levy represents a finance cost for the Company and $406 million (2019: $363 million) is presented in interest expense in the Income Statement.

OTHER OPERATING INCOME

Fee and Commission Revenue

We recognise fee and commission revenue arising from contracts with customers: (a) over time when the performance obligation is satisfied across more than one reporting period or (b) at a point in time when the performance obligation is satisfied immediately or is satisfied within one reporting period.

- lending fees exclude fees treated as part of the effective yield calculation of interest income. Lending fees include certain guarantee and commitment fees where the loan or guarantee is not likely to be drawn upon and other fees charged for providing customers a distinct good or service that are recognised separately from the underlying lending product (including annual package fees that provide benefits on other ANZ products).
- non-lending fees includes fees associated with deposit and credit card accounts, interchange fees and fees charged for specific customer transactions such as international money transfers. Where the Company provides multiple goods or services to a customer under the same contract, the Company allocates the transaction price of the contract to those performance obligations based on the relative stand-alone selling price of each performance obligation. Revenue is recognised as each performance obligation is satisfied.
- commissions represent fees from third parties where ANZ acts as an agent by arranging a third party (such as an insurance provider) to provide goods and services to a customer. In such cases, ANZ is not primarily responsible for providing the underlying good or service to the customer. If the Company collects funds on behalf of a third party when acting as an agent, the Company only recognises the net commission it retains as revenue. When the commission is variable based on factors outside the control of the Company (such as a trail commission), revenue is only recognised if it is highly probable that a significant reversal of the variable amount will not be required in future periods.
- funds management income represent fees earned from customers for providing financial advice and fees for asset management services and advice provided to investment funds. Revenue is recognised either at the point the financial advice is provided or over the period in which the asset management services are delivered. Performance fees associated with funds management activities are only recognised when it becomes highly probable the performance hurdle will be achieved.

Net Foreign Exchange Earnings and Other Financial Instruments Income

We recognise the following as net foreign exchange earnings and other financial instruments income:

- exchange rate differences arising on the settlement of monetary items and translation differences on monetary items translated at rates different to those at which they were initially recognised or included in a previous financial report;
- fair value movements (excluding realised and accrued interest) on derivatives that we use to manage interest rate and foreign exchange risk on funding instruments not designated as accounting hedges;

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. OPERATING INCOME (continued)

RECOGNITION AND MEASUREMENT (continued)

- the ineffective portions of fair value hedges, cash flow hedges and net investment hedges;
- immediately upon sale or repayment of a hedged item, the unamortised fair value adjustments in items designated as fair value hedges and amounts accumulated in equity related to designated cash flow hedges.
- fair value movements on financial assets and financial liabilities designated at fair value through profit or loss or held for trading;
- amounts released from the fair value through other comprehensive income (FVOCI) reserve when a debt instrument classified as measured at FVOCI is sold; and
- the gain or loss on derecognition of financial assets or liabilities measured at amortised cost.

Dividends Received from Controlled Entities

Dividends are recognised as revenue when the right to receive payment is established.

Gain or Loss on Disposal of Non-Financial Assets

The gain or loss on the disposal of assets is the difference between the carrying value of the asset and the proceeds of disposal net of costs. This is recognised in other income in the year in which the significant risks and rewards from the asset transfer to the buyer.

SHARE OF ASSOCIATES' PROFIT

The equity method is applied to accounting for associates. Under the equity method the Company's share of the after tax results of associates is included in the Income Statement and the Statement of Comprehensive Income.

3. OPERATING EXPENSES

	2020 $m	2019 $m
Personnel		
Salaries and related costs	3,147	3,141
Superannuation costs	277	252
Other	142	161
Personnel[1]	3,566	3,554
Premises		
Rent	58	383
Depreciation	427	99
Other	139	169
Premises[2]	624	651
Technology (excluding personnel)		
Depreciation and amortisation[2,3]	786	639
Subscription licences and outsourced services	586	477
Other	189	185
Technology (excluding personnel)[1]	1,561	1,301
Restructuring	127	56
Other		
Advertising and public relations	136	188
Professional fees	614	482
Freight, stationery, postage and communication	166	173
Royal Commission legal costs	-	15
Other[4]	994	1,364
Other [1]	1,910	2,222
Operating expenses[1]	7,788	7,784

1. Includes customer remediation expenses of $146 million in 2020 (2019: $380 million).
2. Following the adoption of AASB 16 on 1 October 2019, with the exception of low value leases and leases of less than 12 months, expenses associated with operating leases are shown as depreciation of the right-of-use asset and interest expense associated with the lease liability (comparatives not restated).
3. During the 2020 financial year, the Company amended the application of its software amortisation policy to reflect the shorter useful life of software caused by rapidly changing technology and business requirements. As a result of these changes, the Company recognised accelerated amortisation of $184 million during the year. Refer to Note 19 Goodwill and Other Intangible Assets for further details.
4. Includes goodwill write-off of $10 million in the September 2020 financial year.

RECOGNITION AND MEASUREMENT

OPERATING EXPENSES

Operating expenses are recognised as services are provided to the Company over the period in which an asset is consumed or once a liability is created.

SALARIES AND RELATED COSTS - ANNUAL LEAVE, LONG SERVICE LEAVE AND OTHER EMPLOYEE BENEFITS

Wages and salaries, annual leave, and other employee entitlements expected to be paid or settled within twelve months of employees rendering service are measured at their nominal amounts using remuneration rates that the Company expects to pay when the liabilities are settled.

We accrue employee entitlements relating to long service leave using an actuarial calculation. It includes assumptions regarding staff departures, leave utilisation and future salary increases. The result is then discounted using market yields at the reporting date. The market yields are determined from a blended rate of high quality corporate bonds with terms to maturity that closely match the estimated future cash outflows.

If we expect to pay short term cash bonuses, then a liability is recognised when the Company has a present legal or constructive obligation to pay this amount (as a result of past service provided by the employee) and the obligation can be reliably measured.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. OPERATING EXPENSES (continued)

RECOGNITION AND MEASUREMENT (continued)

Personnel expenses also include share-based payments which may be cash or equity settled. We calculate the fair value of equity settled remuneration at grant date, which is then amortised over the vesting period, with a corresponding increase in share capital or the share option reserve as applicable. When we estimate the fair value, we take into account market vesting conditions, such as share price performance conditions. We take non-market vesting conditions, such as service conditions, into account by adjusting the number of equity instruments included in the expense.

After the grant of an equity-based award, the amount we recognise as an expense is reversed when non-market vesting conditions are not met, for example an employee fails to satisfy the minimum service period specified in the award on resignation, termination or notice of dismissal for serious misconduct. However, we do not reverse the expense if the award does not vest due to the failure to meet a market-based performance condition.

Further information on share-based payment schemes operated by the Company during the current and prior year is included in Note 26 Employee Share and Option Plans.

4. INCOME TAX

INCOME TAX EXPENSE

Reconciliation of the prima facie income tax expense on pre-tax profit with the income tax expense recognised in profit or loss:

	2020 $m	2019 $m
Profit before income tax	3,962	6,208
Prima facie income tax expense at 30%	1,189	1,862
Tax effect of permanent differences:		
Tax provisions no longer required	-	(8)
Non-deductible interest on debt instruments	52	81
Overseas tax rate differential	(31)	(40)
Rebatable and non-assessable dividends	(58)	(262)
Provision for foreign tax on dividend repatriation	18	34
Wealth Australia divestment adjustments	8	74
Other	(2)	39
Subtotal	1,176	1,780
Income tax over provided in previous years	(20)	(19)
Income tax expense	1,156	1,761
Current tax expense	1,689	1,901
Adjustments recognised in the current year in relation to the current tax of prior years	(20)	(19)
Deferred tax expense/(income) relating to the origination and reversal of temporary differences	(513)	(121)
Income tax expense	1,156	1,761
Australia	1,028	1,583
Overseas	128	178
Income tax expense	1,156	1,761
Effective tax rate	29.2%	28.4%

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. INCOME TAX (continued)

TAX CONSOLIDATION

The Company and all its wholly owned Australian resident entities are part of a tax consolidated group under Australian taxation law. The Company is the head entity in the tax consolidated group. We recognise each of the following in the separate financial statements of members of the tax consolidated group on a 'group allocation' basis: tax expense/income, and deferred tax liabilities/assets that arise from temporary differences of the members of the tax consolidated group. The Company (as head entity in the tax consolidated group) recognises current tax liabilities and assets of the tax consolidated group.

Under a tax funding arrangement between the entities in the tax consolidated group, amounts are recognised as payable to or receivable by the Company and each member of the tax consolidated group in relation to the tax contribution amounts paid or payable between the Company and the other members of the tax consolidated group.

Members of the tax consolidated group have also entered into a tax sharing agreement that provides for the allocation of income tax liabilities between the entities were the head entity to default on its income tax payment obligations.

UNRECOGNISED DEFERRED TAX ASSETS AND LIABILITIES

Unrecognised deferred tax assets related to unused realised tax losses (on revenue account) total $5 million (2019: $6 million).

Unrecognised deferred tax liabilities related to additional potential foreign tax costs (assuming all retained earnings in offshore branches are repatriated) total $14 million (2019: $13 million).

RECOGNITION AND MEASUREMENT

INCOME TAX EXPENSE

Income tax expense comprises both current and deferred taxes and is based on the accounting profit adjusted for differences in the accounting and tax treatments of income and expenses (that is, taxable income). We recognise tax expense in profit or loss except to the extent to which it relates to items recognised directly in equity and other comprehensive income, in which case we recognise it directly in equity or other comprehensive income respectively.

CURRENT TAX EXPENSE

Current tax is the tax we expect to pay on taxable income for the year, based on tax rates (and tax laws) which are enacted at the reporting date. We recognise current tax as a liability (or asset) to the extent that it is unpaid (or refundable).

DEFERRED TAX ASSETS AND LIABILITIES

We account for deferred tax using the balance sheet method. Deferred tax arises because accounting income is not always the same as the taxable income. This creates temporary differences, which usually reverse over time. Until they reverse, we recognise a deferred tax asset, or liability, on the balance sheet. We measure deferred taxes at the tax rates that we expect will apply to the period(s) when the asset is realised, or the liability settled, based on tax rates (and tax laws) that have been enacted or substantially enacted at the reporting date.

We offset current and deferred tax assets and liabilities only to the extent that:

- they relate to income taxes imposed by the same taxation authority;
- there is a legal right and intention to settle on a net basis; and
- it is allowed under the tax law of the relevant jurisdiction.

KEY JUDGEMENTS AND ESTIMATES

Judgement is required in determining provisions held in respect of uncertain tax positions. The Company estimates its tax liabilities based on its understanding of the relevant law in each of the countries in which it operates and seeks independent advice where appropriate.

5. DIVIDENDS

ORDINARY SHARE DIVIDENDS

Dividends are provided for in the financial statements once determined, accordingly, the final dividend announced for the current financial year is provided for and paid in the following financial year.

Dividends	% of total	Amount per share	Total dividend $m
Financial Year 2019			
2018 final dividend paid[1,2]		80 cents	2,295
2019 interim dividend paid[1,2]		80 cents	2,267
Bonus option plan adjustment			(81)
Dividends paid during the year ended 30 September 2019			4,481
Cash	90.4%		4,049
Dividend reinvestment plan	9.6%		432
Dividends paid during the year ended 30 September 2019			4,481
Financial Year 2020			
2019 final dividend paid[2,3]		80 cents	2,268
2020 interim dividend paid[1,2]		25 cents	709
Bonus option plan adjustment			(55)
Dividends paid during the year ended 30 September 2020			2,922
Cash	93.7%		2,737
Dividend reinvestment plan	6.3%		185
Dividends paid during the year ended 30 September 2020			2,922

Dividends announced and to be paid after year-end	Payment date	Amount per share	Total dividend $m
2020 final dividend (fully franked for Australian tax, New Zealand imputation credit NZD 4 cents per share)	16 December 2020	35 cents	994

1. Fully franked for Australian tax purposes (30% tax rate).
2. Carries New Zealand imputation credits of NZD 3 cents for the 2020 interim dividend, NZD 9 cents for the 2019 final dividend, 2019 interim dividend and the 2018 final dividend.
3. Partially franked at 70% for Australian tax purposes (30% tax rate).

DIVIDEND REINVESTMENT PLAN AND BONUS OPTION PLAN

Eligible shareholders can elect to reinvest their dividend entitlement into ANZ ordinary shares under the Company's Dividend Reinvestment Plan (DRP). Eligible shareholders can elect to forgo their dividend entitlement and instead receive ANZ ordinary shares under the Company's Bonus Option Plan (BOP). For the 2020 final dividend, DRP participation and BOP participation will be satisfied by an issue of new ANZ ordinary shares. There will be no discount applied to the DRP and BOP price.

See Note 21 Shareholders' Equity for details of shares the Company issued or purchased in respect of the DRP and BOP.

DIVIDEND FRANKING ACCOUNT

	Currency	2020 $m	2019 $m
Australian franking credits available at 30% tax rate	AUD	477	35
New Zealand imputation credits available (which can be attached to our Australian dividends but may only be used by New Zealand resident shareholders)	NZD	4,583	4,068

The above amounts represent the balances of the franking accounts as at the end of the financial year, adjusted for:

- franking credits that will arise from the payment of income tax payable as at the end of the financial year; and
- franking credits/debits from the receipt/payment of dividends that have been recognised as tax receivables/payables as at the end of the financial year.

The proposed final 2020 dividend will utilise $426 million of the franking credits available at 30 September 2020.

NOTES TO THE FINANCIAL STATEMENTS (continued)

5. DIVIDENDS (continued)

RESTRICTIONS ON THE PAYMENT OF DIVIDENDS

APRA's written approval is required before paying dividends on ANZ ordinary shares:

- if the aggregate dividends exceed the Company's after tax earnings (in calculating those after tax earnings, we take into account any payments we made on senior capital instruments) in the financial year to which they relate; or
- if the Group's Common Equity Tier 1 capital ratio falls within capital range buffers specified by APRA.

If the Company fails to pay a dividend or distribution on its ANZ Capital Notes or ANZ Capital Securities on the scheduled payment date, it may (subject to a number of exceptions) be restricted from resolving to pay or paying any dividend on the ANZ ordinary shares.

In July 2020, APRA provided an update to their guidance on capital management. In the updated guidance, APRA acknowledged that the uncertainty in the economic outlook has reduced somewhat since April 2020 and APRA had the opportunity to review ADIs' financial projections and stress testing results. Taking these and other developments since April 2020 into account, APRA advised ADIs to maintain caution in planning capital distributions, including dividend payments and that for the remainder of the calendar year, the ADIs' Board should:

- seek to retain at least half of their earnings when making decisions on capital distributions (and utilise dividend reinvestment plans and other initiatives to offset the diminution in capital from capital distributions where possible);
- conduct regular stress testing to inform decision-making and demonstrate ongoing lending capacity; and
- make use of capital buffers to absorb the impacts of stress, and continue to lend to support households and businesses.

The Company's 2020 interim dividend of 25 cents per share (paid to shareholders on 30 September 2020) and 2020 final dividend of 35 cents per share took into account the updated regulatory guidance above.

6. SEGMENT REPORTING

No operating segment disclosures have been presented in these Company financial statements. Disaggregated information for the Company's segments is not information which is regularly provided to the Chief Executive Officer, who is the Chief Operating Decision Maker (CODM) of the Company.

Full details of the operating segments of the Group are provided in Note 7 Segment Reporting in the ANZ 2020 Group Annual Report located at https://www.anz.com/shareholder/centre/reporting/annual-report-annual-review/

FINANCIAL ASSETS

Outlined below is a description of how we classify and measure financial assets relevant to the subsequent note disclosures.

CLASSIFICATION AND MEASUREMENT

Financial assets - general

There are three measurement classifications for financial assets under AASB 9: amortised cost, fair value through profit or loss (FVTPL) and fair value through other comprehensive income (FVOCI). Financial assets are classified into these measurement classifications on the basis of two criteria:

- the business model within which the financial asset is managed; and
- the contractual cash flow characteristics of the financial asset (specifically whether the contractual cash flows represent solely payments of principal and interest).

The resultant financial asset classifications are as follows:

- Amortised cost: Financial assets with contractual cash flows that comprise solely payments of principal and interest and which are held in a business model whose objective is to collect their cash flows;
- FVOCI: Financial assets with contractual cash flows that comprise solely payments of principal and interest and which are held in a business model whose objective is to collect their cash flows or to sell the assets; and
- FVTPL: Any other financial assets not falling into the categories above are measured at FVTPL.

Fair Value Option for Financial Assets

A financial asset may be irrevocably designated FVTPL on initial recognition when the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

7. CASH AND CASH EQUIVALENTS

	2020 $m	2019 $m
Coins, notes and cash at bank	1,084	934
Securities purchased under agreements to resell in less than 3 months	34,501	24,939
Balances with central banks	39,362	24,218
Settlement balances owed to ANZ within 3 months	23,136	27,858
Cash and cash equivalents	98,083	77,949

8. TRADING SECURITIES

	2020 $m	2019 $m
Government debt securities and notes[1]	27,917	24,789
Corporate and financial institution securities[1]	4,873	3,411
Commodities	5,464	5,920
Equity and other securities[1]	169	97
Trading securities	38,423	34,217

1. In 2020, ANZ reclassified trading securities issued by development banks and supra-nationals from Corporate and financial institution securities and Equity and other securities to Government debt securities and notes. Comparative information has been restated accordingly, with $1,796 million reclassified as Government debt securities and notes made up of $1,584 million from Corporate and financial institution securities and $212 million from Equities and other securities.

RECOGNITION AND MEASUREMENT

Trading securities are financial instruments we either:

- acquire principally for the purpose of selling in the short-term; or
- hold as part of a portfolio we manage for short-term profit making.

We recognise purchases and sales of trading securities on trade date:

- initially, we measure them at fair value; and
- subsequently, we measure them in the balance sheet at their fair value with any change in fair value recognised in the profit and loss.

KEY JUDGEMENTS AND ESTIMATES

Judgement is required when applying the valuation techniques used to determine the fair value of trading securities not valued using quoted market prices. Refer to Note 16 Fair Value of Financial Assets and Financial Liabilities for further details.

NOTES TO THE FINANCIAL STATEMENTS (continued)

9. DERIVATIVE FINANCIAL INSTRUMENTS

Fair Value	Assets 2020 $m	Liabilities 2020 $m	Assets 2019 $m	Liabilities 2019 $m
Derivative financial instruments - held for trading	126,561	(128,028)	113,369	(114,413)
Derivative financial instruments - designated in hedging relationships	3,991	(3,202)	3,175	(2,927)
Derivative financial instruments	130,552	(131,230)	116,544	(117,340)

FEATURES

Derivative financial instruments are contracts:

- whose value is derived from an underlying price index (or other variable) defined in the contract – sometimes the value is derived from more than one variable;
- that require little or no initial net investment; and
- that are settled at a future date.

Movements in the price of the underlying variables, which cause the value of the contract to fluctuate, are reflected in the fair value of the derivative.

PURPOSE

The Company's derivative financial instruments have been categorised as following:

Trading	Derivatives held in order to: • Meet customer needs for managing their own risks. • Manage risks in the Company that are not in a designated hedge accounting relationship (balance sheet management). • Undertake market making and positioning activities to generate profits from short-term fluctuations in prices or margins.
Designated in Hedging Relationships	Derivatives designated into hedge accounting relationships in order to minimise profit or loss volatility by matching movements to underlying positions relating to: • Hedges of the Company's exposures to interest rate risk and currency risk. • Hedges of other exposures relating to non-trading positions.

TYPES

The Company offers and uses four different types of derivative financial instruments:

Forwards	A contract documenting the rate of interest, or the currency exchange rate, to be paid or received on a notional principal amount at a future date.
Futures	An exchange traded contract in which the parties agree to buy or sell an asset in the future for a price agreed on the transaction date, with a net settlement in cash paid on the future date without physical delivery of the asset.
Swaps	A contract in which two parties exchange a series of cash flows for another.
Options	A contract in which the buyer of the contract has the right - but not the obligation - to buy (known as a "call option") or to sell (known as a "put option") an asset or instrument at a set price on a future date. The seller has the corresponding obligation to fulfil the transaction to sell or buy the asset or instrument if the buyer exercises the option.

RISKS MANAGED

The Company offers and uses the instruments described above to manage fluctuations in the following market factors:

Foreign Exchange	Currencies at current or determined rates of exchange.
Interest Rate	Fixed or variable interest rates applying to money lent, deposited or borrowed.
Commodity	Soft commodities (that is, agricultural products such as wheat, coffee, cocoa and sugar) and hard commodities (that is, mined products such as gold, oil and gas).
Credit	Counterparty risk in the event of default.

9. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

DERIVATIVE FINANCIAL INSTRUMENTS – HELD FOR TRADING

The majority of the Company's derivative financial instruments are held for trading. The fair values of derivative financial instruments held for trading are:

Fair Value	Assets 2020 $m	Liabilities 2020 $m	Assets 2019 $m	Liabilities 2019 $m
Interest rate contracts				
Forward rate agreements	92	(91)	80	(84)
Futures contracts	23	(124)	32	(99)
Swap agreements	102,260	(100,765)	82,258	(81,074)
Options purchased	1,673	-	1,451	-
Options sold	-	(2,609)	-	(2,317)
Total	104,048	(103,589)	83,821	(83,574)
Foreign exchange contracts				
Spot and forward contracts	10,525	(10,105)	13,723	(13,599)
Swap agreements	9,008	(12,002)	13,591	(15,151)
Options purchased	378	-	394	-
Options sold	-	(476)	-	(501)
Total	19,911	(22,583)	27,708	(29,251)
Commodity contracts	2,571	(1,834)	1,806	(1,555)
Credit default swaps				
Structured credit derivatives purchased	18	-	16	-
Other credit derivatives purchased	4	(3)	4	(10)
Credit derivatives purchased	22	(3)	20	(10)
Structured credit derivatives sold	-	(18)	-	(19)
Other credit derivatives sold	9	(1)	14	(4)
Credit derivatives sold	9	(19)	14	(23)
Total	31	(22)	34	(33)
Derivative financial instruments - held for trading	126,561	(128,028)	113,369	(114,413)

NOTES TO THE FINANCIAL STATEMENTS (continued)

9. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

DERIVATIVE FINANCIAL INSTRUMENTS – DESIGNATED IN HEDGING RELATIONSHIPS

There are three types of hedge accounting relationships the Company utilises:

	Fair value hedge	Cash flow hedge	Net investment hedge
Objective of this hedging arrangement	To hedge our exposure to changes to the fair value of a recognised asset or liability or unrecognised firm commitment caused by interest rate or foreign currency movements.	To hedge our exposure to variability in cash flows of a recognised asset or liability, a firm commitment or a highly probable forecast transaction caused by interest rate, foreign currency and other price movements.	To hedge our exposure to exchange rate differences arising from the translation of our foreign operations from their functional currency to Australian dollars.
Recognition of effective hedge portion	The following are recognised in profit or loss at the same time: • all changes in the fair value of the underlying item relating to the hedged risk; and • the change in the fair value of derivatives.	We recognise the effective portion of changes in the fair value of derivatives designated as a cash flow hedge in the cash flow hedge reserve.	We recognise the effective portion of changes in the fair value of the hedging instrument in the foreign currency translation reserve (FCTR).
Recognition of ineffective hedge portion	Recognised immediately in Other operating income.		
If a hedging instrument expires, or is sold, terminated, or exercised; or no longer qualifies for hedge accounting	When we recognise the hedged item in profit or loss, we recognise the related unamortised fair value adjustment in profit or loss. This may occur over time if the hedged item is amortised to profit or loss as part of the effective yield over the period to maturity.	Only when we recognise the hedged item in profit or loss is the amount previously deferred in the cash flow hedge reserve transferred to profit or loss.	The amount we defer in the foreign currency translation reserve remains in equity and is transferred to profit or loss only when we dispose of, or partially dispose of, the foreign operation.
Hedged item sold or repaid	We recognise the unamortised fair value adjustment immediately in profit or loss.	Amounts accumulated in equity are transferred immediately to profit or loss.	The gain or loss, or applicable proportion, we have recognised in equity is transferred to profit or loss on disposal or partial disposal of a foreign operation.

Under the policy choice provided by AASB 9 *Financial Instruments*, the Company has continued to apply the hedge accounting requirements of AASB 139 *Financial Instruments: Recognition and Measurement.*

The fair value of derivative financial instruments designated in hedging relationships are:

	Nominal amount $m	Assets 2020 $m	Liabilities 2020 $m	Nominal amount $m	Assets 2019 $m	Liabilities 2019 $m
Fair value hedges						
Foreign exchange swap agreements	-	-	-	21	1	-
Foreign exchange spot and forward contracts	558	-	(9)	581	-	(9)
Interest rate swap agreements	79,416	2,272	(2,773)	84,195	1,752	(2,479)
Interest rate futures contracts	9,380	-	(103)	3,139	-	(27)
Cash flow hedges						
Interest rate swap agreements	59,037	1,643	(261)	49,409	1,347	(311)
Foreign exchange swap agreements	2,943	63	(54)	2,934	75	(91)
Foreign exchange spot and forward contracts	153	-	-	159	-	(1)
Net investment hedges						
Foreign exchange spot and forward contracts	404	13	(2)	540	-	(9)
Derivative financial instruments - designated in hedging relationships	151,891	3,991	(3,202)	140,978	3,175	(2,927)

9. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The maturity profile of the nominal amounts of our hedging instruments held as at 30 September 2020 is:

Nominal Amount		Average rate	Less than 3 months $m	3 to 12 months $m	1 to 5 years $m	After 5 years $m	Total $m
Fair value hedges							
Interest rate	Interest Rate	1.57%	3,475	7,852	53,250	24,219	88,796
Foreign exchange	HKD/AUD FX Rate	5.59	558	-	-	-	558
Cash flow hedges							
Interest rate	Interest Rate	1.65%	4,253	12,692	40,013	2,079	59,037
Foreign exchange[1]	AUD/USD FX Rate USD/EUR FX Rate	0.72 0.91	38	613	1,157	1,288	3,096
Net investment hedges							
Foreign exchange	TWD/AUD FX Rate	20.29	258	146	-	-	404

The maturity profile of the nominal amounts of our hedging instruments held at 30 September 2019 is:

Nominal Amount		Average rate	Less than 3 months $m	3 to 12 months $m	1 to 5 years $m	After 5 years $m	Total $m
Fair value hedges							
Interest rate	Interest Rate	1.97%	3,195	14,463	48,727	20,949	87,334
Foreign exchange	HKD/AUD FX Rate	5.38	602	-	-	-	602
Cash flow hedges							
Interest rate	Interest Rate	2.10%	596	7,429	39,630	1,754	49,409
Foreign exchange[1]	AUD/USD FX Rate USD/EUR FX Rate	0.72 0.91	40	120	1,652	1,281	3,093
Net investment hedges							
Foreign exchange	TWD/AUD FX Rate	21.41	111	429	-	-	540

[1] Hedges of foreign exchange risk cover multiple currency pairs. The table reflects the larger currency pairs only.

NOTES TO THE FINANCIAL STATEMENTS (continued)

9. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The impact of ineffectiveness from our designated hedge relationships by type of hedge relationship and type of risk being hedged are:

	Ineffectiveness			
	Change in value of hedging instrument	Change in value of hedged item	Hedge ineffectiveness recognised in profit and loss	Amount reclassified from the cash flow hedge reserve or FCTR to profit and loss
2020	$m	$m	$m	$m
Fair value hedges[1]				
Interest rate	166	(154)	12	-
Foreign exchange	23	(23)	-	-
Cash flow hedges[1]				
Interest rate	352	(351)	1	(5)
Foreign exchange	(15)	15	-	(2)
Net investment hedges[1]				
Foreign exchange	16	(16)	-	(15)

	Ineffectiveness			
	Change in value of hedging instrument	Change in value of hedged item	Hedge ineffectiveness recognised in profit and loss	Amount reclassified from the cash flow hedge reserve or FCTR to profit and loss
2019	$m	$m	$m	$m
Fair value hedges[1]				
Interest rate	158	(155)	3	-
Foreign exchange	(36)	36	-	-
Cash flow hedges[1]				
Interest rate	850	(840)	10	1
Foreign exchange	20	(20)	-	2
Net investment hedges[1]				
Foreign exchange	(35)	35	-	-

1. All hedging instruments are held within Derivative Financial Instruments.

Hedge ineffectiveness recognised is classified within Other operating income. Reclassification adjustments to the Statement of Comprehensive Income are recognised within Net interest income and Other operating income.

9. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Hedged items in relation to the Company's fair value hedges at 30 September 2020 are as follows:

	Balance sheet presentation	Hedged risk	Carrying amount		Accumulated fair value hedge adjustments on the hedged item	
			Assets $m	Liabilities $m	Assets $m	Liabilities $m
Fixed rate loans and advances	Net loans and advances	Interest rate	5,946	-	43	-
Fixed rate debt issuance	Debt issuances	Interest rate	-	(44,159)	-	(1,923)
Fixed rate investment securities (FVOCI)[1]	Investment securities	Interest rate	46,747	-	1,958	-
Equity securities at FVOCI[1]	Investment securities	Foreign exchange	558	-	29	-
Total			53,251	(44,159)	2,030	(1,923)

Hedged items in relation to the Company's fair value hedges at 30 September 2019 are as follows:

	Balance sheet presentation	Hedged risk	Carrying amount		Accumulated fair value hedge adjustments on the hedged item	
			Assets $m	Liabilities $m	Assets $m	Liabilities $m
Fixed rate loans and advances	Net loans and advances	Interest rate	1,242	-	12	-
Fixed rate debt issuance	Debt issuances	Interest rate	-	(49,928)	-	(1,412)
Fixed rate investment securities (FVOCI)[1]	Investment securities	Interest rate	41,362	-	1,662	-
Equity securities at FVOCI[1]	Investment securities	Foreign exchange	581	-	52	-
Total			43,185	(49,928)	1,726	(1,412)

1. The carrying amount of debt and equity instruments at fair value through other comprehensive income does not include the fair value hedge adjustment as the hedge assets are measured at fair value. The accounting for the hedge relationship results in transfer of the hedge adjustment out of other comprehensive income into the Income Statement.

The cumulative amount of fair value hedge adjustments relating to ceased hedge relationships remaining on the Balance Sheet is nil (2019: $5 million).

NOTES TO THE FINANCIAL STATEMENTS (continued)

9. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Hedged items in relation to the Company's cash flow and net investment hedges for 30 September 2020 are as follows:

		Cash flow hedge reserve		Foreign currency translation reserve	
	Hedged risk	Continuing hedges $m	Discontinued hedges $m	Continuing hedges $m	Discontinued hedges $m
Cash Flow hedges					
Floating rate loans and advances	Interest rate	1,508	30	-	-
Floating rate customer deposits	Interest rate	(193)	(15)	-	-
Foreign currency debt issuance	Foreign exchange	(2)	-	-	-
Foreign currency investment securities	Foreign exchange	10	-	-	-
Highly probable forecast transactions	Foreign exchange	(1)	-	-	-
Net investment hedges					
Foreign operations	Foreign exchange	-	-	36	(149)

Hedged items in relation to the Company's cash flow and net investment hedges for 30 September 2019 are as follows:

		Cash flow hedge reserve		Foreign currency translation reserve	
	Hedged risk	Continuing hedges $m	Discontinued hedges $m	Continuing hedges $m	Discontinued hedges $m
Cash Flow hedges					
Floating rate loans and advances	Interest rate	1,252	33	-	-
Floating rate customer deposits	Interest rate	(274)	(24)	-	-
Foreign currency debt issuance	Foreign exchange	14	-	-	-
Foreign currency investment securities	Foreign exchange	6	-	-	-
Highly probable forecast transactions	Foreign exchange	3	-	-	-
Net investment hedges					
Foreign operations	Foreign exchange	-	-	35	(149)

The table below details the reconciliation of the cash flow hedge reserve by risk type:

	Interest Rate $m	Foreign Currency $m	Total $m
Balance at 1 October 2018	106	-	106
Fair value gains	840	20	860
Transferred to income statement	1	2	3
Income taxes and others	(257)	(5)	(262)
Balance at 30 September 2019	690	17	707
Fair value gains	351	(15)	336
Transferred to income statement	(5)	(2)	(7)
Income taxes and others	(105)	4	(101)
Balance at 30 September 2020	931	4	935

Hedges from net investments in a foreign operation resulted in a $16 million increase in the foreign currency translation reserve during the year (2019: -$35 million). Of that, $15 million (2019: nil) was reclassified from FCTR to the income statement during the year.

9. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

RECOGNITION AND MEASUREMENT

Recognition	Initially and at each reporting date, we recognise all derivatives at fair value. If the fair value of a derivative is positive, then we carry it as an asset, but if its value is negative, then we carry it as a liability. Valuation adjustments are integral in determining the fair value of derivatives. This includes: • a credit valuation adjustment (CVA) to reflect the counterparty risk and/or event of default; and • a funding valuation adjustment (FVA) to account for funding costs and benefits in the derivatives portfolio.
Derecognition of assets and liabilities	We remove derivative assets from our balance sheet when the contracts expire or we have transferred substantially all the risks and rewards of ownership. We remove derivative liabilities from our balance sheet when the Company's contractual obligations are discharged, cancelled or expired.
Impact on the Income Statement	How we recognise gains or losses on derivative financial instruments depends on whether the derivative is held for trading or is designated into a hedging relationship. For derivative financial instruments held for trading, gains or losses from changes in the fair value are recognised in profit or loss. For an instrument designated into a hedging relationship the recognition of gains or losses depends on the nature of the item being hedged. Refer to the table on page 24 for profit or loss treatment depending on the hedge type. Sources of hedge ineffectiveness may arise from basis risk and differences in discounting between the hedged items and the hedging instruments. The hedging instruments are discounted using Overnight Index Swaps discount curves which are not applied to the hedged items.
Hedge effectiveness	To qualify for hedge accounting a hedge is expected to be highly effective. A hedge is highly effective only if the following conditions are met: • the hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated (prospective effectiveness); and • the actual results of the hedge are within the range of 80-125% (retrospective effectiveness). The Company monitors hedge effectiveness on a regular basis but at a minimum at least at each reporting date.

KEY JUDGEMENTS AND ESTIMATES

Judgement is required when we select the valuation techniques used to determine the fair value of derivatives, particularly the selection of valuation inputs that are not readily observable, and the application of valuation adjustments to certain derivatives. Refer to Note 16 Fair Value of Financial Assets and Financial Liabilities for further details.

NOTES TO THE FINANCIAL STATEMENTS (continued)

10. INVESTMENT SECURITIES

	2020 $m	2019 $m
Investment securities measured at fair value through other comprehensive income		
Debt securities	73,936	67,400
Equity securities	994	1,168
Investment securities measured at amortised cost		
Debt securities[1]	5,354	4,787
Total	80,284	73,355

2020 Investment securities	Less than 3 months $m	3 to 12 months $m	1 to 5 years $m	After 5 years $m	No maturity $m	Total $m
Government securities[2]	5,770	12,763	30,887	17,600	-	67,020
Corporate and financial institution securities[2]	633	1,700	7,104	71	-	9,508
Other securities[2]	-	-	532	2,230	-	2,762
Equity securities	-	-	-	-	994	994
Total	6,403	14,463	38,523	19,901	994	80,284
2019 Investment securities						
Government securities[2]	7,359	13,863	29,306	11,711	-	62,239
Corporate and financial institution securities[2]	247	1,069	6,121	21	-	7,458
Other securities[2]	-	-	773	1,717	-	2,490
Equity securities	-	-	-	-	1,168	1,168
Total	7,606	14,932	36,200	13,449	1,168	73,355

1. Includes allowance for expected credit losses of $1 million (2019: $1 million).
2. In 2020, ANZ reclassified investment securities issued by development banks and supra-nationals from Corporate and financial institution securities to Government securities. Comparative information has been restated accordingly, with $9,185 million reclassified as Government securities from Corporate and financial institution securities. In addition, ANZ reclassified certain investment securities from Government securities to Other securities and comparative information was restated with $577 million reclassified.

During the year, the Company recognised a net gain (before tax) in Other operating income from the recycling of gains previously deferred in equity of $21 million (2019: $26 million) in respect of investment securities.

The carrying value of equity securities classified as FVOCI securities is $994 million (2019: $1,168 million). This includes the Company's $934 million (2019: $1,106 million) investment in the Bank of Tianjin (BoT).

10. INVESTMENT SECURITIES (continuing)

RECOGNITION AND MEASUREMENT

Investment securities are those financial assets in security form (i.e. transferable debt or equity instruments) that are not held for trading purposes. By way of exception, bills of exchange (a form of security/transferable instrument) which are used to facilitate the Bank's customer lending activities are classified as Loans and advances (rather than Investment securities) to better reflect the substance of the arrangement.

Non-traded equity investments may be designated at FVOCI on an instrument by instrument basis. If this election is made, gains or losses are not reclassified from other comprehensive income to profit or loss on disposal of the investment. However, gains or losses may be reclassified within equity.

Assets disclosed as investment securities are subject to the general classification and measurement policy for Financial Assets outlined at the commencement of the Company's financial asset disclosures on page 22. Additionally, expected credit losses associated with "Investment securities - debt securities at amortised cost" and "Investment securities - debt securities at fair value through comprehensive income" are recognised and measured in accordance with the accounting policy outlined in Note 12. For "Investment securities – debt securities at fair value through other comprehensive income" the allowance for Expected Credit Loss (ECL) is recognised in the FVOCI reserve in equity with a corresponding charge to profit or loss.

KEY JUDGEMENTS AND ESTIMATES

Judgement is required when we select valuation techniques used to determine the fair value of assets not valued using quoted market prices, particularly the selection of valuation inputs that are not readily observable. Refer to Note 16 Fair Value of Financial Assets and Financial Liabilities for further details.

NOTES TO THE FINANCIAL STATEMENTS (continued)

11. NET LOANS AND ADVANCES

	2020 $m	2019 $m
Overdrafts	4,466	6,265
Credit cards	5,990	7,788
Commercial bills	6,383	6,159
Term loans – housing	275,579	265,810
Term loans – non-housing	197,117	199,659
Other	2,133	1,454
Subtotal	491,668	487,135
Unearned income	(19)	(144)
Capitalised brokerage/mortgage origination fees	572	585
Gross loans and advances (including assets classified as held for sale)	492,221	487,576
Allowance for expected credit losses (refer to Note 12)	(4,219)	(2,921)
Net loans and advances	488,002	484,655
Residual contractual maturity:		
Within one year	98,736	83,848
After more than one year	389,266	400,807
Net loans and advances	488,002	484,655
Carried on Balance Sheet at:		
Amortised cost	483,986	483,858
Fair value through profit or loss (designated on initial recognition)[1]	4,016	797
Net loans and advances	488,002	484,655

1. From 1 October 2019, the Company changed its accounting treatment for certain gold loan and deposit products which are now designated as at fair value through the profit and loss.

RECOGNITION AND MEASUREMENT

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are facilities the Company provides directly to customers or through third party channels.

Loans and advances are initially recognised at fair value plus transaction costs directly attributable to the issue of the loan or advance, which are primarily brokerage/mortgage origination fees which we amortise over the estimated life of the loan. Subsequently, we then measure loans and advances at amortised cost using the effective interest rate method, net of any provision for credit impairment, or at fair value when they are specifically designated on initial recognition as fair value through profit or loss or when held for trading.

We classify contracts to lease assets and hire purchase agreements as finance leases if they transfer substantially all the risks and rewards of ownership of the asset to the customer or an unrelated third party. We include these facilities in 'Other' in the table above.

The Company enters into transactions in which it transfers financial assets that are recognised on its balance sheet. When the Company retains substantially all of the risks and rewards of the transferred assets then the transferred assets remain on the Company's balance sheet, however, if substantially all the risks and rewards are transferred then the Company derecognises the asset.

If the risks and rewards are partially retained and control over the asset is lost, then the Company derecognises the asset. If control over the asset is not lost, the Company continues to recognise the asset to the extent of its continuing involvement.

We separately recognise the rights and obligations retained, or created, in the transfer as assets and liabilities as appropriate.

Assets disclosed as net loans and advances are subject to the general classification and measurement policy for Financial Assets outlined at the commencement of the Company's Financial Asset disclosures on page 22. Additionally, expected credit losses associated with loans and advances at amortised cost are recognised and measured in accordance with the accounting policy outlined in Note 12.

12. ALLOWANCE FOR EXPECTED CREDIT LOSSES

The following tables present the movement in the allowance for ECL for the year. The total allowance for ECL at 30 September 2020 was $4,951 million (30 September 2019: $3,479 million).

Net loans and advances - at amortised cost

Allowance for ECL is included in Net loans and advances.

	Stage 1 $m	Stage 2 $m	Stage 3[1] Collectively assessed $m	Stage 3[1] Individually assessed $m	Total $m
As at 1 October 2018	**729**	**1,199**	**308**	**695**	**2,931**
Transfer between stages	139	(270)	(90)	221	-
New and increased provisions (net of releases)	(136)	246	143	995	1,248
Write-backs	-	-	-	(331)	(331)
Bad debts written off (excluding recoveries)	-	-	-	(953)	(953)
Foreign currency translation and other movements[2]	14	6	-	6	26
As at 30 September 2019	**746**	**1,181**	**361**	**633**	**2,921**
Transfer between stages	168	(258)	(122)	212	-
New and increased provisions (net of releases)	122	1,198	135	1,171	2,626
Write-backs	-	-	-	(286)	(286)
Bad debts written off (excluding recoveries)	-	-	-	(1,003)	(1,003)
Foreign currency translation and other movements[2]	(8)	(7)	(1)	(23)	(39)
As at 30 September 2020	**1,028**	**2,114**	**373**	**704**	**4,219**

1. The Company's credit exposures that are purchased or originated credit-impaired financial assets are insignificant.
2. Other movements include the impact of discount unwind on individually assessed allowance for ECL.

Investment securities - debt securities at amortised cost

Allowance for ECL is included in Investment securities.

	Stage 1 $m	Stage 2 $m	Stage 3 Collectively assessed $m	Stage 3 Individually assessed $m	Total $m
As at 1 October 2018	**1**	**-**	**-**	**-**	**1**
New and increased provisions (net of releases)	-	-	-	-	-
Foreign currency translation	-	-	-	-	-
As at 30 September 2019	**1**	**-**	**-**	**-**	**1**
New and increased provisions (net of releases)	1	-	-	-	1
Foreign currency translation	(1)	-	-	-	(1)
As at 30 September 2020	**1**	**-**	**-**	**-**	**1**

NOTES TO THE FINANCIAL STATEMENTS (continued)

12. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)

Investment securities - debt securities at FVOCI

As FVOCI assets are measured at fair value there is no separate allowance for ECL. Instead, the allowance for ECL is recognised in Other Comprehensive Income (OCI), with a corresponding charge to profit or loss.

			Stage 3		
	Stage 1 $m	Stage 2 $m	Collectively assessed $m	Individually assessed $m	Total $m
As at 1 October 2018	**4**	**-**	**-**	**-**	**4**
New and increased provisions (net of releases)	1	-	-	-	1
Foreign currency translation	-	-	-	-	-
As at 30 September 2019	**5**	**-**	**-**	**-**	**5**
New and increased provisions (net of releases)	2	-	-	-	2
Foreign currency translation	-	-	-	-	-
As at 30 September 2020	**7**	**-**	**-**	**-**	**7**

Off-balance sheet commitments - undrawn and contingent facilities

Allowance for ECL is included in Other provisions.

			Stage 3[1]		
	Stage 1 $m	Stage 2 $m	Collectively assessed $m	Individually assessed $m	Total $m
As at 1 October 2018	**408**	**141**	**8**	**18**	**575**
Transfer between stages	21	(23)	1	1	-
New and increased provisions (net of releases)	(33)	7	5	-	(21)
Write-backs	-	-	-	(1)	(1)
Foreign currency translation	9	1	-	(6)	4
As at 30 September 2019	**405**	**126**	**14**	**12**	**557**
Transfer between stages	15	(20)	(2)	7	-
New and increased provisions (net of releases)	100	78	3	13	194
Write-backs	-	-	-	(12)	(12)
Foreign currency translation	(7)	(1)	-	-	(8)
As at 30 September 2020	**513**	**183**	**15**	**20**	**731**

1. The Company's credit exposures that are purchased or originated credit-impaired financial assets are insignificant.

12. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)

CREDIT IMPAIRMENT CHARGE - INCOME STATEMENT

Credit impairment charge/(release)

	2020 $m	2019 $m
New and increased provisions (net of releases)[1]		
- Collectively assessed	1,420	11
- Individually assessed	1,403	1,217
Write-backs	(298)	(332)
Recoveries of amounts previously written-off	(188)	(182)
Total credit impairment charge	2,337	714

1. Includes the impact of transfers between collectively assessed and individually assessed.

The contractual amount outstanding on financial assets that were written off during the period ended 30 September 2020 and that are still subject to enforcement activity is $321 million (2019: $141 million).

COVID-19 REPAYMENT DEFERRAL PACKAGES OFFERED TO CUSTOMERS[1]

Since March 2020, the Company has offered various forms of assistance to customers to counteract the impact of COVID-19 on the ability of customers to meet their loan obligations. The assistance provided has included arrangements such as temporary deferral of principal and interest repayments, replacing principal and interest with interest only repayments, and extension of loan maturity dates. Refer to Key Judgements and Estimates in this Note for details on the impact of deferrals when determining if there has been a Significant Increase in Credit Risk (SICR).

The loan repayment deferral package is considered to be a loan modification under AASB 9. This either results in the loan being derecognised and replaced with a new loan (substantial modification) or the existing loan continuing to be recognised (non-substantial modification). The table below shows the outstanding balance as at 30 September 2020 of all loans that have been modified (both substantial and non-substantial modifications):

Assistance package category	Total loan outstanding At 30 September 2020 $m
Loan deferral package	
Retail	26,117
Commercial and other	8,989
Interest only	
Retail	126
Commercial and other	33
Term extensions	
Retail	3
Commercial and other	24
Total[2]	35,292
Retail	26,246
Commercial and other	9,046
Total[2]	35,292

1. COVID-19 loan deferral packages are available to customers if either their loan repayments are less than 30 days past due, or if their repayments are less than 90 days past due but were up to date at 1 March 2020.
2. The gross carrying amount of loans at the date of modification that were considered non-substantial modifications and had loss allowances based on lifetime expected losses was $9,462 million. No gain or loss was recognised as a result of the modification and none of the loans have subsequently changed to a 12 month expected loss allowance.

NOTES TO THE FINANCIAL STATEMENTS (continued)

12. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)

RECOGNITION AND MEASUREMENT

EXPECTED CREDIT LOSS IMPAIRMENT MODEL

The measurement of expected credit losses reflects an unbiased, probability weighted prediction which evaluates a range of scenarios and takes into account the time value of money, past events, current conditions and forecasts of future economic conditions.

Expected credit losses are either measured over 12 months or the expected lifetime of the financial asset, depending on credit deterioration since origination, according to the following three-stage approach:

- Stage 1: At the origination of a financial asset, and where there has not been a Significant Increase in Credit Risk (SICR) since origination, an allowance equivalent to 12 months ECL is recognised reflecting the expected credit losses resulting from default events that are possible within the next 12 months from the reporting date. For instruments with a remaining maturity of less than 12 months, expected credit losses are estimated based on default events that are possible over the remaining time to maturity.
- Stage 2: Where there has been a SICR since origination, an allowance equivalent to lifetime ECL is recognised reflecting expected credit losses resulting from all possible default events over the expected life of a financial instrument. If credit risk were to improve in a subsequent period such that the increase in credit risk since origination is no longer considered significant, the exposure returns to a Stage 1 classification and a 12 month ECL applies.
- Stage 3: Where there is objective evidence of impairment, an allowance equivalent to lifetime ECL is recognised.

Expected credit losses are estimated on a collective basis for exposures in Stage 1 and Stage 2, and on either a collective or individual basis when transferred to Stage 3.

MEASUREMENT OF EXPECTED CREDIT LOSS

ECL is calculated as the product of the following credit risk factors at a facility level, discounted to incorporate the time value of money:

- Probability of default (PD) - the estimate of the likelihood that a borrower will default over a given period;
- Exposure at default (EAD) - the expected balance sheet exposure at default taking into account repayments of principal and interest, expected additional drawdowns and accrued interest; and
- Loss given default (LGD) - the expected loss in the event of the borrower defaulting, expressed as a percentage of the facility's EAD, taking into account direct and indirect recovery costs.

These credit risk factors are adjusted for current and forward-looking information through the use of macro-economic variables.

EXPECTED LIFE

When estimating ECL for exposures in Stage 2 and 3, the Company considers the expected lifetime over which it is exposed to credit risk.

For non-retail portfolios, the Company uses the maximum contractual period as the expected lifetime for non-revolving credit facilities. For non-retail revolving credit facilities, such as corporate lines of credit, the expected life reflects the Company's contractual right to withdraw a facility as part of a contractually agreed annual review, after taking into account the applicable notice period.

For retail portfolios, the expected lifetime is determined using a behavioural term, taking into account expected prepayment behaviour and substantial modifications.

DEFINITION OF DEFAULT, CREDIT IMPAIRED AND WRITE-OFFS

The definition of default used in measuring expected credit losses is aligned to the definition used for internal credit risk management purposes across all portfolios. This definition is also in line with the regulatory definition of default. Default occurs when there are indicators that a debtor is unlikely to fully satisfy contractual credit obligations to the Company, or the exposure is 90 days past due.

Financial assets, including those that are well secured, are considered credit impaired for financial reporting purposes when they default.

When there is no realistic probability of recovery, loans are written off against the related impairment allowance on completion of the Company's internal processes and when all reasonably expected recoveries have been collected. In subsequent periods, any recoveries of amounts previously written-off are credited to credit impairment charge in the income statement.

12. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)

RECOGNITION AND MEASUREMENT (continued)

MODIFIED FINANCIAL ASSETS

If the terms of a financial asset are modified or an existing financial asset is replaced with a new one for either credit or commercial reasons, an assessment is made to determine if the changes to the terms of the existing financial asset are considered substantial. This assessment considers both changes in cash flows arising from the modified terms as well as changes in the overall instrument risk profile; for example, changes in the principal (credit limit), term, or type of underlying collateral. Where a modification is considered non-substantial, the existing financial asset is not derecognised and its date of origination continues to be used to determine SICR. Where a modification is considered substantial, the existing financial asset is derecognised and a new financial asset is recognised at its fair value on the modification date, which also becomes the date of origination used to determine SICR for this new asset.

SIGNIFICANT INCREASE IN CREDIT RISK (SICR)

Stage 2 assets are those that have experienced a Significant Increase in Credit Risk (SICR) since origination. In determining what constitutes a SICR, the Company considers both qualitative and quantitative information:

i. Internal credit rating grade

For the majority of portfolios, the primary indicator of a SICR is a significant deterioration in the internal credit rating grade of a facility since origination and is measured by application of thresholds.

For non-retail portfolios, a SICR is determined by comparing the Customer Credit Rating (CCR) applicable to a facility at reporting date to the CCR at origination of that facility. A CCR is assigned to each borrower which reflects the probability of default of the borrower and incorporates both borrower and non-borrower specific information, including forward-looking information. CCRs are subject to review at least annually or more frequently when an event occurs which could affect the credit risk of the customer.

For retail portfolios, a SICR is determined, depending on the type of facility, by either comparing the scenario weighted lifetime probability of default at the reporting date to that at origination, or by reference to customer behavioural score thresholds. The scenario weighted lifetime probability of default may increase significantly if:

- there has been a deterioration in the economic outlook, or an increase in economic uncertainty; or
- there has been a deterioration in the customer's overall credit position, or ability to manage their credit obligations.

ii. Backstop criteria

The Company uses 30 days past due arrears as a backstop criteria for both non-retail and retail portfolios. For retail portfolios only, facilities are required to demonstrate three to six months of good payment behaviour prior to being allocated back to Stage 1.

iii. COVID-19 initiatives

For facilities subject to the COVID-19 repayment deferral arrangements noted above, an assessment of SICR has been determined based on various measures of the customer's current financial position and earnings capacity from which the facilities are categorised into risk categories. SICR is then determined based on the resulting risk categorisation. Customers in high risk categories, and those who have requested a deferral extension have been classified as having a SICR.

FORWARD-LOOKING INFORMATION

Forward-looking information is incorporated into both our assessment of whether a financial asset has experienced a SICR since its initial recognition and in our estimate of ECL. In applying forward-looking information for estimating ECL, the Company considers four probability-weighted forecast economic scenarios as follows:

i. Base case scenario

The base case scenario is ANZ's view of the most likely future macro-economic conditions. It reflects management's assumptions used for strategic planning and budgeting, and also informs ANZ's Internal Capital Adequacy Assessment Process (ICAAP) which is the process ANZ applies in strategic and capital planning over a 3-year time horizon;

ii. Upside and iii. Downside scenarios

The upside and downside scenarios are fixed by reference to average economic cycle conditions (that is, they are not based on the economic conditions prevailing at balance date) and are based on a combination of more optimistic (in the case of the upside) and pessimistic (in the case of the downside) economic events and uncertainty over long term horizons; and

iv. Severe downside scenario

The severe downside scenario is fixed by reference to average economic cycle conditions and accounts for the potentially severe impact of less likely extremely adverse economic conditions. It reflects macro-economic conditions of a downturn economic event with a probability of occurrence once every 25 years.

NOTES TO THE FINANCIAL STATEMENTS (continued)

12. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)

RECOGNITION AND MEASUREMENT (continued)

FORWARD-LOOKING INFORMATION (continued)

The four scenarios are described in terms of macro-economic variables used in the PD, LGD and EAD models (collectively the ECL models) depending on the portfolio and country of the borrower. Examples of the variables include unemployment rates, GDP growth rates, house price indices, commercial property price indices and consumer price indices.

Probability weighting of each scenario is determined by management considering the risks and uncertainties surrounding the base case economic scenario, as well as specific portfolio considerations where required.

The Group Asset and Liability Committee (GALCO) is responsible for reviewing and approving the base case economic forecast scenario and the Credit and Market Risk Committee (CMRC) approves the probability weights applied to each scenario.

Where applicable, temporary adjustments may be made to account for situations where known or expected risks have not been adequately addressed in the modelling process. CMRC is responsible for approving such adjustments.

KEY JUDGEMENTS AND ESTIMATES

In estimating collectively assessed ECL, the Company makes judgements and assumptions in relation to:

- the selection of an estimation technique or modelling methodology, noting that the modelling of the Company's ECL estimates are complex; and
- the selection of inputs for those models, and the interdependencies between those inputs.

The following table summarises the key judgements and assumptions in relation to the model inputs and the interdependencies between those inputs, and highlights significant changes during the current period.

The judgements and associated assumptions have been made within the context of the impact of COVID-19, and reflect historical experience and other factors that are considered to be relevant, including expectations of future events that are believed to be reasonable under the circumstances. In relation to COVID-19, judgements and assumptions include the extent and duration of the pandemic, the impacts of actions of governments and other authorities, and the responses of businesses and consumers in different industries, along with the associated impact on the global economy. Accordingly, the Company's ECL estimates are inherently uncertain and, as a result, actual results may differ from these estimates.

Judgement/ Assumption	Description	Considerations for the year ended 30 September 2020
Determining when a Significant Increase in Credit (SICR) Risk has occurred	In the measurement of ECL, judgement is involved in setting the rules and trigger points to determine whether there has been a SICR since initial recognition of a loan, which would result in the financial asset moving from 'Stage 1' to 'Stage 2'. This is a key area of judgement since transition from Stage 1 to Stage 2 increases the ECL from an allowance based on the probability of default in the next 12 months, to an allowance for lifetime expected credit losses. Subsequent decreases in credit risk resulting in transition from Stage 2 to Stage 1 may similarly result in significant changes in the ECL allowance. The setting of precise trigger points requires judgement which may have a material impact upon the size of the ECL allowance. The Company monitors the effectiveness of SICR criteria on an ongoing basis.	In response to the impacts of COVID-19, various packages, such as repayment deferrals, have been offered to eligible retail and commercial customers in Australia. The Company does not consider that when a customer is first provided assistance, all other things being equal, that there has been a SICR and a consequent impact on ECL when assessing provisions. Subsequent to take-up, customers have been contacted to discuss available options once the packages reach their end date. This additional information on the customer's financial position and ability to recommence their loan repayments is used to assist in classification of customers into risk categories. Customers in higher risk categories, and those who have requested a deferral extension, have been classified as having a SICR.

12. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)

KEY JUDGEMENTS AND ESTIMATES (continued)

Judgement/ Assumption	Description	Considerations for the year ended 30 September 2020
Measuring both 12-month and lifetime credit losses	The PD, LGD and EAD credit risk parameters used in determining ECL are point-in-time measures reflecting the relevant forward-looking information determined by management. Judgement is involved in determining which forward-looking information variables are relevant for particular lending portfolios and for determining each portfolio's point-in-time sensitivity.	The PD, EAD and LGD models are subject to the Company's model risk policy that stipulates periodic model monitoring, periodic re-validation and defines approval procedures and authorities according to model materiality. There were no material changes to the policies during the year ended 30 September 2020.
	In addition, judgement is required where behavioural characteristics are applied in estimating the lifetime of a facility to be used in measuring ECL.	There were no changes to behavioural lifetime estimates during the year ended 30 September 2020.
Base case economic forecast	The Company derives a forward-looking "base case" economic scenario which reflects ANZ's view of the most likely future macro-economic conditions.	There have been no changes to the types of forward-looking variables (key economic drivers) used as model inputs in the current year. As at 30 September 2020, the base case assumptions have been updated to reflect the rapidly evolving situation with respect to COVID-19. This includes an assessment of the impact of central bank policies, governments' actions, the response of business, and institution specific responses (such as repayment deferrals). These are considered in determining the length and severity of the forecast economic downturn. The expected outcomes of key economic drivers for the base case scenario as at 30 September 2020 are described below under the heading "Base case economic forecast assumptions".
Probability weighting of each economic scenario (base case, upside, downside and severe downside scenarios)[1,2]	Probability weighting of each economic scenario is determined by management considering the risks and uncertainties surrounding the base case economic scenario at each measurement date.	The key consideration for probability weightings in the current period is the continuing impact of COVID-19. The Company considers these weightings in each geography to provide the best estimate of the possible loss outcomes and has analysed inter-relationships and correlations (over both the short and long term) within the Company's credit portfolios in determining them. In addition to the base case forecast which reflects the negative economic consequences of COVID-19, greater weighting has been applied to the downside scenario given the Company's assessment of downside risks. The assigned probability weightings in Australia and Rest of world are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected.

1. The upside and downside scenarios are fixed by reference to average economic cycle conditions (that is, they are not based on the economic conditions prevailing at balance date) and are based on a combination of more optimistic (in the case of the upside) and pessimistic (in the case of the downside) economic conditions.
2. The severe downside scenario is fixed by reference to average economic cycle conditions and accounts for the potentially severe downside impact of less likely extremely adverse economic conditions.

NOTES TO THE FINANCIAL STATEMENTS (continued)

12. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)

KEY JUDGEMENTS AND ESTIMATES (continued)

Judgement/ Assumption	Description	Considerations for the year ended 30 September 2020
Management temporary adjustments	Management temporary adjustments to the ECL allowance are used in circumstances where it is judged that our existing inputs, assumptions and model techniques do not capture all the risk factors relevant to our lending portfolios. Emerging local or global macroeconomic, microeconomic or political events, and natural disasters that are not incorporated into our current parameters, risk ratings, or forward-looking information are examples of such circumstances. The use of management temporary adjustments may impact the amount of ECL recognised. The uncertainty associated with the COVID-19 pandemic, and the extent to which the actions of governments, businesses and consumers mitigate against potentially adverse credit outcomes are not fully incorporated into existing ECL models. Accordingly, management overlays have been applied to ensure credit provisions are appropriate.	Management have applied a number of adjustments to the modelled ECL primarily due to the uncertainty associated with COVID-19. Management overlays (including COVID-19 overlays) which add to the modelled ECL provision have been made for risks particular to small business and commercial banking in Australia, for retail, commercial and agri banking in New Zealand and for tourism in the Pacific.

Base case economic forecast assumptions

The uncertain evolution of the COVID-19 pandemic increases the risk to the economic forecast resulting in an understatement or overstatement of the ECL balance due to uncertainties around:

- The extent and duration of measures to stop or reduce the speed of the spread of COVID-19;
- The extent and duration of the economic downturn, along with the time required for economies to recover; and
- The effectiveness of government stimulus measures, in particular their impact on the magnitude of economic downturn and the extent and duration of the recovery.

The economic drivers of the base case economic forecasts at 30 September 2020 are set out below. These reflect ANZ's view of the most likely future macro-economic conditions as at 30 September 2020. For years beyond the near term forecasts below, the ECL models project future year economic conditions including an assumption to eventual reversion to mid-cycle economic conditions.

	Forecast calendar year		
	2020	2021	2022
Australia			
GDP	-4.3%	1.6%	4.0%
Unemployment	7.3%	8.8%	7.7%
Residential property prices	-2.2%	-4.8%	2.0%
Consumer price index	0.8	1.2	1.3
New Zealand			
GDP	-5.6%	2.0%	5.6%
Unemployment	5.7%	9.1%	6.5%
Residential property prices	-0.3%	0.9%	4.1%
Consumer price index	1.6	1.0	1.2
Rest of world			
GDP	-4.5%	2.5%	2.5%
Consumer price index	1.0	1.8	2.0

12. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)

KEY JUDGEMENTS AND ESTIMATES (CONTINUED)

The base case economic forecasts as at 30 September 2020 reflect a significant deterioration in current and expected economic conditions from the forecasts as at 30 September 2019 reflecting the emergence and ongoing impact of the COVID-19 pandemic.

Probability weightings

Probability weighting of each scenario is determined by management considering the risks and uncertainties surrounding the base case economic scenario. The key consideration for probability weightings in the current period is the continuing impact of COVID-19.

In addition to the base case economic forecast which reflects the negative economic consequences of COVID-19, greater weighting has been applied to the downside economic scenario given the Company's assessment of downside risks.

The assigned probability weightings in Australia and Rest of world are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Company considers these weightings in each geography to provide the best estimate of the possible loss outcomes and has analysed inter-relationships and correlations (over both the short and long term) within the Company's credit portfolios in determining them. The average weightings applied in the Company are set out below:

	2020	2019
The Company		
Base	50.0%	50.0%
Upside	10.9%	15.7%
Downside	33.4%	29.3%
Severe Downside	5.7%	5.0%

ECL - Sensitivity analysis

The uncertainty of the impact of COVID-19 introduces significant estimation uncertainty in relation to the measurement of the Company's allowance for expected credit losses. The rapidly evolving consequences of COVID-19 and government, business and consumer responses could result in significant adjustments to the allowance in future financial years.

Given current economic uncertainties and the judgment applied to factors used in determining the expected default of borrowers in future periods, expected credit losses reported by the Company should be considered as a best estimate within a range of possible estimates.

The table below illustrates the sensitivity of collectively assessed ECL to key factors used in determining it as at 30 September 2020:

	ECL $m	Impact $m
If 1% of Stage 1 facilities were included in Stage 2	4,272	45
If 1% of Stage 2 facilities were included in Stage 1	4,218	(9)
100% upside scenario	1,566	(2,661)
100% base scenario	3,501	(726)
100% downside scenario	4,423	196
100% severe downside scenario	5,374	1,147

NOTES TO THE FINANCIAL STATEMENTS (continued)

FINANCIAL LIABILITIES

Outlined below is a description of how we classify and measure financial liabilities relevant to the subsequent note disclosures.

CLASSIFICATION AND MEASUREMENT

Financial liabilities

Financial liabilities are measured at amortised cost, or fair value through profit or loss when they are held for trading. Additionally, financial liabilities can be designated at FVTPL where:

- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise;
- a group of financial liabilities are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management strategy; or
- the financial liability contains one or more embedded derivatives unless:

  a) the embedded derivative does not significantly modify the cash flows that otherwise would be required by the contract, or

  b) the embedded derivative is closely related to the host financial liability.

Where financial liabilities are designated as measured at fair value, gains or losses relating to changes in the entity's own credit risk are included in other comprehensive income, except where doing so would create or enlarge an accounting mismatch in profit or loss.

13. DEPOSITS AND OTHER BORROWINGS

The table below presents our total deposits and other borrowings by type:

	2020 $m	2019 $m
Certificates of deposit	30,574	34,952
Term deposits	148,839	173,641
On demand and short term deposits	262,236	214,002
Deposits not bearing interest	22,016	15,765
Deposits from banks and securities sold under repurchase agreements[1]	86,947	76,468
Commercial paper	7,524	9,413
Deposits and other borrowings	558,136	524,241
Residual contractual maturity:		
- to be settled within 1 year	544,324	522,125
- to be settled after 1 year	13,812	2,116
Deposits and other borrowings	558,136	524,241
Carried on Balance Sheet at:		
Amortised cost	556,676	524,220
Fair value through profit or loss (designated on initial recognition)[2]	1,460	21
Deposits and other borrowings	558,136	524,241

1. Includes $12 billion of funds drawn under the RBA's Term Funding Facility (TFF). TFF is initially recognised at fair value and is subsequently measured at amortised cost using the effective interest rate method.
2. From 1 October 2019, the Company changed its accounting treatment for certain gold and loan deposit products which are now designated as at fair value through profit and loss.

RECOGNITION AND MEASUREMENT

For deposits and other borrowings that are:

- not designated at fair value through profit or loss on initial recognition, we measure them at amortised cost and recognise their interest expense using the effective interest rate method; and
- managed on a fair value basis, reduce or eliminate an accounting mismatch or contain an embedded derivative, we designate them as measured at fair value through profit or loss.

Refer to Note 16 Fair Value of Financial Assets and Financial Liabilities for further details.

For deposits and other borrowings designated at fair value we recognise the amount of fair value gain or loss attributable to changes in the Company's own credit risk in other comprehensive income in retained earnings. Any remaining amount of fair value gain or loss we recognise directly in profit or loss. Once we have recognised an amount in other comprehensive income, we do not later reclassify it to profit and loss.

Securities sold under repurchase agreements represent a liability to repurchase the financial assets that remain on our balance sheet since the risks and rewards of ownership remain with the Company. Over the life of the repurchase agreement, we recognise the difference between the sale price and the repurchase price and charge it to interest expense in the profit and loss.

NOTES TO THE FINANCIAL STATEMENTS (continued)

14. DEBT ISSUANCES

The Company uses a variety of funding programmes to issue senior debt (including covered bonds) and subordinated debt. The difference between senior debt and subordinated debt is that holders of senior debt take priority over holders of subordinated debt owed by the Company. In the winding up of the Company, the subordinated debt will be repaid by the Company, only after the repayment of claims of depositors, other creditors and the senior debt holders.

	2020 $m	2019 $m
Senior debt	64,591	71,767
Covered bonds	11,761	16,826
Total unsubordinated debt	76,352	88,593
Subordinated debt		
- Additional Tier 1 capital	7,833	7,838
- Tier 2 capital	12,865	8,415
Total subordinated debt	20,698	16,253
Total debt issued	97,050	104,846

For further information relating to debt issuances, refer to the ANZ 2020 Group Annual Report (Note 15 Debt Issuances) available at https://www.anz.com/shareholder/centre/reporting/annual-report-annual-review/.

15. FINANCIAL RISK MANAGEMENT

RISK MANAGEMENT FRAMEWORK AND MODEL

INTRODUCTION

The use of financial instruments is fundamental to the Company's businesses of providing banking and other financial services to our customers. The associated financial risks (primarily credit, market, and liquidity risks) are a significant portion of the Company's key material risks.

We disclose details of all key material risks impacting the Company, and further information on the Company's risk management activities, in the Governance and Risk Management section in the ANZ 2020 Group Annual Report available at https://www.anz.com/shareholder/centre/reporting/annual-report-annual-review/.

This note details the Company's financial risk management policies, processes and quantitative disclosures in relation to the key financial risks.

Key material financial risks	Key sections applicable to this risk
Overview	• An overview of our Risk Management Framework
Credit risk The risk of financial loss resulting from: • a counterparty failing to fulfil its obligations; or • a decrease in credit quality of a counterparty resulting in a financial loss. Credit risk incorporates the risks associated with us lending to customers who could be impacted by climate change or by changes to laws, regulations, or other policies adopted by governments or regulatory authorities, including carbon pricing and climate change adaptation or mitigation policies.	• Credit risk overview, management and control responsibilities • Maximum exposure to credit risk • Credit quality • Concentrations of credit risk • Collateral management
Market risk The risk to the Company's earnings arising from: • changes in interest rates, foreign exchange rates, credit spreads, volatility and correlations; or • fluctuations in bond, commodity or equity prices.	• Market risk overview, management and control responsibilities • Measurement of market risk • Traded and non-traded market risk • Equity securities designated at FVOCI • Foreign currency risk – structural exposures
Liquidity and funding risk The risk that the Company is unable to meet payment obligations as they fall due, including: • repaying depositors or maturing wholesale debt; or • the Company having insufficient capacity to fund increases in assets.	• Liquidity risk overview, management and control responsibilities • Key areas of measurement for liquidity risk • Liquidity risk outcomes • Residual contractual maturity analysis of the Company's liabilities

NOTES TO THE FINANCIAL STATEMENTS (continued)

15. FINANCIAL RISK MANAGEMENT (continued)

OVERVIEW

AN OVERVIEW OF OUR RISK MANAGEMENT FRAMEWORK

This overview is provided to aid the users of the financial statements to understand the context of the financial disclosures required under AASB 7 *Financial Instruments: Disclosures*. It should be read in conjunction with the Governance and Risk Management section in the ANZ 2020 Group Annual Report available at https://www.anz.com/shareholder/centre/reporting/annual-report-annual-review/.

The Board is responsible for establishing and overseeing the Company's Risk Management Framework (RMF). The Board has delegated authority to the Board Risk Committee (BRC) to develop and monitor compliance with the Company's risk management policies. The BRC reports regularly to the Board on its activities.

The Board approves the strategic objectives of the Company including:

- the Risk Appetite Statement (RAS), which sets out the Board's expectations regarding the degree of risk that the Company is prepared to accept in pursuit of its strategic objectives and business plan; and
- the Risk Management Strategy (RMS), which describes the Company's strategy for managing risks and the key elements of the RMF that gives effect to this strategy. This includes a description of each material risk, and an overview of how the RMF addresses each risk, with reference to the relevant policies, standards and procedures. It also includes information on how the Company identifies, measures, evaluates, monitors, reports and controls or mitigates material risks.

The Company, through its training and management standards and procedures, aims to maintain a disciplined and robust control environment in which all employees understand their roles and obligations. At the Company, risk is everyone's responsibility.

The Company has an independent risk management function, headed by the Chief Risk Officer who:

- is responsible for overseeing the risk profile and the risk management framework;
- can effectively challenge activities and decisions that materially affect the Company's risk profile; and
- has an independent reporting line to the BRC to enable the appropriate escalation of issues of concern.

The Company's Internal Audit Function reports directly to the Board Audit Committee (BAC). Internal Audit provides:

- an independent evaluation of the Company's RMF annually that seeks to ensure compliance with, and the effectiveness of, the risk management framework;
- facilitation of a comprehensive review every three years that seeks to ensure the appropriateness, effectiveness and adequacy of the risk management framework; and
- recommendations to improve the framework and/or work practices to strengthen the effectiveness of day to day operations.

CREDIT RISK

CREDIT RISK OVERVIEW, MANAGEMENT AND CONTROL RESPONSIBILITIES

Granting credit facilities to customers is one of the Company's major sources of income. As this activity is also a principal risk, the Company dedicates considerable resources to its management. The Company assumes credit risk in a wide range of lending and other activities in diverse markets and in many jurisdictions. Credit risks arise from traditional lending to customers as well as from inter-bank, treasury, trade finance and capital markets activities around the world.

Our credit risk management framework ensures we apply a consistent approach across the Company when we measure, monitor and manage the credit risk appetite set by the Board. The Board is assisted and advised by the BRC in discharging its duty to oversee credit risk. The BRC:

- sets the credit risk appetite and credit strategies; and
- approves credit transactions beyond the discretion of executive management.

15. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK (continued)

We quantify credit risk through an internal credit rating system (masterscales) to ensure consistency across exposure types and to provide a consistent framework for reporting and analysis. The system uses models and other tools to measure the following for customer exposures:

Probability of Default (PD)	Expressed by a Customer Credit Rating (CCR), reflecting the Company's assessment of a customer's ability to service and repay debt.
Exposure at Default (EAD)	The expected balance sheet exposure at default taking into account repayments of principal and interest, expected additional drawdowns and accrued interest at the time of default.
Loss Given Default (LGD)	Expressed by a Security Indicator (SI) ranging from A to G. The SI is calculated by reference to the percentage of loan covered by security which the Company can realise if a customer defaults. The A-G scale is supplemented by a range of other SIs which cover factors such as cash cover and sovereign backing. For retail and some small business customers, we group exposures into large homogenous pools – and the LGD is assigned at the pool level.

Our specialist credit risk teams develop and validate the Company's PD and LGD rating models. The outputs from these models drive our day-to-day credit risk management decisions including origination, pricing, approval levels, regulatory capital adequacy, economic capital allocation, and credit provisioning.

All customers with whom the Company has a credit relationship are assigned a CCR at origination via either of the following assessment approaches:

Large and more complex lending	Retail and some small business lending
Rating models provide a consistent and structured assessment, with judgement required around the use of out-of-model factors. We handle credit approval on a dual approval basis, jointly with the business writer and an independent credit officer.	Automated assessment of credit applications using a combination of scoring (application and behavioural), policy rules and external credit reporting information. If the application does not meet the automated assessment criteria, then it is referred out for manual assessment.

We use the Company's internal CCRs to manage the credit quality of financial assets. To enable wider comparisons, the Company's CCRs are mapped to external rating agency scales as follows:

Credit Quality Description	Internal CCR	ANZ Customer Requirements	Moody's Rating	Standard & Poor's Rating
Strong	CCR 0+ to 4-	Demonstrated superior stability in their operating and financial performance over the long-term, and whose earnings capacity is not significantly vulnerable to foreseeable events.	Aaa – Baa3	AAA – BBB-
Satisfactory	CCR 5+ to 6-	Demonstrated sound operational and financial stability over the medium to long-term, even though some may be susceptible to cyclical trends or variability in earnings.	Ba1 – B1	BB+ – B+
Weak	CCR 7+ to 8=	Demonstrated some operational and financial instability, with variability and uncertainty in profitability and liquidity projected to continue over the short and possibly medium term.	B2 - Caa	B - CCC
Defaulted	CCR 8- to 10	When doubt arises as to the collectability of a credit facility, the financial instrument (or "the facility") is classified as defaulted.	N/A	N/A

MAXIMUM EXPOSURE TO CREDIT RISK

For financial assets recognised on the balance sheet, the maximum exposure to credit risk is the carrying amount. In certain circumstances there may be differences between the carrying amounts reported on the balance sheet and the amounts reported in the tables below. Principally, these differences arise in respect of financial assets that are subject to risks other than credit risk, such as equity instruments which are primarily subject to market risk, or bank notes and coins.

For undrawn facilities, this maximum exposure to credit risk is the full amount of the committed facilities. For contingent exposures, the maximum exposure to credit risk is the maximum amount the Company would have to pay if the instrument is called upon.

The table below shows our maximum exposure to credit risk of on-balance sheet and off-balance sheet positions before taking account of any collateral held or other credit enhancements.

NOTES TO THE FINANCIAL STATEMENTS (continued)

15. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK (continued)

	Reported		Excluded[1]		Maximum exposure to credit risk	
	2020 $m	2019 $m	2020 $m	2019 $m	2020 $m	2019 $m
On-balance sheet positions						
Net loans and advances	488,002	484,655	-	-	488,002	484,655
Other financial assets:						
Cash and cash equivalents	98,083	77,949	1,084	934	96,999	77,015
Settlement balances owed to ANZ	7,116	3,442	7,116	3,442	-	-
Collateral paid	13,012	13,461	-	-	13,012	13,461
Trading securities	38,423	34,217	5,465	5,922	32,958	28,295
Derivative financial instruments	130,552	116,544	-	-	130,552	116,544
Investment securities						
- debt securities at amortised costs	5,354	4,787	-	-	5,354	4,787
- debt securities at FVOCI	73,936	67,400	-	-	73,936	67,400
- equity securities at FVOCI	994	1,168	994	1,168	-	-
Regulatory deposits	199	215	-	-	199	215
Due from controlled entities	100,654	88,874	-	-	100,654	88,874
Other financial assets[2]	1,460	2,167	-	-	1,460	2,167
Total other financial assets	469,783	410,224	14,659	11,466	455,124	398,758
Subtotal	957,785	894,879	14,659	11,466	943,126	883,413
Off-balance sheet positions						
Undrawn and contingent facilities[3]	226,714	211,796	-	-	226,714	211,796
Total	1,184,499	1,106,675	14,659	11,466	1,169,840	1,095,209

1. Bank notes and coins and cash at bank within Cash and cash equivalents; Trade dated assets within Settlement balances owed to ANZ; Equity securities and precious metal exposures within Trading securities; Equity securities within Investment securities were excluded as they do not have credit risk exposure.
2. Other financial assets mainly comprise accrued interest and acceptances.
3. Undrawn and contingent facilities include guarantees, letters of credit and performance related contingencies, net of collectively assessed and individually assessed allowance for expected credit losses.

15. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK (continued)

CREDIT QUALITY

An analysis of the Company's credit risk exposure is presented in the following tables based on the Company's internal rating by stage without taking account of the effects of any collateral or other credit enhancements:

Net loans and advances

	2020				
			Stage 3		
	Stage 1 $m	Stage 2 $m	Collectively assessed $m	Individually assessed $m	Total $m
Strong	300,174	12,692	-	-	312,866
Satisfactory	115,745	30,200	-	-	145,945
Weak	8,348	14,740	-	-	23,088
Defaulted	-	-	3,936	1,817	5,753
Gross loans and advances at amortised cost	424,267	57,632	3,936	1,817	487,652
Allowance for ECL	(1,028)	(2,114)	(373)	(704)	(4,219)
Net loans and advances at amortised cost	423,239	55,518	3,563	1,113	483,433
Coverage ratio	0.24%	3.67%	9.48%	38.75%	0.87%
Loans and advances at fair value through profit or loss					4,016
Unearned income					(19)
Capitalised brokerage/mortgage origination fees					572
Net carrying amount					488,002

	2019				
			Stage 3		
	Stage 1 $m	Stage 2 $m	Collectively assessed $m	Individually assessed $m	Total $m
Strong	330,531	16,720	-	-	347,251
Satisfactory	95,286	23,717	-	-	119,003
Weak	6,462	7,770	-	-	14,232
Defaulted	-	-	4,248	1,604	5,852
Gross loans and advances at amortised cost	432,279	48,207	4,248	1,604	486,338
Allowance for ECL	(746)	(1,181)	(361)	(633)	(2,921)
Net loans and advances at amortised cost	431,533	47,026	3,887	971	483,417
Coverage ratio	0.17%	2.45%	8.50%	39.46%	0.60%
Loans and advances at fair value through profit or loss					797
Unearned income					(144)
Capitalised brokerage/mortgage origination fees					585
Net carrying amount					484,655

NOTES TO THE FINANCIAL STATEMENTS (continued)

15. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK (continued)

Investment securities - debt securities at amortised cost

	2020				
			Stage 3		
	Stage 1 $m	Stage 2 $m	Collectively assessed $m	Individually assessed $m	Total $m
Strong	5,271	-	-	-	5,271
Satisfactory	84	-	-	-	84
Weak	-	-	-	-	-
Defaulted	-	-	-	-	-
Gross investment securities - debt securities at amortised cost	5,355	-	-	-	5,355
Allowance for ECL	(1)	-	-	-	(1)
Net investment securities - debt securities at amortised cost	5,354	-	-	-	5,354
Coverage ratio	0.02%	-	-	-	0.02%

	2019				
			Stage 3		
	Stage 1 $m	Stage 2 $m	Collectively assessed $m	Individually assessed $m	Total $m
Strong	4,714	-	-	-	4,714
Satisfactory	74	-	-	-	74
Weak	-	-	-	-	-
Defaulted	-	-	-	-	-
Gross investment securities - debt securities at amortised cost	4,788	-	-	-	4,788
Allowance for ECL	(1)	-	-	-	(1)
Net investment securities - debt securities at amortised cost	4,787	-	-	-	4,787
Coverage ratio	0.02%	-	-	-	0.02%

15. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK (continued)

Investment securities - debt securities at FVOCI

	2020				
			Stage 3		
	Stage 1	Stage 2	Collectively assessed	Individually assessed	Total
	$m	$m	$m	$m	$m
Strong	73,936	-	-	-	73,936
Satisfactory	-	-	-	-	-
Weak	-	-	-	-	-
Defaulted	-	-	-	-	-
Investment securities - debt securities at FVOCI	73,936	-	-	-	73,936
Allowance for ECL recognised in other comprehensive income	(7)	-	-	-	(7)
Coverage ratio	0.01%	-	-	-	0.01%

	2019				
			Stage 3		
	Stage 1	Stage 2	Collectively assessed	Individually assessed	Total
	$m	$m	$m	$m	$m
Strong	67,400	-	-	-	67,400
Satisfactory	-	-	-	-	-
Weak	-	-	-	-	-
Defaulted	-	-	-	-	-
Investment securities - debt securities at FVOCI	67,400	-	-	-	67,400
Allowance for ECL recognised in other comprehensive income	(5)	-	-	-	(5)
Coverage ratio	0.01%	-	-	-	0.01%

NOTES TO THE FINANCIAL STATEMENTS (continued)

15. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK (continued)

Other financial assets

	2020 $m	2019 $m
Strong	365,532	317,051
Satisfactory	9,724	9,138
Weak	577	382
Defaulted	1	-
Total carrying amount	375,834	326,571

Off-balance sheet commitments - undrawn and contingent facilities

2020	Stage 1 $m	Stage 2 $m	Stage 3 Collectively assessed $m	Stage 3 Individually assessed $m	Total $m
Strong	159,158	2,984	-	-	162,142
Satisfactory	18,874	2,944	-	-	21,818
Weak	1,107	915	-	-	2,022
Defaulted	-	-	102	165	267
Gross undrawn and contingent facilities subject to ECL	179,139	6,843	102	165	186,249
Allowance for ECL included in Provisions	(513)	(183)	(15)	(20)	(731)
Net undrawn and contingent facilities subject to ECL	178,626	6,660	87	145	185,518
Coverage ratio	0.29%	2.67%	14.71%	12.12%	0.39%
Undrawn and contingent facilities not subject to ECL[1]					41,196
Net undrawn and contingent facilities					226,714

2019	Stage 1 $m	Stage 2 $m	Stage 3 Collectively assessed $m	Stage 3 Individually assessed $m	Total $m
Strong	139,051	1,816	-	-	140,867
Satisfactory	19,546	2,923	-	-	22,469
Weak	271	793	-	-	1,064
Defaulted	-	-	96	38	134
Gross undrawn and contingent facilities subject to ECL	158,868	5,532	96	38	164,534
Allowance for ECL included in Provisions	(405)	(126)	(14)	(12)	(557)
Net undrawn and contingent facilities subject to ECL	158,463	5,406	82	26	163,977
Coverage ratio	0.25%	2.28%	14.58%	31.58%	0.34%
Undrawn and contingent facilities not subject to ECL[1]					47,819
Net undrawn and contingent facilities					211,796

1. Commitments that can be unconditionally cancelled at any time without notice.

15. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK (continued)

CONCENTRATIONS OF CREDIT RISK

Credit risk becomes concentrated when a number of customers are engaged in similar activities, have similar economic characteristics, or have similar activities within the same geographic region – therefore, they may be similarly affected by changes in economic or other conditions. The Company monitors its credit portfolio to manage risk concentration and rebalance the portfolio. The Company also applies single customer counterparty limits to protect against unacceptably large exposures to one single customer.

Composition of financial instruments that give rise to credit risk by industry group are presented below:

	Loans and advances		Other financial assets		Off-balance sheet credit related commitments		Total	
	2020 $m	2019 $m	2020 $m	2019 $m	2020 $m	2019 $m	2020 $m	2019 $m
Agriculture, forestry, fishing and mining	**19,555**	20,163	**946**	860	**15,837**	16,117	**36,338**	37,140
Business services	**7,544**	7,063	**105**	112	**5,747**	6,075	**13,396**	13,250
Construction	**4,649**	4,859	**19**	33	**5,331**	5,140	**9,999**	10,032
Electricity, gas and water supply	**4,842**	5,293	**1,843**	1,543	**6,841**	5,226	**13,526**	12,062
Entertainment, leisure and tourism	**11,477**	11,170	**560**	652	**3,522**	2,877	**15,559**	14,699
Financial, investment and insurance	**49,254**	52,333	**364,478**	321,569	**44,678**	39,107	**458,410**	413,009
Government and official institutions	**3,347**	2,002	**75,554**	62,886	**1,224**	1,637	**80,125**	66,525
Manufacturing	**21,452**	19,338	**1,661**	2,196	**33,716**	36,319	**56,829**	57,853
Personal lending	**279,899**	274,357	**697**	1,072	**49,421**	42,246	**330,017**	317,675
Property services	**37,605**	34,196	**1,024**	1,009	**14,526**	15,126	**53,155**	50,331
Retail trade	**9,023**	10,771	**164**	131	**7,279**	5,737	**16,466**	16,639
Transport and storage	**11,599**	11,955	**1,016**	966	**7,412**	6,844	**20,027**	19,765
Wholesale trade	**9,973**	12,665	**2,237**	2,784	**17,151**	16,347	**29,361**	31,796
Other	**21,449**	20,970	**4,821**	2,946	**14,760**	13,555	**41,030**	37,471
Gross total	**491,668**	487,135	**455,125**	398,759	**227,445**	212,353	**1,174,238**	1,098,247
Provision for credit impairment	**(4,219)**	(2,921)	**(1)**	(1)	**(731)**	(557)	**(4,951)**	(3,479)
Subtotal	**487,449**	484,214	**455,124**	398,758	**226,714**	211,796	**1,169,287**	1,094,768
Unearned income	**(19)**	(144)	**-**	-	**-**	-	**(19)**	(144)
Capitalised brokerage/mortgage origination fees	**572**	585	**-**	-	**-**	-	**572**	585
Maximum exposure to credit risk	**488,002**	484,655	**455,124**	398,758	**226,714**	211,796	**1,169,840**	1,095,209

NOTES TO THE FINANCIAL STATEMENTS (continued)

15. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK (continued)

COLLATERAL MANAGEMENT

We use collateral for on and off-balance sheet exposures to mitigate credit risk if a counterparty cannot meet its repayment obligations. Where there is sufficient collateral, an expected credit loss is not recognised. This is largely the case for certain lending products that are secured by corresponding investment for which the margin loans are utilised and for reverse repurchase agreements. For some products, the collateral provided by customers is fundamental to the product's structuring, so it is not strictly the secondary source of repayment - for example, lending secured by trade receivables is typically repaid by the collection of those receivables. During the period there was no change in our collateral policies.

The nature of collateral or security held for the relevant classes of financial assets is as follows:

Net loans and advances	
Loans - housing and personal	Housing loans are secured by mortgage(s) over property and additional security may take the form of guarantees and deposits. Personal lending (including credit cards and overdrafts) is predominantly unsecured. If we take security, then it is restricted to eligible vehicles, motor homes and other assets.
Loans - business	Business loans may be secured, partially secured or unsecured. Typically, we take security by way of a mortgage over property and/or a charge over the business or other assets. If appropriate, we may take other security to mitigate the credit risk, for example: guarantees, standby letters of credit or derivative protection.
Other financial assets	
Trading securities, Investment securities, Derivatives and Other financial assets	For trading securities, we do not seek collateral directly from the issuer or counterparty. However, the collateral may be implicit in the terms of the instrument (for example, with an asset-backed security). The terms of debt securities may include collateralisation. For derivatives, we typically terminate all contracts with the counterparty and settle on a net basis at market levels current at the time of a counterparty default under International Swaps and Derivatives Association (ISDA) Master Agreements. Our preferred practice is to use a Credit Support Annex (CSA) to the ISDA so that open derivative positions with the counterparty are aggregated and cash collateral (or other forms of eligible collateral) is exchanged daily. The collateral is provided by the counterparty when their position is out of the money (or provided to the counterparty by the Company when our position is out of the money).
Off-balance sheet positions	
Undrawn and contingent facilities.	Collateral for off-balance sheet positions is mainly held against undrawn facilities, and they are typically performance bonds or guarantees. Undrawn facilities that are secured include housing loans secured by mortgages over residential property and business lending secured by commercial real estate and/or charges over business assets.

The table below shows the estimated value of collateral we hold and the net unsecured portion of credit exposures:

	Credit exposure		Total value of collateral		Unsecured portion of credit exposure	
	2020 $m	2019 $m	2020 $m	2019 $m	2020 $m	2019 $m
Net loans and advances	488,002	484,655	393,548	374,041	94,454	110,614
Other financial assets	455,124	398,758	42,000	29,998	413,124	368,760
Off-balance sheet positions	226,714	211,796	36,372	33,984	190,342	177,812
Total	1,169,840	1,095,209	471,920	438,023	697,920	657,186

15. FINANCIAL RISK MANAGEMENT (continued)

MARKET RISK

MARKET RISK OVERVIEW, MANAGEMENT AND CONTROL RESPONSIBILITIES

Market risk stems from the Company's trading and balance sheet management activities, the impact of changes and correlation between interest rates, foreign exchange rates, credit spreads and volatility in bond, commodity or equity prices.

The BRC delegates responsibility for day-to-day management of both market risks and compliance with market risk policies to the Credit & Market Risk Committee (CMRC) and the Group Asset & Liability Committee (GALCO).

Within overall strategies and policies established by the BRC, business units and risk management have joint responsibility for the control of market risk at the Company level. The Market Risk team (a specialist risk management unit independent of the business) allocates market risk limits at various levels and monitors and reports on them daily. This detailed framework allocates individual limits to manage and control exposures using risk factors and profit and loss limits.

Management, measurement and reporting of market risk is undertaken in two broad categories:

Traded Market Risk	Non-Traded Market Risk
Risk of loss from changes in the value of financial instruments due to movements in price factors for both physical and derivative trading positions. Principal risk categories monitored are: 1. Currency risk – potential loss arising from changes in foreign exchange rates or their implied volatilities. 2. Interest rate risk – potential loss from changes in market interest rates or their implied volatilities. 3. Credit spread risk – potential loss arising from a movement in margin or spread relative to a benchmark. 4. Commodity risk – potential loss arising from changes in commodity prices or their implied volatilities. 5. Equity risk – potential loss arising from changes in equity prices.	Risk of loss associated with the management of non-traded interest rate risk, liquidity risk and foreign exchange exposures. This includes interest rate risk in the banking book. This risk of loss arises from adverse changes in the overall and relative level of interest rates for different tenors, differences in the actual versus expected net interest margin, and the potential valuation risk associated with embedded options in financial instruments and bank products.

MEASUREMENT OF MARKET RISK

We primarily manage and control market risk using Value at Risk (VaR), sensitivity analysis and stress testing.

VaR gauges the Company's possible daily loss based on historical market movements.

The Company's VaR approach for both traded and non-traded risk is historical simulation. We use historical changes in market rates, prices and volatilities over:

- the previous 500 business days, to calculate standard VaR; and
- a 1-year stressed period, to calculate stressed VaR.

We calculate traded and non-traded VaR using one-day and ten-day holding periods. For stressed VaR, we use a ten-day period. Back testing is used to ensure our VaR models remain accurate.

The Company measures VaR at a 99% confidence interval which means there is a 99% chance that a loss will not exceed the VaR for the relevant holding period.

NOTES TO THE FINANCIAL STATEMENTS (continued)

15. FINANCIAL RISK MANAGEMENT (continued)

MARKET RISK (continued)

TRADED AND NON-TRADED MARKET RISK

Traded market risk

The table below shows the traded market risk VaR on a diversified basis by risk categories:

	30 September 2020				30 September 2019			
	As at $m	High for year $m	Low for year $m	Average for year $m	As at $m	High for year $m	Low for year $m	Average for year $m
Traded value at risk 99% confidence								
Foreign exchange	2.0	5.6	1.0	2.8	1.3	9.0	1.2	3.6
Interest rate	7.2	10.6	2.9	5.8	2.8	9.5	2.8	5.3
Credit	13.6	16.9	1.6	8.2	4.8	4.8	1.1	2.8
Commodity	2.7	4.3	1.3	2.2	1.5	4.0	1.1	1.8
Equity	-	-	-	-	-	-	-	-
Diversification benefit[1]	(10.5)	n/a	n/a	(7.9)	(4.9)	n/a	n/a	(5.9)
Total VaR	15.0	24.5	5.3	11.1	5.5	13.1	5.3	7.6

1. The diversification benefit reflects the historical correlation between the regions. The high and low VaR figures reported for the region did not necessarily occur on the same day as the high and low VaR reported for the Company as a whole. Consequently, a diversification benefit for high and low would not be meaningful and is therefore omitted from the table.

Non-traded market risk

Balance sheet risk management

The principal objectives of balance sheet risk management are to maintain acceptable levels of interest rate and liquidity risk to mitigate the negative impact of movements in interest rates on the earnings and market value of the Company's banking book, while ensuring the Company maintains sufficient liquidity to meet its obligations as they fall due.

Interest rate risk management

Non-traded interest rate risk relates to the potential adverse impact of changes in market interest rates on the Company's future net interest income. This risk arises from two principal sources, namely mismatches between the repricing dates of interest bearing assets and liabilities; and the investment of capital and other non-interest bearing liabilities and assets. Interest rate risk is reported using VaR and scenario analysis (based on the impact of a 1% rate shock). The table below shows VaR figures for non-traded interest rate risk for the combined Company as well as Australia, New Zealand and Asia Pacific, Europe and Americas (APEA) geographies which are calculated separately.

	30 September 2020				30 September 2019			
	As at $m	High for year $m	Low for year $m	Average for year $m	As at $m	High for year $m	Low for year $m	Average for year $m
Non-traded value at risk 99% confidence								
Australia	60.8	60.8	18.8	33.4	22.7	22.7	16.4	18.9
New Zealand	0.0	0.1	0.0	0.0	0.0	0.1	0.0	0.0
Asia Pacific, Europe & America	28.5	30.9	17.7	24.1	17.6	17.6	12.7	16.1
Diversification benefit[1]	(43.3)	n/a	n/a	(21.4)	(10.7)	n/a	n/a	(11.0)
Total VaR	46.0	47.6	25.5	36.1	29.6	29.6	21.2	24.0

1. The diversification benefit reflects the historical correlation between the regions. The high and low VaR figures reported for the region did not necessarily occur on the same day as the high and low VaR reported for the Company as a whole. Consequently, a diversification benefit for high and low would not be meaningful and is therefore omitted from the table.

15. FINANCIAL RISK MANAGEMENT (continued)

MARKET RISK (continued)

We undertake scenario analysis to stress test the impact of extreme events on the Company's market risk exposures. We model a 1% overnight parallel positive shift in the yield curve to determine the potential impact on our net interest income over the next 12 months. This is a standard risk measure which assumes the parallel shift is reflected in all wholesale and customer rates.

The table below shows the outcome of this risk measure for the current and previous financial years, expressed as a percentage of reported net interest income. A positive number signifies that a rate increase is positive for net interest income over the next 12 months.

	2020	2019[1]
Impact of 1% rate shock		
As at period end	0.78%	1.01%
Maximum exposure	1.78%	1.01%
Minimum exposure	0.06%	0.02%
Average exposure (in absolute terms)	0.78%	0.42%

1. Prior period numbers have been restated to reflect IRR model enhancements

EQUITY SECURITIES DESIGNATED AT FVOCI

Our investment securities contain equity investment holdings which predominantly comprise investments we hold for longer-term strategic reasons. The market risk impact on these equity investments is not captured by the Company's VaR processes for traded and non-traded market risks. Therefore, the Company regularly reviews the valuations of the investments within the portfolio and assesses whether the investments are impaired based on the recognition and measurement policies set out in Note 10 Investment securities.

FOREIGN CURRENCY RISK – STRUCTURAL EXPOSURES

Our investment of capital in foreign operations — for example, branches, subsidiaries or associates with functional currencies other than the Australian Dollar — exposes the Company to the risk of changes in foreign exchange rates. Variations in the value of these foreign operations arising as a result of exchange differences are reflected in the foreign currency translation reserve in equity.

Where it is considered appropriate, the Company takes out economic hedges against larger foreign exchange denominated revenue streams (primarily New Zealand Dollar, US dollar and US dollar correlated). The primary objective of hedging is to ensure that, if practical, the effect of changes in foreign exchange rates on the consolidated capital ratios are minimised.

LIQUIDITY AND FUNDING RISK

LIQUIDITY RISK AND FUNDING POSITION

For information related to the liquidity risk and funding position refer to the ANZ 2020 Group Annual Report (Note 16 Financial Risk Management), available at https://www.anz.com/shareholder/centre/reporting/annual-report-annual-review/.

RESIDUAL CONTRACTUAL MATURITY ANALYSIS OF THE COMPANY'S LIABILITIES

The table below provides residual contractual maturity analysis of financial liabilities at 30 September within relevant maturity groupings. The table below excludes "Due to controlled entities" liabilities of $100.9 billion (2019: $89.7 billion) as the contractual maturity is linked to the repayment of underlying assets which are managed on a pool basis which is continuously reviewed. All outstanding Debt Issuance and Subordinated Debt is profiled on the earliest date on which the Company may be required to pay. All at-call liabilities are reported in the "Less than 3 months" category. Any other items without a specified maturity date are included in the "After 5 years" category. The amounts represent principal and interest cash flows - so they may differ from equivalent amounts reported on balance sheet. It should be noted that this is not how the Company manages its liquidity risk. The management of this risk is detailed in the ANZ 2020 Group Annual Report (Note 16 Financial Risk Management), available at https://www.anz.com/shareholder/centre/reporting/annual-report-annual-review/.

NOTES TO THE FINANCIAL STATEMENTS (continued)

15. FINANCIAL RISK MANAGEMENT (continued)

LIQUIDITY AND FUNDING RISK (continued)

2020	Less than 3 months $m	3 to 12 months $m	1 to 5 years $m	After 5 years $m	Total $m
Settlement balances owed by ANZ	19,556	-	-	-	19,556
Collateral received	8,074	-	-	-	8,074
Deposits and other borrowings	479,498	65,779	14,419	158	559,854
Liability for acceptances	224	-	-	-	224
Debt issuances[1]	4,627	21,483	64,102	12,775	102,987
Derivative liabilities (excluding those held for balance sheet management)[2]	124,027				124,027
Lease liabilities[3]	66	234	855	1,114	2,269
Derivative assets and liabilities (balance sheet management)[4]					
- Funding					
Receive leg	(8,430)	(14,025)	(51,487)	(13,620)	(87,562)
Pay leg	8,038	12,930	49,365	12,942	83,275
- Other balance sheet management					
Receive leg	(74,219)	(40,186)	(8,321)	(8,343)	(131,069)
Pay leg	74,097	39,327	8,048	7,029	128,501

2019	Less than 3 months $m	3 to 12 months $m	1 to 5 years $m	After 5 years $m	Total $m
Settlement balances owed by ANZ	9,313	29	-	-	9,342
Collateral received	7,005	-	-	-	7,005
Deposits and other borrowings	447,479	74,646	3,818	97	526,040
Liability for acceptances	293	-	-	-	293
Debt issuances[1]	7,579	13,958	79,370	13,207	114,114
Derivative liabilities (excluding those held for balance sheet management)[2]	108,457	-	-	-	108,457
Derivative assets and liabilities (balance sheet management)[4]					
- Funding					
Receive leg	(24,570)	(22,462)	(62,851)	(15,524)	(125,407)
Pay leg	23,832	20,392	58,629	14,668	117,521
- Other balance sheet management					
Receive leg	(84,339)	(24,538)	(8,350)	(1,583)	(118,810)
Pay leg	84,525	25,088	9,373	1,972	120,958

1. Any callable wholesale debt instruments have been included at their next call date. Balance includes subordinated debt instruments that may be settled in cash or in equity, at the option of the Company, and perpetual debt instruments after 5 years.
2. The full mark-to-market of derivative liabilities not held for balance sheet management purposes is included in the "less than 3 months" category.
3. On adoption of AASB 16 on 1 October 2019, the Company recognised a Lease liability of $2.1 billion presented within Payables and other liabilities. Comparative information has not been restated. Refer to Note 1 for further details.
4. Includes derivatives designated into hedging relationships of $3,202 million (2019: $2,927 million) and $4,001 million (2019: $5,956 million) categorised as held for trading but form part of the Company's balance sheet management.

At 30 September 2020 $191,300 million (2019: $171,881 million) of the Company's undrawn facilities and $36,146 million (2019: $40,472 million) of its issued guarantees mature in less than 1 year, based on the earliest date on which the Company may be required to pay.

16. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Company carries a significant number of financial instruments on the balance sheet at fair value. The fair value is the best estimate of the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date.

VALUATION

The Company has an established control framework, including appropriate segregation of duties, to ensure that fair values are accurately determined, reported and controlled. The framework includes the following features:

- products are approved for transacting with external customers and counterparties only where fair values can be appropriately determined;
- quoted market prices used to value financial instruments are independently verified with information from external pricing providers;
- fair value methodologies and inputs are evaluated and approved by a function independent of the party that undertakes the transaction;
- movements in fair values are independently monitored and explained by reference to underlying factors relevant to the fair value; and
- valuation adjustments (such as funding valuation adjustments, credit valuation adjustments and bid-offer adjustments) are independently validated and monitored.

If the Company holds offsetting risk positions, then the Company uses the portfolio exemption in AASB 13 *Fair Value Measurement* (AASB 13) to measure the fair value of such groups of financial assets and financial liabilities. We measure the portfolio based on the price that would be received to sell a net long position (an asset) for a particular risk exposure, or to transfer a net short position (a liability) for a particular risk exposure.

Fair value designation

We designate certain loans and advances and certain deposits and other borrowings and debt issuances as fair value through profit or loss:

- where they contain a separable embedded derivative which significantly modifies the instruments' cash flow; or
- in order to eliminate an accounting mismatch which would arise if the asset or liabilities were otherwise carried at amortised cost. This mismatch arises as we measure the derivative financial instruments (which we acquired to mitigate interest rate risk of the assets or liabilities) at fair value through profit or loss.

Our approach ensures that we recognise the fair value movements on the assets or liabilities in profit or loss in the same period as the movement on the associated derivatives.

We may also designate certain loans and advances and certain deposits and other borrowings and debt issuances as fair value through profit or loss where they are managed on a fair value basis to align the measurement with how the instruments are managed.

FAIR VALUE APPROACH AND VALUATION TECHNIQUES

We use valuation techniques to estimate the fair value of assets and liabilities for recognition, measurement and disclosure purposes where no quoted price in an active market exists for that asset or liability. This includes the following:

Asset or Liability	Fair Value Approach
Financial instruments classified as: - Trading securities - Securities sold short - Derivative financial assets and liabilities - Investment securities	Valuation techniques are used that incorporate observable market inputs for financial instruments with similar credit risk, maturity and yield characteristics. Equity instruments that are not traded in active markets may be measured using comparable company valuation multiples.
Financial instruments classified as: - Net loans and advances - Deposits and other borrowings - Debt issuances	Discounted cash flow techniques are used whereby contractual future cash flows of the instruments are discounted using wholesale market interest rates, or market borrowing rates for debt with similar maturities or yield curve appropriate for the remaining term to maturity.

NOTES TO THE FINANCIAL STATEMENTS (continued)

16. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The following tables set out the classification of financial asset and liability categories according to measurement bases together with their carrying amounts as reported on the balance sheet.

		2020			2019		
	Note	At amortised cost $m	At fair value $m	Total $m	At amortised cost $m	At fair value $m	Total $m
Financial assets							
Cash and cash equivalents	7	98,083	-	98,083	77,949	-	77,949
Settlement balances owed to ANZ		7,116	-	7,116	3,442	-	3,442
Collateral paid		13,012	-	13,012	13,461	-	13,461
Trading securities	8	-	38,423	38,423	-	34,217	34,217
Derivative financial assets and liabilities	9	-	130,552	130,552	-	116,544	116,544
Investment securities	10	5,354	74,930	80,284	4,787	68,568	73,355
Net loans and advances	11	483,986	4,016	488,002	483,858	797	484,655
Regulatory deposits		199	-	199	215	-	215
Due from controlled entities		98,726	1,928	100,654	86,907	1,967	88,874
Other financial assets		1,460	-	1,460	2,167	-	2,167
Total		707,936	249,849	957,785	672,786	222,093	894,879
Financial liabilities							
Settlement balances owed by ANZ		19,556	-	19,556	9,342	-	9,342
Collateral received		8,074	-	8,074	7,005	-	7,005
Deposits and other borrowings	13	556,676	1,460	558,136	524,220	21	524,241
Derivative financial instruments	9	-	131,230	131,230	-	117,340	117,340
Due to controlled entities		100,932	-	100,932	89,683	-	89,683
Payables and other liabilities		4,377	3,693	8,070	4,231	2,390	6,621
Debt issuances	14	92,832	4,218	97,050	100,199	4,647	104,846
Total		782,447	140,601	923,048	734,680	124,398	859,078

FAIR VALUE HIERARCHY

The Company categorises assets and liabilities carried at fair value into a fair value hierarchy as required by AASB 13 based on the observability of inputs used to measure the fair value:

- Level 1 - valuations based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - valuations using inputs other than quoted prices included within Level 1 that are observable for a similar asset or liability, either directly or indirectly; and
- Level 3 - valuations where significant unobservable inputs are used to measure the fair value of the asset or liability.

16. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

FAIR VALUE HIERARCHY (continued)

The following table presents assets and liabilities carried at fair value in accordance with the fair value hierarchy:

	Fair value measurements							
	Quoted price in active markets (Level 1)		Using observable inputs (Level 2)		Using unobservable inputs (Level 3)		Total	
	2020 $m	2019 $m	2020 $m	2019 $m	2020 $m	2019 $m	2020 $m	2019 $m
Assets								
Trading securities[1]	35,170	29,439	3,253	4,778	-	-	38,423	34,217
Derivative financial instruments	662	351	129,832	116,137	58	56	130,552	116,544
Investment securities[1]	73,838	67,182	105	228	987	1,158	74,930	68,568
Net loans and advances[2]	-	-	4,016	797	-	-	4,016	797
Due from controlled entities	-	-	1,928	1,967	-	-	1,928	1,967
Total	109,670	96,972	139,134	123,907	1,045	1,214	249,849	222,093
Liabilities								
Deposits and other borrowings[2]	-	-	1,460	21	-	-	1,460	21
Derivative financial instruments	1,109	868	130,066	116,421	55	51	131,230	117,340
Payables and other liabilities[3]	3,680	2,352	13	38	-	-	3,693	2,390
Debt issuances (designated at fair value)	996	1,009	3,222	3,638	-	-	4,218	4,647
Total	5,785	4,229	134,761	120,118	55	51	140,601	124,398

1. During the year, $127 million of assets were transferred from Level 2 to Level1 (2019: nil) following increased trading activity to support quoted prices. There were no other material transfers during the year. Transfers into and out of levels are measured at the beginning of the reporting period in which the transfer occurred.

2. From 1 October 2019, the Company changed its accounting treatment for certain gold loan and deposit products which are now designated as at fair value through profit and loss.

3. Payables and other liabilities relates to securities sold short, which we classify as held for trading and measured at fair value through profit or loss.

FAIR VALUE MEASUREMENT INCORPORATING UNOBSERVABLE MARKET DATA

Level 3 fair value measurements

The net balance of Level 3 is an asset of $990 million (2019: $1,163million). The assets and liabilities which incorporate significant unobservable inputs primarily include:

- equities for which there is no active market or traded prices cannot be observed;
- structured credit products for which credit spreads and default probabilities relating to the reference assets and derivative counterparties cannot be observed;
- other derivatives referencing market rates that cannot be observed primarily due to lack of market activity.

Movement in the Level 3 balance is mainly due to the revaluation of the Company's investment in Bank of Tianjin.

There were no other material transfers in or out of Level 3 during the period.

Bank of Tianjin (BoT)

The investment is valued based on comparative price-to-book (P/B) multiples (a P/B multiple is the ratio of the market value of equity to the book value of equity). The extent of judgement applied in determining the appropriate multiple and comparator group from which the multiple is derived are non-observable inputs which have resulted in the Level 3 classification.

NOTES TO THE FINANCIAL STATEMENTS (continued)

16. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

FAIR VALUE MEASUREMENT INCORPORATING UNOBSERVABLE MARKET DATA (continued)

Sensitivity to Level 3 data inputs

When we make assumptions due to significant inputs not being directly observable in the market place (Level 3 inputs), then changing these assumptions changes the Company's estimate of the instrument's fair value. Favourable and unfavourable changes are determined by changing the primary unobservable parameter used to derive the valuation.

Bank of Tianjin (BoT)

The valuation of the BoT investment is sensitive to the selected unobservable input, being the P/B multiple. If the P/B multiple was increased or decreased by 10% it would result in a $93 million (Sep 19: $111 million) increase or decrease to the fair value of the investment, which would be recognised in shareholders' equity.

Other

The remaining Level 3 balance is immaterial and changes in the Level 3 inputs have a minimal impact on net profit and net assets of the Company.

Deferred fair value gains and losses

Where fair values are determined using unobservable inputs, the Company does not immediately recognise the difference between the transaction price and the amount we determine based on the valuation technique (day one gain or loss) in profit or loss. After initial recognition, we recognise the deferred amount in profit or loss on a straight line basis over the life of the transaction or until all inputs become observable.

The day one gains and losses deferred are not material.

FINANCIAL ASSETS AND FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE

The following table sets out the Company's basis of estimating fair values of financial instruments carried at amortised cost:

Financial Asset and Liability	Fair Value Approach
Investment securities – debt securities at amortised cost	Calculated based on quoted market prices or observable inputs as applicable. If quoted market prices are not available, we use a discounted cash flow model using a yield curve appropriate for the remaining term to maturity of the debt instrument. The fair value reflects adjustments to credit spreads applicable for that instrument.
Net loans and advances to banks	Discounted cash flows using prevailing market rates for loans with similar credit quality.
Net loans and advances to customers	Present value of future cash flows, discounted using a curve that incorporates changes in wholesale market rates, the Company's cost of wholesale funding and the customer margin, as appropriate.
Deposit liability without a specified maturity or at call	The amount payable on demand at the reporting date. We do not adjust the fair value for any value we expect the Company to derive from retaining the deposit for a future period.
Interest bearing fixed maturity deposits and other borrowings and acceptances with quoted market rates	Market borrowing rates of interest for debt with a similar maturity are used to discount contractual cash flows to derive the fair value.
Debt issuances	Calculated based on quoted market prices or observable inputs as applicable. If quoted market prices are not available, we use a discounted cash flow model using a yield curve appropriate for the remaining term to maturity of the debt instrument. The fair value reflects adjustments to credit spreads applicable to the Company for that instrument.

16. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

FINANCIAL ASSETS AND FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE (continued)

The financial assets and financial liabilities listed in the table below are carried at amortised cost on the Company's balance sheet. While this is the value at which we expect the assets will be realised and the liabilities settled, the Company provides an estimate of the fair value of the financial assets and financial liabilities at balance date in the table below.

	At amortised cost		Categorised into fair value hierarchy						Fair value (total)	
			Quoted price in active markets (Level 1)		Using observable inputs (Level 2)		With significant non-observable inputs (Level 3)			
	2020 $m	2019 $m	2020 $m	2019 $m	2020 $m	2019 $m	2020 $m	2019 $m	2020 $m	2019 $m
Financial assets										
Net loans and advances	**483,986**	483,858	**-**	-	**16,056**	21,425	**468,367**	462,909	**484,423**	484,334
Investment securities	**5,354**	4,787	**-**	-	**5,352**	4,790	**-**	-	**5,352**	4,790
Due from controlled entities	**98,726**	86,907	**-**	-	**-**	-	**98,726**	86,907	**98,726**	86,907
Total	**588,066**	575,552	**-**	-	**21,408**	26,215	**567,093**	549,816	**588,501**	576,031
Financial liabilities										
Deposits and other borrowings	**556,676**	524,220	**-**	-	**556,805**	524,383		-	**556,805**	524,383
Debt issuances	**92,832**	100,199	**23,214**	39,620	**71,133**	61,832	**-**	-	**94,347**	101,452
Due to controlled entities	**100,932**	89,683		-	**-**	-	**100,932**	89,683	**100,932**	89,683
Total	**750,440**	714,102	**23,214**	39,620	**627,938**	586,215	**100,932**	89,683	**752,084**	715,518

KEY JUDGEMENTS AND ESTIMATES

The Company evaluates the material accuracy of the valuations incorporated in the financial statements as they can involve a high degree of judgement and estimation in determining the carrying values of financial assets and liabilities at the balance sheet date.

The majority of valuation models the Company uses employ only observable market data as inputs. This has not changed as a result of COVID-19, however the Company has considered the impact of related economic and market disruptions on fair value measurement assumptions and the appropriateness of valuation inputs, notably valuation adjustments, as well as the impact of COVID-19 on the classification of exposures in the fair value hierarchy.

However, for certain financial instruments, we may use data that is not readily observable in current markets. If we use unobservable market data, then we need to exercise more judgement to determine fair value depending on the significance of the unobservable input to the overall valuation. Generally, we derive unobservable inputs from other relevant market data and compare them to observed transaction prices where available.

When establishing the fair value of a financial instrument using a valuation technique, the Company considers valuation adjustments in determining the fair value. We may apply adjustments (such as bid/offer spreads, credit valuation adjustments and funding valuation adjustments – refer Note 9 Derivative Financial Instruments) to reflect the Company's assessment of factors that market participants would consider in setting fair value.

NOTES TO THE FINANCIAL STATEMENTS (continued)

17. ASSETS CHARGED AS SECURITY FOR LIABILITIES AND COLLATERAL ACCEPTED AS SECURITY FOR ASSETS

The following disclosure excludes the amounts presented as collateral paid and received in the Balance Sheet that relate to derivative liabilities and derivative assets respectively. The terms and conditions of those collateral agreements are included in the standard Credit Support Annex that forms part of the International Swaps and Derivatives Association Master Agreement.

ASSETS CHARGED AS SECURITY FOR LIABILITIES

Assets charged as security for liabilities include the following types of instruments:

- Securities provided as collateral for repurchase transactions. These transactions are governed by standard industry agreements;
- Specified residential mortgages provided as security for notes and bonds issued to investors as part of the Company's covered bond programs;
- Collateral provided to central banks; and
- Collateral provided to clearing houses.

The carrying amount of assets pledged as security are as follows:

	2020 $m	2019 $m
Securities sold under arrangements to repurchase[1]	60,612	42,640
Residential mortgages provided as security for covered bonds	17,937	20,052
Other	4,921	4,421

1. The amounts disclosed as securities sold under arrangements to repurchase include both:
   - assets pledged as security which continue to be recognised on the Company's balance sheet; and
   - assets repledged, which are included in the disclosure below.

COLLATERAL ACCEPTED AS SECURITY FOR ASSETS

The Company has received collateral associated with various financial instruments. Under certain transactions the Company has the right to sell, or to repledge, the collateral received. These transactions are governed by standard industry agreements.

The fair value of collateral we have received and that which we have sold or repledged is as follows:

	2020 $m	2019 $m
Fair value of assets which can be sold or repledged	53,118	37,526
Fair value of assets sold or repledged	32,308	29,384

18. OFFSETTING

We offset financial assets and financial liabilities on the balance sheet (in accordance with AASB 132 *Financial Instruments: Presentation*) when there is:

- a current legally enforceable right to set off the recognised amounts in all circumstances; and
- an intention to settle the asset and liability on a net basis, or to realise the asset and settle the liability simultaneously.

If the above conditions are not met, the financial assets and liabilities are presented on a gross basis.

The Company does not have any arrangements that satisfy the conditions necessary to offset financial assets and financial liabilities within the balance sheet. The following table identifies financial assets and financial liabilities which have not been offset but are subject to enforceable master netting agreements (or similar arrangements) and the related amounts not offset in the balance sheet. We have not taken into account the effect of over-collateralisation.

			Amount subject to master netting agreement or similar			
2020	Total amounts recognised in the Balance Sheet $m	Amounts not subject to master netting agreement or similar $m	Total $m	Financial instruments $m	Financial collateral (received)/ pledged $m	Net amount $m
Derivative financial assets	130,552	(2,531)	128,021	(117,039)	(5,625)	5,357
Reverse repurchase, securities borrowing and similar agreements[1]	52,322	(4,810)	47,512	(1,566)	(45,946)	-
Total financial assets	182,874	(7,341)	175,533	(118,605)	(51,571)	5,357
Derivative financial liabilities	(131,230)	1,567	(129,663)	117,039	9,402	(3,222)
Repurchase, securities borrowing and similar agreements[2]	(54,951)	13,589	(41,362)	1,566	39,796	-
Total financial liabilities	(186,181)	15,156	(171,025)	118,605	49,198	(3,222)

			Amount subject to master netting agreement or similar			
2019	Total amounts recognised in the Balance Sheet $m	Amounts not subject to master netting agreement or similar $m	Total $m	Financial instruments $m	Financial collateral (received)/ pledged $m	Net amount $m
Derivative financial assets	116,544	(2,323)	114,221	(102,761)	(6,232)	5,228
Reverse repurchase, securities borrowing and similar agreements[1]	36,648	(4,845)	31,803	(1,414)	(30,389)	-
Total financial assets	153,192	(7,168)	146,024	(104,175)	(36,621)	5,228
Derivative financial liabilities	(117,340)	1,648	(115,692)	102,761	9,803	(3,128)
Repurchase, securities borrowing and similar agreements[2]	(40,826)	17,240	(23,586)	1,414	22,172	-
Total financial liabilities	(158,166)	18,888	(139,278)	104,175	31,975	(3,128)

1. Reverse repurchase agreements:
   - with less than 90 days to maturity are presented on the Balance Sheet within cash and cash equivalents; or
   - with 90 days or more to maturity are presented on the Balance Sheet within net loans and advances.
2. Repurchase agreements are presented on the Balance Sheet within deposits and other borrowings.

NOTES TO THE FINANCIAL STATEMENTS (continued)

19. GOODWILL AND OTHER INTANGIBLE ASSETS

	Goodwill[1]		Software		Other Intangibles		Total	
	2020 $m	2019 $m	2020 $m	2019 $m	2020 $m	2019 $m	2020 $m	2019 $m
Balance at start of year	82	73	1,285	1,373	-	-	1,367	1,446
Additions	-	10	372	412	6	-	378	422
Amortisation expense[2]	-	-	(625)	(497)	(1)	-	(626)	(497)
Impairment expense[3]	(10)	-	(2)	(4)	-	-	(12)	(4)
Written off on disposal	(10)	-	-	-	-	-	(10)	-
Foreign currency exchange difference	-	(1)	-	1	-	-	-	-
Balance at end of year	62	82	1,030	1,285	5	-	1,097	1,367
Cost[4]	72	82	7,006	6,767	6	-	7,084	6,849
Accumulated amortisation/impairment	(10)	n/a	(5,976)	(5,482)	(1)	-	(5,987)	(5,482)
Carrying amount	62	82	1,030	1,285	5	-	1,097	1,367

1. Goodwill excludes notional goodwill in equity accounted investments.
2. During the second half of the 2020 financial year, the Company amended the application of its software amortisation policy. The Company recognised accelerated amortisation of $184 million.
3. During the September 2020 year, the Company recognised an impairment charge of $10 million to fully write off the goodwill relating to its business in the Pacific.
4. Includes impact of foreign currency translation differences.

RECOGNITION AND MEASUREMENT

The table below details how we recognise and measure different intangible assets:

	Goodwill	Software	Other Intangible Assets
Definition	Excess amount the Company has paid in acquiring a business over the fair value of the identifiable assets and liabilities acquired.	Purchases of "off the shelf" software assets are capitalised as assets. Internal and external costs incurred in building software and computer systems costing greater than $20 million are capitalised as assets. Those less than $20 million are expensed in the year in which the costs are incurred.	Intangible asset arising from contractual rights.
Carrying value	Cost less any accumulated impairment losses. Allocated to the cash generating unit to which the acquisition relates.	Initially, measured at cost. Subsequently, carried at cost less accumulated amortisation and impairment losses. Costs incurred in planning or evaluating software proposals or in maintaining systems after implementation are not capitalised.	Initially measured at fair value at acquisition. Subsequently carried at cost less accumulated amortisation and impairment losses.

19. GOODWILL AND OTHER INTANGIBLE ASSETS (continued)

RECOGNITION AND MEASUREMENT (continued)

	Goodwill	Software	Other Intangible Assets
Useful life	Indefinite. Goodwill is reviewed for impairment at least annually or when there is an indication of impairment.	Except for major core infrastructure, amortised over periods between 2-5 years; however major core infrastructure may be amortised up to 7 years subject to approval by the Audit Committee. Purchased software is amortised over 2 years unless it is considered integral to other assets with a longer useful life.	Useful life of 3 years.
Depreciation method	Not applicable.	Straight-line method.	Straight-line method.

KEY JUDGEMENTS AND ESTIMATES

Management judgement is used to assess the recoverable value of goodwill, and other intangible assets, and the useful economic life of an asset, or if an asset has an indefinite life. We reassess the recoverability of the carrying value at each reporting date.

At each reporting date, software and other intangible assets are assessed for indicators of impairment and, where such indicators are identified, an impairment assessment is performed. In the event that an asset's carrying amount is determined to be greater than its recoverable amount, the carrying value of the asset is written down immediately. Those assets not yet ready for use are tested for impairment annually.

In addition, the expected useful lives of intangible assets are assessed at each reporting date. The assessment requires management judgement, and in relation to our software assets, a number of factors can influence the expected useful lives. These factors include changes to business strategy, significant divestments and the underlying pace of technological change.

During the Financial year the Company amended the application of the software policy to reflect the shorter lives of various types of software, including regulatory and compliance focused assets and purchased assets. These changes better reflect the Company's rapidly changing technology and business needs and ongoing reinvestment in purchased and internally developed software to ensure assets remain fit for purpose.

NOTES TO THE FINANCIAL STATEMENTS (continued)

20. OTHER PROVISIONS

	2020 $m	2019 $m
ECL allowance on undrawn and contingent facilities[1]	731	557
Customer remediation	969	967
Restructuring costs	70	37
Non-lending losses, frauds and forgeries	57	63
Other	330	281
Total other provisions	2,157	1,905

1. Refer to Note 12 Allowance for Expected Credit Losses for movement analysis.

	Customer remediation $m	Restructuring costs $m	Non-lending losses, frauds and forgeries $m	Other $m
Balance as at 1 October 2018	556	94	75	113
New and increased provisions made during the year	608	46	1	308
Provisions used during the year	(150)	(91)	(5)	(40)
Unused amounts reversed during the year	(47)	(12)	(8)	(100)
Balance at 30 September 2019	967	37	63	281
New and increased provisions made during the year	673	105	5	376
Provisions used during the year	(303)	(65)	(8)	(191)
Unused amounts reversed during the year[1]	(368)	(7)	(3)	(136)
Balance at end of year	969	70	57	330

1. Customer remediation includes a $72 million transfer to the purchaser on completion of divestment of part of Wealth Australia discontinued operations.

Customer remediation

Customer remediation includes provisions for expected refunds to customers, remediation project costs and related customer and regulatory claims, penalties and litigation outcomes.

Restructuring costs

Provisions for restructuring costs arise from activities related to material changes in the scope of business undertaken by the Company or the manner in which that business is undertaken and include employee termination benefits. Costs relating to on-going activities are not provided for and are expensed as incurred.

Non-lending losses, frauds and forgeries

Non-lending losses include losses arising from certain legal actions not directly related to amounts of principal outstanding for loans and advances and losses arising from forgeries, frauds and the correction of operational issues. The amounts recognised are the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties that surround the events and circumstances that affect the provision.

Other

Other provisions comprise various other provisions including workers compensation, make-good provisions associated with leased premises and contingent liabilities recognised as part of a business combination.

20. OTHER PROVISIONS (continued)

RECOGNITION AND MEASUREMENT

The Company recognises provisions when there is a present obligation arising from a past event, an outflow of economic resources is probable, and the amount of the provision can be measured reliably.

The amount recognised is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the estimated cash flows required to settle the present obligation, its carrying amount is the present value of those cash flows.

KEY JUDGEMENTS AND ESTIMATES

The Company holds provisions for various obligations including customer remediation, restructuring costs and surplus lease space, non-lending losses, fraud and forgeries and litigation related claims. These provisions involve judgements regarding the timing and outcome of future events, including estimates of expenditure required to satisfy such obligations. Where relevant, expert legal advice has been obtained and, in light of such advice, provisions and/or disclosures as deemed appropriate have been made.

In relation to customer remediation, determining the amount of the provisions, which represent management's best estimate of the cost of settling the identified matters, requires the exercise of significant judgement. It will often be necessary to form a view on a number of different assumptions, including, the number of impacted customers, the average refund per customer, the associated remediation project costs, and the implications of regulatory exposures and customer claims having regard to their specific facts and circumstances. Consequently, the appropriateness of the underlying assumptions is reviewed on a regular basis against actual experience and other relevant evidence including expert legal advice and adjustments are made to the provisions where appropriate.

NOTES TO THE FINANCIAL STATEMENTS (continued)

21. SHAREHOLDERS' EQUITY

SHAREHOLDERS' EQUITY

	2020 $m	2019 $m
Ordinary share capital	26,454	26,413
Reserves:		
Foreign currency translation reserve	(131)	(21)
Share option reserve	85	89
FVOCI reserve	129	65
Cash flow hedge reserve	935	707
Total reserves	1,018	840
Retained earnings	25,800	25,961
Total shareholders' equity	53,272	53,214

ORDINARY SHARE CAPITAL

The table below details the movement in ordinary shares and share capital for the period.

	2020		2019	
	Number of shares	$m	Number of shares	$m
Balance at start of the year	2,834,584,923	26,413	2,873,618,118	27,533
Bonus option plan[1]	2,412,280	-	2,999,796	-
Dividend reinvestment plan[2]	3,373,022	61	-	-
Group employee share acquisition scheme	-	(20)	-	-
Share buy-back[3]	-	-	(42,032,991)	(1,120)
Balance at end of year	2,840,370,225	26,454	2,834,584,923	26,413

1. The Company issued 0.8 million shares under the Bonus Option Plan (BOP) for the 2020 interim dividend and 1.6 million shares for the 2019 final dividend (1.4 million shares for the 2019 interim dividend and 1.6 million shares for the 2018 final dividend).
2. 3.4 million shares were issued under the Dividend Reinvestment Plan (DRP) for the 2020 interim dividend (nil shares for the 2019 final dividend, nil shares for the 2019 interim dividend as the shares were purchased on-market and provided directly to shareholders participating in the DRP).
3. The Company completed a $3.0 billion on-market share buy-back of ANZ ordinary shares purchasing $1,120 million in the September 2019 full year resulting in 42.0 million ANZ ordinary shares being cancelled in the September 2019 full year.

21. SHAREHOLDERS' EQUITY (continued)

RECOGNITION AND MEASUREMENT

Ordinary shares	Ordinary shares have no par value. They entitle holders to receive dividends, or proceeds available on winding up of the Company, in proportion to the number of fully paid ordinary shares held. They are recognised at the amount paid per ordinary share net of directly attributable costs. Every holder of fully paid ordinary shares present at a meeting in person, or by proxy, is entitled to: • on a show of hands, one vote; and • on a poll, one vote, for each share held.
Treasury shares	Treasury shares are shares in the Company which: • the ANZ Employee Share Acquisition Plan purchases on market and have not yet distributed, or • the Company issues to the ANZ Employee Share Acquisition Plan and have not yet been distributed. Treasury shares are deducted from share capital and excluded from the weighted average number of ordinary shares used in the earnings per share calculations.
Reserves:	
Foreign currency translation reserve	Includes differences arising on translation of assets and liabilities into Australian dollars when the functional currency of a foreign operation (including subsidiaries and branches) is not Australian dollars. In this reserve, we reflect any offsetting gains or losses on hedging these exposures, together with any tax effect.
Cash flow hedge reserve	Includes fair value gains and losses associated with the effective portion of designated cash flow hedging instruments together with any tax effect.
FVOCI reserve	Includes changes in the fair value of certain debt securities and equity securities included within Investment Securities together with any tax effect. In respect of debt securities classified as measured at FVOCI, the FVOCI reserve records accumulated changes in fair value arising subsequent to initial recognition, except for those relating to allowance for expected credit losses, interest income and foreign currency exchange gains and losses which are recognised in profit or loss. As debt securities at FVOCI are recorded at fair value, the balance of the FVOCI reserve is net of the ECL allowance associated with such assets. When a debt security measured at FVOCI is derecognised, the cumulative gain or loss recognised in the FVOCI reserve in respect of that security is reclassified to profit or loss and presented in Other operating income. In respect of the equity securities classified as measured at FVOCI, the FVOCI reserve records accumulated changes in fair value arising subsequent to initial recognition (including any related foreign exchange gains or losses). When an equity security measured at FVOCI is derecognised, the cumulative gain or loss recognised in the FVOCI reserve in respect of that security is not recycled to profit or loss.
Share option reserve	Includes amounts which arise on the recognition of share-based compensation expense.

NOTES TO THE FINANCIAL STATEMENTS (continued)

22. CAPITAL MANAGEMENT

CAPITAL MANAGEMENT STRATEGY

ANZ's capital management strategy aims to protect the interests of depositors, creditors and shareholders. We achieve this through an Internal Capital Adequacy Assessment Process (ICAAP) whereby ANZ conducts detailed strategic and capital planning over a 3 year time horizon. The process involves:

- forecasting economic variables, financial performance of ANZ's divisions and the financial impact of new strategic initiatives to be implemented during the planning period;
- performing stress tests under different economic scenarios to determine the level of additional capital ('stress capital buffer') needed to absorb losses that may be experienced under an economic downturn;
- reviewing capital ratios and targets across various classes of capital against ANZ's risk profile; and
- developing a capital plan, taking into account capital ratio targets, current and future capital issuances requirements and options around capital products, timing and markets to execute the capital plan under differing market and economic conditions.

The capital plan is approved by the Board and updated as required. The Board and senior management are provided with regular updates of ANZ's capital position. Any material actions required to ensure ongoing prudent capital management are submitted to the Board for approval. Throughout the year, ANZ maintained compliance with all the regulatory requirements related to Capital Adequacy in the jurisdictions in which it operates.

REGULATORY ENVIRONMENT

As ANZ is an Authorised Deposit-taking Institution (ADI) in Australia, it is regulated by APRA under the *Banking Act 1959 (Cth)*. ANZ must comply with the minimum regulatory capital requirements, prudential capital ratios and specific reporting levels that APRA sets and which are consistent with the global Basel III capital framework. This is the common framework for determining the appropriate level of bank regulatory capital as set by the Basel Committee on Banking Supervision (BCBS).

For reporting purposes as part of the ANZ 2020 Annual Report, Capital Adequacy Ratios are presented for the Level 2 ADI and are not presented for the Company as a standalone entity. Refer to Note 23 Capital Management in the ANZ 2020 Group Annual Report for details of the Capital Adequacy Ratios, which can be found at https://www.anz.com/shareholder/centre/reporting/annual-report-annual-review/.

23. SHARES IN CONTROLLED ENTITIES

	Incorporated in	Nature of business	2020 $m	2019 $m
ACN 003 042 082 Ltd (in liquidation)	Australia	Holding Company	-	5
ANZ (Lao) Sole Company Ltd	Laos	Finance	26	26
ANZ Bank (Vietnam) Ltd	Vietnam	Banking	205	205
ANZ Capel Court Ltd	Australia	Securitisation Manager	18	18
ANZ Centre Chattels Trust	Australia	Property	167	167
ANZ Centre Trust	Australia	Property	550	550
ANZ Funds Pty Ltd	Australia	Holding Company	11,862	11,870
ANZ Lenders Mortgage Insurance Pty Ltd	Australia	Mortgage Insurance	398	398
ANZ Properties (Australia) Pty Ltd	Australia	Property	7	7
ANZ Rewards No.2 Pty Ltd	Australia	Credit Card Loyalty Program	40	40
ANZ Securities (Holdings) Pty Ltd	Australia	Holding Company	39	39
ANZ Support Services India Private Ltd	India	IT Services	25	25
ANZ Wealth Australia Ltd[1]	Australia	Holding Company	37	538
ANZi Holdings Pty Ltd	Australia	Holding Company	132	56
Australia and New Zealand Bank (China) Company Ltd	China	Banking	1,121	1,121
Australia and New Zealand Banking Group (PNG) Ltd	Papua New Guinea	Banking	40	40
Chongqing Liangping ANZ Rural Bank Company Ltd	China	Banking	-	5
Citizens Bancorp[2]	Guam	Holding Company	41	41
E S & A Holdings Pty Ltd	Australia	Non-operating	43	43
Esanda Finance Corporation Ltd	Australia	Non-operating	5	5
Looking Together Pty Ltd	Australia	Non-operating	-	6
PT Bank ANZ Indonesia (99% ownership)	Indonesia	Banking	262	262
Share Investing Ltd	Australia	Trustee	4	-
Shares in controlled entities			15,022	15,467

1. ANZ Wealth Australia Ltd returned $501 million of capital following the sale of its OnePath funds management business in January 2020.
2. Comparative amount has been updated to reclassify $17 million previously classified as ANZ Guam, Inc.

RECOGNITION AND MEASUREMENT

The Company's subsidiaries are those entities it controls through being exposed to, or having rights to, variable returns from the entity and being able to affect those returns through its power over the entity. The Company assesses whether it has power over those entities by examining the Company's existing rights to direct the relevant activities of the entity. Investments in controlled entities are carried at cost less any accumulated impairment losses.

At least at each reporting date, the Company reviews investments in controlled entities for any indication of impairment. If an indication of impairment exists, then the Company determines the recoverable amount of the controlled entity using the higher of:

- the controlled entity's fair value less cost of disposal; and
- its value-in-use.

We use a discounted cash flow methodology, and other methodologies (such as capitalisation of earnings methodology), to determine the recoverable amount.

NOTES TO THE FINANCIAL STATEMENTS (continued)

24. TRANSFERS OF FINANCIAL ASSETS

In the normal course of business, the Company enters into transactions where it transfers financial assets directly to third parties or to Structured Entities (SEs). These transfers may give rise to the Company fully, or partially derecognising those financial assets depending on the Company's exposure to the risks and rewards or control over the transferred assets. If the Company retains substantially all of the risk and rewards of a transferred asset, the transfer does not qualify for derecognition and the asset remains on the Company's balance sheet in its entirety.

SECURITISATIONS

Net loans and advances include residential mortgages securitised under the Company's securitisation programs which are assigned to bankruptcy remote SEs to provide security for obligations payable on the notes issued by the SEs. The holders of the issued notes have full recourse to the pool of residential mortgages which have been securitised and the Company cannot otherwise pledge or dispose of the transferred assets.

In some instances, the Company is also the holder of the securitised notes. In addition, the Company is entitled to any residual income of the SEs and sometimes enters into derivatives with the SEs. The Company retains the risks and rewards of the residential mortgages and continues to recognise the mortgages as financial assets. The obligation to pay this amount to the SE is recognised as a financial liability of the Company.

The Company is exposed to variable returns from its involvement with these securitisation SEs and has the ability to affect those returns through its power over the SEs activities. The SEs are therefore consolidated by the Company when preparing consolidated Group financial statements.

COVERED BONDS

The Company operates various global covered bond programs to raise funding in its primary markets. Net loans and advances include residential mortgages assigned to bankruptcy remote SEs associated with these covered bond programs. The mortgages provide security for the obligations payable on the issued covered bonds.

The covered bond holders have dual recourse to the issuer and the cover pool of assets. The issuer cannot otherwise pledge or dispose of the transferred assets, however, subject to legal arrangements it may repurchase and substitute assets as long as the required cover is maintained.

The Company is required to maintain the cover pool at a level sufficient to cover the bond obligations. In addition, the Company is entitled to any residual income of the covered bond SEs and enters into derivatives with the SEs. The Company retains the majority of the risks and rewards of the residential mortgages and continues to recognise the mortgages as financial assets. The obligation to pay this amount to the SEs is recognised as a financial liability of the Company.

The Company is exposed to variable returns from its involvement with the covered bond SEs and has the ability to affect those returns through its power over the SEs activities. The SEs are therefore consolidated by the Company when preparing consolidated Group financial statements. The covered bonds issued externally are included within debt issuances.

REPURCHASE AGREEMENTS

When the Company sells securities subject to repurchase agreements under which we retain substantially all the risks and rewards of ownership, then those assets do not qualify for derecognition. An associated liability is recognised for the consideration received from the counterparty.

The table below sets out the balance of assets transferred that do not qualify for derecognition, along with the associated liabilities:

	Securitisations[1,2]		Covered bonds		Repurchase agreements	
	2020 $m	2019 $m	2020 $m	2019 $m	2020 $m	2019 $m
Current carrying amount of assets transferred	78,793	65,947	17,937	20,052	60,612	42,640
Carrying amount of associated liabilities	78,793	65,947	17,937	20,052	54,951	40,826

1. The balances relate to transfers to internal structured entities.
2. The securitisation noteholders have recourse only to the pool of residential mortgages which have been securitised. The carrying value of securitised assets and the associated liabilities approximates their fair value.

25. SUPERANNUATION AND POST EMPLOYMENT BENEFIT OBLIGATIONS

Set out below is a summary of amounts recognised in the Balance Sheet in respect of the defined benefit superannuation schemes:

	2020 $m	2019 $m
Defined benefit obligation and scheme assets		
Present value of funded defined benefit obligation	(1,282)	(1,353)
Fair value of scheme assets	1,541	1,591
Net defined benefit asset	259	238
As represented in the Balance Sheet		
Net liabilities arising from defined benefit obligations included in payables and other liabilities	(15)	(17)
Net assets arising from defined benefit obligations included in other assets	274	255
Net defined benefit asset	259	238
Weighted average duration of the benefit payments reflected in the defined benefit obligation (years)	14.9	14.9

As at the most recent reporting dates of the schemes, the aggregate surplus of net market value of assets over the value of accrued benefits on a funding basis was $93 million (2019: surplus of $38 million). In 2020, the Company made defined benefit contributions totalling $2 million (2019: $2 million). It expects to make contributions of around $2 million next financial year.

GOVERNANCE OF THE SCHEMES AND FUNDING OF THE DEFINED BENEFIT SECTIONS

The main defined benefit superannuation schemes in which the Company participates operate under trust law and are managed and administered on behalf of the members in accordance with the terms of the relevant trust deed and rules and all relevant legislation. These schemes have corporate trustees, which are wholly owned subsidiaries of the Company. The trustees are the legal owners of the assets, which are held separately from the assets of the Company and are responsible for setting investment policy and agreeing funding requirements with the employer through the triennial actuarial valuation process.

The defined benefit section of the ANZ Australian Staff Superannuation Scheme and ANZ UK Staff Pension Scheme are the two largest defined benefit plans and have been closed to new members since 1987 and 2004 respectively. These plans did not have a material deficit, or surplus, at the last funding valuations. The Company has no present liability under the schemes' trust deeds to fund a deficit (measured on a funding basis). A contingent liability of the Company may arise if any of these schemes were wound up.

RECOGNITION AND MEASUREMENT

Defined benefit superannuation schemes

For the Company's defined benefit schemes, an independent actuary calculates the liability and expenses related to providing benefits to employees under each defined benefit scheme. They use the Projected Unit Credit Method to value the liabilities. The balance sheet includes:

- a defined benefit liability if the obligation is greater than the fair value of the schemes assets; and
- an asset (capped to its recoverable amount) if the fair value of the assets is greater than the obligation.

In each reporting period, the movements in the net defined benefit liability are recognised as follows:

- the net movement relating to the current period's service cost, net interest on the defined benefit liability, past service costs and other costs (such as the effects of any curtailments and settlements) as operating expenses;
- remeasurements of the net defined benefit liability (which comprise actuarial gains and losses and return on scheme assets, excluding interest income included in net interest) directly in retained earnings through other comprehensive income; and
- contributions of the Company directly against the net defined benefit position.

Defined contribution superannuation schemes

The Company operates a number of defined contribution schemes. It also contributes (according to local law, in the various countries in which it operates) to Government and other plans that have the characteristics of defined contribution plans. The Company's contributions to these schemes are recognised as personnel expenses when they are incurred.

NOTES TO THE FINANCIAL STATEMENTS (continued)

25. SUPERANNUATION AND POST EMPLOYMENT BENEFIT OBLIGATIONS (continued)

KEY JUDGEMENTS AND ESTIMATES

The main assumptions we use in valuing defined benefit obligations are listed in the table below. A change to any assumptions, or applying different assumptions, could affect the Statement of Other Comprehensive Income and Balance Sheet.

Assumptions	2020	2019	Sensitivity analysis change in significant assumptions	Increase/(decrease) in defined benefit obligation 2020 $m	Increase/(decrease) in defined benefit obligation 2019 $m
Discount rate (% p.a.)	1.55 - 1.7	1.7 – 2.0	0.5% increase	(91)	(101)
Future salary increases (% p.a.)	2.95	3.15			
Future pension indexation					
In payment (% p.a.)/In deferment (% p.a)	1.5 – 2.8/2.15	1.75 - 3.0/2.35	0.5% increase	73	74
Life expectancy at age 60 for current pensioners			1 year increase	65	65
– Males (years)	26.0 - 28.7	25.6 – 28.6			
– Females (years)	28.9 - 30.4	28.8 – 30.3			

26. EMPLOYEE SHARE AND OPTION PLANS

The Company operates a number of employee share and option schemes under the ANZ Employee Share Acquisition Plan and the ANZ Share Option Plan.

ANZ EMPLOYEE SHARE ACQUISITION PLAN

ANZ Employee Share Acquisition Plan schemes that operated during the 2020 and 2019 years were the Employee Share Offer and the Deferred Share Plan.

Employee Share Offer	
Eligibility	Most permanent employees employed in either Australia or New Zealand with three years continuous service for the most recent financial year.
Grant	Up to AUD 1,000 in Australia (and AUD 800 in New Zealand) of ANZ shares, subject to Board approval.
Allocation value	One week Volume Weighted Average Price (VWAP) of ANZ shares traded on the ASX in the week leading up to and including the date of grant.
Australia	ANZ ordinary shares are granted to eligible employees for nil consideration. The shares vest on grant and are held in trust for three years from grant date, after which time they may remain in trust, be transferred to the employee's name or sold. Dividends are automatically reinvested in the Dividend Reinvestment Plan.
New Zealand	Shares are granted to eligible employees on payment of NZD one cent per share. Shares vest subject to satisfaction of a three-year service period, after which they may remain in trust, be transferred to the employee's name or sold. Unvested shares are forfeited if the employee resigns or is dismissed for serious misconduct. Dividends are either paid in cash or reinvested into the Dividend Reinvestment Plan.
Expensing value (fair value)	In Australia, the fair value of the shares is expensed in the year shares are granted, as they are not subject to forfeiture. In New Zealand, the fair value is expensed on a straight-line basis over the three year vesting period. The expense is recognised as a share-based compensation expense with a corresponding increase in equity.
2020 and 2019 grants	698,862 shares were granted on 2 December 2019 at an issue price of $24.96, noting this is the final Employee Share Offer in its current form following changes to variable remuneration (effective financial year 2020) as part of the Reimagining Reward initiative. 656,738 shares were granted on 3 December 2018 at an issue price of $26.91.

26. EMPLOYEE SHARE AND OPTION PLANS (continued)

Deferred Share Plan

i) ANZ Incentive Plan (ANZIP) - Chief Executive Officer (CEO), Group Executive Committee (ExCo) and other Banking Executive Accountability Regime (BEAR) Accountable Executives	
Eligibility	Group CEO, ExCo and Group General Manager Internal Audit (GGM IA).
Grant	50% of the CEO's Annual Variable Remuneration (AVR), 25% of ExCo's Variable Remuneration (VR) (except for the Chief Risk Officer (CRO)), and 33% of the CRO and GGM IA's VR, is received as deferred shares.
Conditions	Deferred over at least one to four years from the date the Board approved the variable remuneration award.
ii) ANZIP (all employees excluding the CEO, ExCo and other BEAR Accountable Executives[1]) and Business Unit Incentive Plans (BUIPs)	
Eligibility	All employees excluding the CEO, ExCo and GGM IA (i.e. other BEAR Accountable Executive).
Grant	If VR is at or exceeds AUD 150,000, then 60% of VR amounts exceeding AUD 80,000 (subject to a minimum deferral amount of AUD 42,000) is deferred as shares.
Conditions	Deferred over three years from grant date.
iii) Long Term Incentives (LTIs)	
Eligibility	Selected employees (excludes the CEO, ExCo and GGM IA (i.e. other BEAR Accountable Executive).
Grant	100% deferred shares.
Conditions	Vest three years from grant date.
iv) Exceptional circumstances	
Remuneration foregone	In exceptional circumstances, we grant deferred shares to certain employees when they start with the Company to compensate them for remuneration they have foregone from their previous employer. The vesting period generally aligns with the remaining vesting period of the remuneration they have foregone, and therefore varies between grants.
Retention	We may grant deferred shares to high performing employees who are regarded as a significant retention risk to the Company.
v) Further information	
Cessation	Unless the Board decides otherwise, employees forfeit their unvested deferred shares if they resign, are terminated on notice, or are dismissed for serious misconduct. The deferred shares may be held in trust beyond the deferral period.
Dividends	Dividends are paid in cash or reinvested in the Dividend Reinvestment Plan.
Instrument	Deferred share rights may be granted instead of deferred shares in some countries as locally appropriate (see deferred share rights section).
Allocation value	All deferred shares are issued based on the VWAP of ANZ shares traded on the ASX in the week leading up to and including the date of grant.
Expensing value (fair value)	We expense the fair value of deferred shares on a straight-line basis over the relevant vesting period and we recognise the expense as a share-based compensation expense with a corresponding increase in equity.
2020 and 2019 grants	During the 2020 year, we granted 2,259,897 deferred shares (2019: 1,945,668) with a weighted average grant price of $24.94 (2019: $25.39).
Malus (downward adjustment)	Deferred shares remain at risk and the Board has the discretion to adjust the number of deferred shares downwards, including to zero at any time before the vesting date. ANZ's malus (downward adjustment) provisions are detailed in section 5.3 of the 2020 Remuneration Report. Board discretion was not exercised to adjust downward any deferred shares in 2020 (2019: 9,810).

1. Specific deferral arrangements also exist under ANZIP for roles defined as United Kingdom Material Risk Takers and China Material Risk Takers, in line with local regulatory requirements.

Expensing of the ANZ Employee Share Acquisition Plan

Expensing value (fair value)	The fair value of shares we granted during 2020 under the Employee Share Offer and the Deferred Share Plan, measured as at the date of grant of the shares, is $73.4 million (2019: $67.7 million) based on 2,958,759 shares (2019: 2,602,406) at VWAP of $24.81 (2019: $26.01).

NOTES TO THE FINANCIAL STATEMENTS (continued)

26. EMPLOYEE SHARE AND OPTION PLANS (continued)

ANZ SHARE OPTION PLAN

Allocation	We may grant selected employees options/rights which entitle them to acquire fully paid ordinary ANZ shares at a fixed price at the time the options/rights vest. Voting and dividend rights will be attached to the ordinary shares allocated on exercise of the options/rights. Each option/right entitles the holder to one ordinary share subject to the terms and conditions imposed on grant. Exercise price of options, determined in accordance with the rules of the plan, is generally based on the VWAP of the shares traded on the ASX in the week leading up to and including the date of grant. For rights, the exercise price is nil.
Rules	Prior to the exercise of the option/right if the Company changes its share capital due to a bonus share issue, pro-rata new share issue or reorganisation the following adjustments are required: • Issue of bonus shares - When the holder exercises their option, they are also entitled to be issued the number of bonus shares they would have been entitled to had they held the underlying shares at the time of the bonus issue; • Pro-rata share offer - We will adjust the exercise price of the option in the manner set out in the ASX Listing Rules; and • Reorganisation - In respect of rights, if there is a bonus issue or reorganisation of the Company's share capital, then the Board may adjust the number of rights or the number of underlying shares so that there is no advantage or disadvantage to the holder. Holders otherwise have no other entitlements to participate: • in any new issue of the Company's securities before they exercise their options/rights; or • in a share issue of a body corporate other than ANZ (such as a subsidiary). Any portion of the award which vests may, at the Board's discretion, be satisfied by a cash equivalent payment rather than shares.
Expensing	We expense the fair value of options/rights on a straight-line basis over the relevant vesting period and we recognise the expense as a share-based compensation expense with a corresponding increase in equity.
Cessation	The provisions that apply if the employee's employment ends are in section 8.2.3 of the 2020 Remuneration Report.
Malus (downward adjustment)	The Company's malus (downward adjustment) provisions are detailed in section 5.3 of the 2020 Remuneration Report.

Option Plans that operated during 2020 and 2019

i) Performance Rights

Allocation	We grant performance rights to the CEO and ExCo, and have granted performance rights to selected employees, as part of ANZ's variable remuneration plans. Performance rights provide the holder with the right to acquire ANZ shares at nil cost, subject to a four-year vesting period[1] and Total Shareholder Return (TSR) performance hurdles. Further details on the performance hurdles are in section 5.2.3a of the 2020 Remuneration Report.
Satisfying vesting	Any portion of the award of performance rights (that have met the performance hurdles) may be satisfied by a cash equivalent payment rather than shares at the Board's discretion. In 2020, all performance rights lapsed due to not meeting the performance hurdles. In 2019, the performance rights that vested were satisfied through a share allocation, other than 47,195 performance rights for which a cash payment was made.
2020 and 2019 grants	During the 2020 year, we granted 520,172 performance rights (2019: 885,810).
Malus (downward adjustment)	Board discretion was not exercised to adjust downward any performance rights in 2020 (2019: 59,012).

1. gThree years for grants during 2019.

26. EMPLOYEE SHARE AND OPTION PLANS (continued)

ii) Deferred Share Rights (no performance hurdles)	
Allocation	Deferred share rights provide the holder with the right to acquire ANZ shares at nil cost after a specified vesting period. We adjust the fair value of rights for the absence of dividends during the restriction period.
Satisfying vesting	Any portion of the award of share rights may be satisfied by a cash equivalent payment rather than shares at the Board's discretion. All share rights were satisfied through a share allocation, other than 99,891 deferred share rights (2019: 68,357) for which a cash payment was made.
2020 and 2019 grants	During the 2020 year, 2,393,424 deferred share rights (no performance hurdles) were granted (2019: 2,078,427).
Malus (downward adjustment)	Board discretion was not exercised to adjust downward any deferred share rights in 2020 (2019: 11,824).

Options, Deferred Share Rights and Performance Rights on Issue

As at 4 November 2020, there were 543 holders of 4,489,045 deferred share rights on issue and 125 holders of 2,216,062 performance rights on issue.

Options/Rights Movements

This table shows the options/rights over unissued ANZ shares and their related weighted average (WA) exercise prices as at the beginning and end of 2020 and the movements during 2020:

	Opening balance 1 Oct 2019	Options/ rights granted	Options/ rights forfeited[1]	Options/ rights expired	Options/ rights exercised	Closing balance 30 Sep 2020
Number of options/rights	6,688,538	2,913,596	(976,468)	0	(1,901,109)	6,724,557
WA exercise price	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
WA closing share price						$19.94
WA remaining contractual life						1.9 years
WA exercise price of all exercisable options/rights outstanding						$0.00
Outstanding exercisable options/rights						151,829

This table shows the options/rights over unissued ANZ shares and their related weighted average exercise prices as at the beginning and end of 2019 and the movements during 2019:

	Opening balance 1 Oct 2018	Options/ rights granted	Options/ rights forfeited[1]	Options/ rights expired	Options/ rights exercised	Closing balance 30 Sep 2019
Number of options/rights	7,148,573	2,964,237	(1,589,109)	0	(1,835,163)	6,688,538
WA exercise price	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
WA closing share price						$26.66
WA remaining contractual life						1.9 years
WA exercise price of all exercisable options/rights outstanding						$0.00
Outstanding exercisable options/rights						181,581

1. Refers to any circumstance where equity can be forfeited (for example on cessation, downward adjustment or performance conditions not met).

All of the shares issued as a result of the exercise of options/rights during 2020 and 2019, were issued at a nil exercise price.

As at the date of the signing of the Directors' Report on 4 November 2020:

- no options/rights over ordinary shares have been granted since the end of 2020; and
- 15,592 shares issued as a result of the exercise of options/rights since the end of 2020, all with nil exercise prices.

NOTES TO THE FINANCIAL STATEMENTS (continued)

26. EMPLOYEE SHARE AND OPTION PLANS (continued)

Fair Value Assumptions

When determining the fair value, we apply the standard market techniques for valuation, including Monte Carlo and/or Black Scholes pricing models. We do so in accordance with the requirements of AASB 2 *Share-based Payments*. The models take into account early exercise of vested equity, non-transferability and internal/external performance hurdles (if any).

The table below shows the significant assumptions we used as inputs into our fair value calculation of instruments granted during the period. We present the values as weighted averages, but the specific values we use for each allocation are the ones we use for the fair value calculation.

	2020		2019	
	Deferred share rights	Performance rights	Deferred share rights	Performance rights
Exercise price ($)	0.00	0.00	0.00	0.00
Share closing price at grant date ($)	24.78	24.93	25.83	25.52
Expected volatility of ANZ share price (%)[1]	20.0	20.0	20.0	20.0
Equity term (years)	2.5	6.0	2.5	4.8
Vesting period (years)	2.1	4.0	2.1	3.0
Expected life (years)	2.1	4.0	2.1	3.0
Expected dividend yield (%)	6.0	6.0	6.0	6.0
Risk free interest rate (%)	0.77	0.74	1.96	2.05
Fair value ($)	21.95	9.07	22.87	9.40

1. Expected volatility represents a measure of the amount by which ANZ's share price is expected to fluctuate over the life of the rights. The measure of volatility used in the model is the annualised standard deviation of the continuously compounded rates of return on the historical share price over a deferred period of time preceding the date of grant. This historical average annualised volatility is then used to estimate a reasonable expected volatility over the expected life of the rights.

SATISFYING EQUITY AWARDS

All shares underpinning equity awards may be purchased on market, reallocated or be newly issued shares, or a combination.

The equity we purchased on market during the 2020 financial year (either under the ANZ Employee Share Acquisition Plan and the ANZ Share Option Plan, or to satisfy options or rights) for all employees amounted to 4,882,936 shares at an average price of $25.06 per share (2019: 4,317,094 shares at an average price of $25.99 per share).

27. RELATED PARTY DISCLOSURES

KEY MANAGEMENT PERSONNEL COMPENSATION

Key Management Personnel (KMP) are defined as all directors and those personnel with a key responsibility for the strategic direction and management of the Company and report directly to the CEO. KMP compensation included within total personnel expenses in Note 3 Operating Expenses as follows:

	2020 $000	2019 $000[1]
Short-term benefits	19,260	15,784
Post-employment benefits	414	415
Other long-term benefits	397	213
Termination benefits	-	2,112
Share-based payments	8,198	6,184
Total	28,269	24,708

1. Includes former disclosed KMP until the end of their employment.

KEY MANAGEMENT PERSONNEL LOAN TRANSACTIONS

Loans made to KMP are made in the ordinary course of business and on normal commercial terms and conditions that are no more favourable than those given to other employees or customers, including: the term of the loan, security required and the interest rate. Details of the terms and conditions of lending products can be found on ANZ.com. No amounts have been written off during the period, or individual provisions raised in respect of these balances. The aggregate of loans made, guaranteed or secured to KMP, including their related parties, were as follows:

	2020 $000	2019 $000
Loans advanced[1,2]	18,519	13,551
Interest charged	518	285

1. Prior period balance has been restated to reflect minor timing variances and omissions.
2. Balances are as at the balance sheet date (for KMP in office at balance sheet date) or at the date of cessation of former KMP.

KEY MANAGEMENT PERSONNEL HOLDINGS OF ANZ SECURITIES

KMP, including their related parties, held subordinated debt, shares, share rights and options over shares in the Company directly, indirectly or beneficially as shown below:

	2020 Number[1]	2019 Number[1]
Shares, options and rights	2,211,879	1,892,754
Subordinated debt	21,052	11,802

1 Balances are at the balance sheet date (for KMP in office at balance sheet date) or at the date of cessation of former KMP.

OTHER TRANSACTIONS OF KEY MANAGEMENT PERSONNEL AND THEIR RELATED PARTIES

The aggregate of deposits with the Bank of KMP and their related parties was $37 million (2019: $42 million).

Other transactions with KMP and their related parties included amounts paid to the Company in respect of investment management service fees, brokerage and bank fees and charges. The Company has reimbursed KMP for the costs incurred for security and secretarial services associated with the performance of their duties. These transactions are conducted on normal commercial terms and conditions and no more favourable than those given to other employees or customers.

NOTES TO THE FINANCIAL STATEMENTS (continued)

27. RELATED PARTY DISCLOSURES (continued)

ASSOCIATES

During the course of the financial year, the Company conducted transactions with all associates on terms equivalent to those made on an arm's length basis as shown below:

	2020 $000	2019 $000
Amounts payable to associates	746	697
Other expenses paid to associates	7,706	7,624

There have been no material guarantees given or received. No amounts have been written-off during the period, or individual provisions raised in respect of these balances.

SUBSIDIARIES

We disclose material controlled entities in Note 23 Shares in Controlled Entities. During the financial year, subsidiaries conducted transactions with each other and with associates on terms equivalent to those on an arm's length basis. As of 30 September 2020, we consider all outstanding amounts on these transactions to be fully collectible.

Transactions between the Company and its subsidiaries include providing a wide range of banking and other financial facilities. Details of amounts paid to, or received from, related parties, in the form of dividends or interest, are set out in Note 2 Operating Income.

Other intragroup transactions include providing management and administrative services, staff training, data processing facilities, transfer of tax losses, and the leasing of Premises and equipment.

28. COMMITMENTS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

CREDIT RELATED COMMITMENTS AND CONTINGENCIES

	2020 $m	2019 $m
Contract amount of:		
Undrawn facilities	191,300	171,881
Guarantees and letters of credit	20,640	20,375
Performance related contingencies	15,505	20,097
Total	227,445	212,353

UNDRAWN FACILITIES

The majority of undrawn facilities are subject to customers maintaining specific credit and other requirements or conditions. Many of these facilities are expected to be only partially used, and others may never be used at all. As such, the total of the nominal principal amounts is not necessarily representative of future liquidity risks or future cash requirements. Based on the earliest date on which the Company may be required to pay, the total undrawn facilities of $191,300 million (2019: $171,881 million) mature within 12 months.

GUARANTEES, LETTERS OF CREDIT AND PERFORMANCE CONTINGENCIES

Guarantees and contingent liabilities relate to transactions that the Company has entered into as principal – including: guarantees, standby letters of credit and documentary letters of credit.

Documentary letters of credit involve the Company issuing letters of credit guaranteeing payment in favour of an exporter. They are secured against an underlying shipment of goods or backed by a confirmatory letter of credit from another bank.

Performance related contingents are liabilities that oblige the Company to make payments to a third party if the customer fails to fulfil its non-monetary obligations under the contract.

To reflect the risk associated with these transactions, we apply the same credit origination, portfolio management and collateral requirements that we apply to loans. The contract amount represents the maximum potential amount that we could lose if the counterparty fails to meet its financial obligations. As the facilities may expire without being drawn upon, the notional amounts do not necessarily reflect future cash requirements. Based on the earliest date on which the Company may be required to pay, the total guarantees and letters of credit of $20,640 million (2019: $20,375 million) and total performance related contingencies of $15,505 million (2019: $20,097 million) mature within 12 months.

28. COMMITMENTS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS (continued)

OTHER CONTINGENT LIABILITIES

As at 30 September 2020, the Company had contingent liabilities in respect of the matters outlined below. Where relevant, expert legal advice has been obtained and, in the light of such advice, provisions (refer to note 20) and/or disclosures as deemed appropriate have been made. In some instances we have not disclosed the estimated financial impact of the individual items either because it is not practicable to do so or because such disclosure may prejudice the interests of the Company.

REGULATORY AND CUSTOMER EXPOSURES

In recent years there has been an increase in the number of matters on which the Company engages with its regulators. There have also been significant increases in the nature and scale of regulatory investigations, surveillance and reviews, civil and criminal enforcement actions (whether by court action or otherwise), formal and informal inquiries, regulatory supervisory activities and the quantum of fines issued by regulators, particularly against financial institutions both in Australia and globally. The Company has received various notices and requests for information from its regulators as part of both industry-wide and Company-specific reviews and has also made disclosures to its regulators at its own instigation. The nature of these interactions can be wide ranging and, for example, currently include a range of matters including responsible lending practices, regulated lending requirements, product suitability and distribution, interest and fees and the entitlement to charge them, customer remediation, wealth advice, insurance distribution, pricing, competition, conduct in financial markets and financial transactions, capital market transactions, anti-money laundering and counter-terrorism financing obligations, reporting and disclosure obligations and product disclosure documentation. There may be exposures to customers which are additional to any regulatory exposures. These could include class actions, individual claims or customer remediation or compensation activities. The outcomes and total costs associated with such reviews and possible exposures remain uncertain.

BENCHMARK/RATE ACTIONS

In July and August 2016, class action complaints were brought in the United States District Court against local and international banks, including the Company – one action relating to the bank bill swap rate (BBSW), and one action relating to the Singapore Interbank Offered Rate (SIBOR) and the Singapore Swap Offer Rate (SOR). The class actions are expressed to apply to persons and entities that engaged in US-based transactions in financial instruments that were priced, benchmarked, and/or settled based on BBSW or SIBOR. The claimants seek damages or compensation in amounts not specified, and allege that the defendant banks, including the Company, violated US anti-trust laws and (in the BBSW case only) anti-racketeering laws, the Commodity Exchange Act, and unjust enrichment principles. The Company is defending the proceedings.

In February 2017, the South African Competition Commission commenced proceedings against local and international banks including the Company alleging breaches of the cartel provisions of the South African Competition Act in respect of trading in the South African rand. The potential civil penalty or other financial impact is uncertain.

CAPITAL RAISING ACTIONS

In June 2018, the Commonwealth Director of Public Prosecutions commenced criminal proceedings against the Company and a senior employee alleging that they were knowingly concerned in cartel conduct by the joint lead managers of the Company's August 2015 underwritten institutional equity placement of approximately 80.8 million ordinary shares. The Company and its senior employee are defending the allegations.

In September 2018, the Australian Securities and Investments Commission (ASIC) commenced civil penalty proceedings against the Company alleging failure to comply with continuous disclosure obligations in connection with the Company's August 2015 underwritten institutional equity placement. ASIC alleges the Company should have advised the market that the joint lead managers took up approximately 25.5 million ordinary shares of the placement. The Company is defending the allegations.

CONSUMER CREDIT INSURANCE LITIGATION

In February 2020, a class action was brought against the Company alleging breaches of financial advice obligations, misleading or deceptive conduct and unconscionable conduct in relation to the distribution of consumer credit insurance products. The issuers of the insurance products, QBE and OnePath Life, are also defendants to the claim. The Company is defending the allegations.

ESANDA DEALER CAR LOAN LITIGATION

In August 2020, a class action was brought against the Company alleging unfair conduct, misleading or deceptive conduct and equitable mistake in relation to the use of flex commissions in dealer arranged Esanda car loans. The Company is defending the allegations.

ROYAL COMMISSION

The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry released its final report on 4 February 2019. The findings and recommendations of the Commission are resulting in additional costs and may lead to further exposures, including exposures associated with further regulator activity or potential customer exposures such as class actions, individual claims or customer remediation or compensation activities. The outcomes and total costs associated with these possible exposures remain uncertain.

SECURITY RECOVERY ACTIONS

Various claims have been made or are anticipated, arising from security recovery actions taken to resolve impaired assets. These claims will be defended.

28. COMMITMENTS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS (continued)

WARRANTIES AND INDEMNITIES

The Company has provided warranties, indemnities and other commitments in favour of the purchaser and other persons in connection with various disposals of businesses and assets and other transactions, covering a range of matters and risks. It is exposed to claims under those warranties, indemnities and commitments.

CLEARING AND SETTLEMENT OBLIGATIONS

The Company has a commitment to comply with rules governing various clearing and settlement arrangements which could result in a credit risk exposure and loss if another member institution fails to settle its payment clearing activities. The Company's potential exposure arising from these arrangements is unquantifiable in advance.

The Company holds memberships of central clearing houses, including ASX Clear (Futures), London Clearing House (LCH) SwapClear and RepoClear, Korea Exchange (KRX), Hong Kong Exchange (HKEX) and the Clearing Corporation of India. These memberships allow the Company to centrally clear derivative instruments in line with cross-border regulatory requirements. Common to all of these memberships is the requirement for Company to make default fund contributions. In the event of a default by another member, the Company could potentially be required to commit additional default fund contributions which are unquantifiable in advance.

PARENT ENTITY GUARANTEES

The Company has issued letters of comfort and guarantees in respect of certain subsidiaries in the normal course of business. Under these letters and guarantees, the Company undertakes to ensure that those subsidiaries continue to meet their financial obligations, subject to certain conditions including that the entity remains a controlled entity of the Company.

SALE OF GRINDLAYS BUSINESSES

On 31 July 2000, the Company completed the sale to Standard Chartered Bank (SCB) of ANZ Grindlays Bank Limited (Grindlays) and certain other businesses. The Company provided warranties and indemnities relating to those businesses.

The indemnified matters include civil penalty proceedings and criminal prosecutions brought by Indian authorities against Grindlays and certain of its officers, in relation to certain transactions conducted in 1991 that are alleged to have breached the Foreign Exchange Regulation Act, 1973.

Civil penalties were imposed in 2007 which are the subject of appeals. The criminal prosecutions are being defended.

CONTINGENT ASSETS

NATIONAL HOUSING BANK

The Company is pursuing recovery of the proceeds of certain disputed cheques which were credited to the account of a former Grindlays customer in the early 1990s.

The disputed cheques were drawn on the National Housing Bank (NHB) in India. Proceedings between Grindlays and NHB concerning the proceeds of the cheques were resolved in early 2002.

Recovery is now being pursued from the estate of the Grindlays customer who received the cheque proceeds. Any amounts recovered are to be shared between the Company and NHB.

NOTES TO THE FINANCIAL STATEMENTS (continued)

29. AUDITOR FEES

	2020 $'000	2019 $'000
KPMG Australia		
Audit or review of financial reports	7,262	7,058
Audit-related services[1]	3,540	2,642
Non-audit services[2]	25	114
Total[3]	10,827	9,814
Overseas related practices of KPMG Australia		
Audit or review of financial reports	2,107	1,924
Audit-related services[1]	1,008	714
Non-audit services[2]	44	2
Total	3,159	2,640
Total auditor fees	13,986	12,454

1. Comprises prudential and regulatory services of $3.07 million (2019: $2.56 million), comfort letters $0.72 million (2019: $0.45 million) and other services $0.76 million (2019: $0.34 million).
2. The nature of the non-audit services includes training and methodology and procedural reviews.
3. Inclusive of goods and services tax.

The Company's policy allows KPMG Australia or any of its related practices to provide assurance and other audit-related services that, while outside the scope of the statutory audit, are consistent with the role of external auditor. These include regulatory and prudential reviews requested by regulators such as APRA. Any other services that are not audit or audit-related services are non-audit services. The Policy allows certain non-audit services to be provided where the service would not contravene auditor independence requirements. KPMG Australia or any of its related practices may not provide services that are perceived to be in conflict with the role of the external auditor or breach auditor independence. These include consulting advice and subcontracting of operational activities normally undertaken by management, and engagements where the external auditor may ultimately be required to express an opinion on its own work.

30. EVENTS SINCE THE END OF THE FINANCIAL YEAR

There have been no significant events from 30 September 2020 to the date of signing this report.

DIRECTORS' AND LEAD AUDITOR'S INDEPENDENCE DECLARATION

DIRECTORS' DECLARATION

The Directors of Australia and New Zealand Banking Group Limited declare that:

a) in the Directors' opinion, the financial statements and notes of the Company:

   i) are prepared in accordance with Part 7.8 of the *Corporations Act 2001*, including that they comply with the Australian Accounting Standards and the applicable regulations of the *Corporations Regulations 2001*; and

   ii) give a true and fair view of the financial position of the Company as at 30 September 2020 and of its performance for the year ended on that date; and

b) The auditor's report lodged with the financial statements is a true copy of the report on the financial statements.

Signed in accordance with a resolution of the Directors.

Paul D O'Sullivan
Chairman

Shayne C Elliott
Managing Director

4 November 2020

LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

To the Directors of Australia and New Zealand Banking Group Limited declare that:

I declare that, to the best of my knowledge and belief, in relation to the audit of Australia and New Zealand Banking Group Limited for the financial year ended 30 September 2020 there have been:

i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Alison Kitchen
Partner
Melbourne

4 November 2020

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL REPORT

OPINION

We have audited the Financial Report of Australia and New Zealand Banking Group Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the part 7.8 of the *Corporations Act 2001*, including:

- giving a true and fair view of the Company's financial position as at 30 September 2020 and of its financial performance for the year ended on that date; and
- complying with Australian Accounting Standards and the relevant Corporations Regulations 2001.

The Financial Report comprises the:

- balance sheet as at 30 September 2020;
- income statement, statement of comprehensive income, statement of changes in equity, and statement of cash flows for the year then ended;
- notes 1 to 30 including a summary of significant accounting policies; and
- Directors' Declaration.

BASIS FOR OPINION

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Company in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (including Independence Standards) (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

KEY AUDIT MATTERS

The Key Audit Matters we identified are:

- Allowance for expected credit losses;
- Subjective and complex valuation of Financial Instruments held at Fair Value;
- Provisions for customer remediation; and
- IT systems and controls.

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT (continued)

KEY AUDIT MATTERS (continued)

ALLOWANCE FOR EXPECTED CREDIT LOSSES ($4,951M)

Refer to the critical accounting estimates and judgements disclosures in relation to the allowance for expected credit losses in Note 12 to the Financial Report.

The Key Audit Matter

Allowance for expected credit losses is a key audit matter due to the significance of the loans and advances balance to the financial statements and the inherent complexity of the Company's Expected Credit Loss (ECL) models (ECL models) used to measure ECL allowances. These models are reliant on data and a number of estimates including the impact of multiple economic scenarios and other assumptions such as defining a significant increase in credit risk (SICR).

AASB 9 *Financial Instruments* requires the Company to measure ECLs on a forward-looking basis reflecting a range of economic conditions, of which GDP and unemployment levels are considered key assumptions. Post-model adjustments are made by the Company to address known ECL model limitations or emerging trends in the loan portfolios. We exercise significant judgement in challenging the economic scenarios used and the judgmental post model adjustments the Company applies to the ECL results.

The Company's criteria selected to identify a SICR, such as a decrease in customer credit rating (CCR), are key areas of judgement within the Company's ECL methodology as these criteria determine if a forward-looking 12 month or lifetime allowance is recorded.

The COVID-19 pandemic has meant that assumptions regarding the economic outlook are more uncertain which, combined with varying government responses, increases the level of judgement required by the Company in calculating the ECL, and the associated audit risk.

Additionally, allowances for individually assessed wholesale loans exceeding specific thresholds are individually assessed by the Company. We exercise significant judgment in challenging the assessment of specific allowances based on the expected future cash repayments and estimated proceeds from the value of the collateral held by the Company in respect of the loans.

How the matter was addressed in our audit

Our audit procedures for the allowance for ECL and disclosures included assessing the Company's significant accounting policies against the requirements of the accounting standard. Additionally, our procedures included:

Testing key controls of the Company in relation to:

- the ECL model governance and validation processes which involved assessment of model performance;
- the assessment and approval of the forward-looking macroeconomic assumptions and scenario weightings through challenge applied by the Company's internal governance processes;
- reconciliation of the data used in the ECL calculation process to gross balances recorded within the general ledger as well as source systems;
- counterparty risk grading for wholesale loans (larger customer exposures are monitored individually). This covered elements such as: approval of new lending facilities against the Company's lending policies, monitoring of counterparty credit quality against the Company's exposure criteria for internal factors specific to the counterparty or external macroeconomic factors, and accuracy and timeliness of counterparty risk assessments and risk grading against the requirements of the Company's lending policies and regulatory requirements; and
- IT system controls which record retail loans lending arrears, group exposures into delinquency buckets, and re-calculate individual allowances. We tested automated calculation and change management controls and evaluated the Company's oversight of the portfolios, with a focus on controls over delinquency monitoring.

We tested relevant General Information Technology Controls (GITCs) in relation to the key IT applications used by the Company in measuring ECL allowances as detailed in the IT Systems and Controls key audit matter below.

In addition to controls testing, our procedures included:

- re-performing credit assessments of a sample of wholesale loans controlled by the Company's specialist workout and recovery team assessed as higher risk or impaired, and a sample of other loans, focusing on larger exposures assessed by the Company as showing signs of deterioration, or in areas of emerging risk (assessed against external market conditions and in particular considering the impacts of COVID-19 and climate change). For each loan sampled, we challenged the Company's CCR and Security Indicator (SI), taking into account our assessment of the customer's financial position and, where relevant, the risk of stranded assets, and our overall assessment of loan recoverability, the valuation of security, and the impact on the credit allowance. To do this, we used the information on the Company's loan file, discussed the facts and circumstances of the case with the loan officer, and performed our own assessment of recoverability. Exercising our judgment, our procedures included using our understanding of relevant industries and the macroeconomic environment and comparing data and assumptions used by the Company in recoverability assessments to externally sourced evidence, such as commodity prices, publicly available audited financial statements and comparable external valuations of collateral held. Where relevant we assessed the forecast timing of future cash flows in the context of underlying valuations and approved business plans and challenged key assumptions in the valuations;

KEY AUDIT MATTERS (continued)

- obtaining an understanding of the Company's processes to determine ECL allowances, evaluating the Company's ECL model methodologies against established market practices and criteria in the accounting standards;
- working with KPMG risk consulting specialists, we assessed the accuracy of the Company's ECL model estimates by re-performing, for a sample of loans, the ECL allowance using our independently derived calculation tools and comparing this to the amount recorded by the Company;
- working with KPMG economic specialists, we challenged the Company's forward-looking macroeconomic assumptions and scenarios incorporated in the Company's ECL models. We compared the Company's forecast GDP, unemployment rates, CPI and property price indices to relevant publicly available macro-economic information, and considered other known variables and information obtained through our other audit procedures to identify contradictory indicators;
- testing the implementation of the Company's SICR methodology by re-performing the staging calculation for a sample of loans taking into consideration movements in the CCR from loan origination CCR and comparing our expectation to actual staging applied on an individual account level in the Company's ECL model; and
- assessing the accuracy of the data used in the ECL models by confirming a sample of data fields such as account balance and CCR to relevant source systems.

We challenged key assumptions in the components of the Company's post-model adjustments to the ECL allowance balance. This included:

- assessing the requirement for additional allowances considering the Company's ECL model and data deficiencies identified by the Company's ECL model validation processes, particularly in light of the extreme volatility in economic scenarios caused by the current COVID-19 pandemic and government responses;
- evaluating underlying data used in concentration risk and economic cycle allowances by comparing underlying loan portfolio characteristics to recent loss experience, current market conditions and specific risks in the Company's loan portfolios;
- assessing the impacts on the modelled ECL and the requirement for out of model adjustments to account for the portion of customers on loan deferral packages that are not aged. We also assessed assumptions used to determine whether a SICR event has occurred; and
- assessing the completeness of additional allowance overlays by checking the consistency of risks we identified in the loan portfolios against the Company's assessment.

SUBJECTIVE AND COMPLEX VALUATION OF FINANCIAL INSTRUMENTS HELD AT FAIR VALUE:

- **FAIR VALUE OF LEVEL 3 ASSET POSITIONS $1,045M**
- **FAIR VALUE OF LEVEL 2 ASSET POSITIONS $139,134M**
- **FAIR VALUE OF LEVEL 3 LIABILITY POSITIONS $55M**
- **FAIR VALUE OF LEVEL 2 LIABILITY POSITIONS $134,761M**

Refer to the critical accounting estimates, judgements and disclosures of fair values in Note 16 to the Financial Report.

The Key Audit Matter

The fair value of the Company's Level 2 and 3 financial instruments is determined by the Company through the application of valuation techniques which often involve the exercise of judgement and the use of assumptions and estimates.

The valuation of Level 3 and Level 2 financial instruments held at fair value is a Key Audit Matter due to:

- the high degree of estimation uncertainty and potentially significant range of reasonable outcomes associated with the valuation of financial instruments classified as Level 3 where significant pricing inputs used in the valuation methodology and models are not observable; and
- the complexity associated with the valuation methodology and models of certain more complex Level 2 financial instruments leading to an increase in subjectivity and estimation uncertainty. Level 2 financial instruments represented 56% of the Company's financial assets carried at fair value and 96% of the Company's financial liabilities carried at fair value.

Level 3 financial instruments represented 0.4% of the Company's financial assets carried at fair value and 0.04% of the Company's financial liabilities carried at fair value. This population is made up of:

- investment securities at fair value through other comprehensive income;
- derivative assets and liabilities; and
- net loans and advances.

INDEPENDENT AUDITOR'S REPORT (continued)

KEY AUDIT MATTERS (continued)

How the matter was addressed in our audit

Our audit procedures in relation to the valuation of financial instruments held at fair value included:

- we performed an assessment of the population of Financial instruments held at fair value to identify portfolios that have a higher risk of misstatement arising from significant judgements over valuation either due to unobservable inputs or complex models.
- we tested the design and operating effectiveness of key controls relating specifically to these financial instruments, including:
  - controls in relation to Independent Price Verification (IPV), including completeness of portfolios and valuation inputs subject to IPV;
  - controls in relation to model validation at inception and periodically, including assessment of model limitation and assumptions;
  - controls in relation to the review and challenge of daily profit and loss (P&L) by a control function;
  - control over the collateral management process, including review of margin reconciliations with clearing houses; and
  - controls over fair value adjustments (FVAs), including exit price and portfolio level adjustments.
- with the assistance of KPMG valuation experts, we independently re-valued a selection of financial instruments and FVAs. This involved sourcing independent inputs from markets data providers or external sources and using our own valuation models. We challenged the Company where our revaluations significantly differed from the Company's.
- in relation to the subjective valuation of Level 3 Investment Securities, with our valuation specialists, we:
  - assessed the reasonableness of key inputs and assumptions using comparable data in the market and available alternatives; and
  - compared the Company's valuation methodology to industry practice and the criteria in the accounting standards.
- we assessed the Company's financial statements disclosures, including key judgements and assumptions using our understanding obtained from our testing and against the relevant accounting standard requirements.

PROVISIONS FOR CUSTOMER REMEDIATION ($969M)

Refer to the critical accounting estimates, judgements and disclosures in Notes 20 and 28 to the Financial Report.

The Key Audit Matter

The Company has assessed the need to recognise provisions in relation to certain customer remediation activities arising from both internal and external investigations and reviews.

The provision for customer remediation activities is a key audit matter due to the judgements required by us in assessing the Company's determination of:

- the existence of a present legal or constructive obligation arising from a past event using the conditions of the event against the criteria in the accounting standards;
- the number of investigations and the quantum of amounts being paid arising from the present obligation;
- reliable estimates of the amounts which may be paid arising from investigations, including estimates of related costs; and
- the potential for legal proceedings, further investigations, and reviews from its regulators leading to a wider range of estimation outcomes for us to consider.

How the matter was addressed in our audit

Our audit procedures for customer remediation provisions included:

- obtaining an understanding of the Company's processes and controls for identifying and assessing the potential impact of the investigations into customer remediation activities;
- enquiring with the Company regarding ongoing legal, regulatory and other investigation into remediation activities;
- conducting independent discussions on significant matters with external legal counsel;
- reading the minutes and other relevant documentation of the Company's Board of Directors, Board Committees, various management committees, and attending the Company's Audit and Risk Committee meetings;
- inspecting correspondence with relevant regulatory bodies;
- for a sample of individual customer remediation matters, assessing the basis for recognition of a provision and associated costs against the requirements of the accounting standards. We did this by understanding and challenging the provisioning methodologies and underlying assumptions;
- testing completeness by evaluating where exposures may have arisen based upon our knowledge and experience of broader industry matters, the Company's documentation and the current regulatory environment. We also checked the features of these exposures against the criteria defining a provision or a contingency in the accounting standards;

KEY AUDIT MATTERS (continued)

- assessing the appropriateness of the Company's conclusions against the requirements of *Australian Accounting Standards* where estimates were unable to be reliably made for a provision to be recognised; and
- evaluating the related disclosures using our understanding obtained from our testing and against the requirements of *Australian Accounting Standards*.

IT SYSTEMS AND CONTROLS

The Key Audit Matter

As a major Australian bank, the Company's businesses utilise many complex, interdependent Information Technology (IT) systems to process and record a high volume of transactions. Controls over access and changes to IT systems are critical to the recording of financial information and the preparation of a financial report which provides a true and fair view of the Company's financial position and performance.

The IT systems and controls, as they impact the financial recording and reporting of transactions, is a key audit matter as our audit approach could significantly differ depending on the effective operation of the Company's IT controls. We work with our KPMG IT specialists as a core part of our audit team.

How the matter was addressed in our audit

We tested the technology control environment for key IT applications (systems) used in processing significant transactions and recording balances in the general ledger. We also tested automated controls embedded within these systems which link the technology-enabled business processes. Our further audit procedures included:

- assessing the governance and higher-level controls across the IT Environment, including those regarding Company policy design, review and awareness, and IT Risk Management practices;
- design and operating effectiveness testing of controls across the User Access Management Lifecycle, including how users are on-boarded, reviewed, and removed on a timely basis from critical IT applications and supporting infrastructure. We also examined how privileged roles and functions are managed across each IT Application and the supporting infrastructure;
- design and operating effectiveness testing of controls to enable Change Management including how changes are initiated, documented, approved, tested and authorised prior to migration into the production environment of critical IT Applications. We assessed the appropriateness of users with access to release changes to IT application production environments across the Company;
- design and operating effectiveness testing of controls used by the Company's technology teams to schedule system jobs and monitor system integrity;
- design and operating effectiveness testing of controls related to significant IT application programs delivered per the ANZ Delivery Framework;
- design and operating effectiveness testing of automated business process controls including those relating to enforcing segregation of duties to avoid conflicts from inappropriate role combinations within IT applications. We tested:
  - configurations in place to perform calculations, mappings and flagging of financial transactions, and automated reconciliation controls (both between systems and intra-system); and
  - data integrity of critical system reporting used by us in our audit to select samples and analyse data used by management to generate financial reporting.

OTHER INFORMATION

Other Information is both financial and non-financial information in Australia and New Zealand Banking Group Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report, we have nothing to report.

INDEPENDENT AUDITOR'S REPORT (continued)

RESPONSIBILITIES OF DIRECTORS FOR THE FINANCIAL REPORT

The Directors are responsible for:

- preparing a Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL REPORT

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists. Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the Auditing and Assurance Standards Board website at: https://www.auasb.gov.au/admin/file/content102/c3/ar2_2020.pdf. This description forms part of our Auditor's Report.

KPMG

Alison Kitchen
Partner
Melbourne
4 November 2020

ANZ

2019 ANNUAL REPORT

Our success depends on improving the financial wellbeing of our customers

Remuneration Report

Dear Shareholder,

2019 Remuneration Report – audited

This was another challenging year despite the solid gains made in simplifying our business and addressing the difficulties facing our bank and the broader industry.

We continued efforts to strengthen our balance sheet and we remain well capitalised, with costs held flat for the year.

However, momentum issues within our Retail and Commercial business in Australia, along with challenges in New Zealand (NZ), impacted financial performance.

All this has been taken into account when determining remuneration outcomes.

Further customer remediation charges of $682 million were recorded this year impacted by historical issues. The Board acknowledges the impact this has on shareholders and this has impacted remuneration outcomes.

As you may know, ANZ recorded a 'first strike' last year when around a third of shares were voted against our Remuneration Report. While two thirds of shares voted in favour, the Board took this result very seriously and has actively sought feedback from both our institutional and retail shareholders.

We have provided additional information in this year's report to help shareholders better understand the steps we have taken as a Board to respond to the concerns raised. This includes how executive performance has been assessed as well as improvements to accountability and consequence management.

Executive outcomes

There has been significant differentiation this year in the remuneration awarded to our executives, reflecting different levels of performance among our most senior leaders.

- Our Chief Executive Officer (CEO), Shayne Elliott, had a solid year where he demonstrated strong leadership in dealing with the challenges facing ANZ and the industry. However, as CEO he is accountable for the overall performance of the Group and as a result was awarded Annual Variable Remuneration (AVR) of 48% of his maximum opportunity.
- The Variable Remuneration (VR) outcomes for our Disclosed Executives ranged between 0% and 74% of maximum opportunity, demonstrating the 'at-risk' nature of their remuneration.

As outlined in the Chief Executive's report, we have also introduced wide-ranging reforms for financial year 2020 as to how we pay our people below our Disclosed Executives, replacing individual bonuses for the vast majority of employees with an incentive based on the overall performance of the Group.

This is an industry leading initiative that addresses many of the concerns about 'bonus culture' raised in the final report of the Royal Commission.

This year, we also strengthened the way we deal with material risks with an enhanced Accountability and Consequence Framework. 151 employees were terminated for breaches of our Code of Conduct with a further 516 employees having their performance and remuneration outcomes impacted.

Next steps

Your Board is committed to putting remuneration frameworks in place to help foster a culture of trust, integrity and ethical decision making.

During 2020, we will undertake a comprehensive review of executive remuneration against Prudential Standard CPS 511 Remuneration recommendations from our prudential regulator as well as the external environment.

We will also consult with our stakeholders so that the way we reward our people is aligned with our culture and values as well as customer, shareholder and community standards.

On behalf of the Board, I invite you to consider our Remuneration Report which will be presented to shareholders for adoption at the 2019 Annual General Meeting (AGM) in Brisbane.

Ilana Atlas
CHAIR – HUMAN RESOURCES (HR) COMMITTEE

Contents

1. BOARD RESPONSE TO FEEDBACK PROVIDED IN RELATION TO THE 2018 REMUNERATION REPORT

At the AGM in 2018, while two thirds of shares voted were cast in favour of the Remuneration Report, one third were cast against and so ANZ recorded what is termed a 'first strike'. The Board took this outcome very seriously and sought feedback from both our institutional and retail shareholders. A summary of the key feedback received and changes made this year is provided below.

SUMMARY

Questions around whether variable remuneration is sufficiently variable and genuinely at risk. This was a particular focus in 2018 given the impact on ANZ of the Royal Commission and where ANZ recognised substantial customer remediation costs.

- The Board has focused on ensuring that the 2019 variable remuneration awards appropriately reflect individual and overall performance outcomes.
- At the start of each year, the Board sets performance objectives for the CEO and each of our Disclosed Executives that are intended to be stretching yet achievable. These contain a blend of both financial (weighted no more than 45%) and non-financial measures designed to focus executives on delivering sustainable long-term performance that supports both good customer and shareholder outcomes aligned to our long-term strategic objectives.
- The CEO's performance is assessed against a number of factors including the Group Performance Framework and individual strategic objectives. Although the Board assessed his performance as slightly below expectations, the Board exercised their discretion and applied a reduction to the CEO's 2019 AVR outcome. This resulted in an award of 48% of maximum opportunity in recognition of the fact that as CEO he is ultimately accountable for overall performance.
- This year's VR outcomes for Disclosed Executives ranged from 0% to 74% (2018: 40% to 60%) and averaged 45% (2018: 51%) of maximum opportunity demonstrating the 'at risk' nature of variable remuneration. There is significant differentiation in outcomes – with two Disclosed Executives receiving less than 45% of maximum opportunity and one receiving no VR.

Include more rationale to help investors understand why the Board believes the remuneration outcomes are appropriate.

- The variable remuneration structure and outcomes for the CEO and Disclosed Executives are the subject of considerable debate and evaluation by both the HR Committee and the Board. These decisions are not taken lightly or quickly.
- In response to this feedback, the 2019 Remuneration Report aims to provide further clarity to help shareholders better understand both the process (how performance and remuneration outcomes are determined) and the rationale (why the Board believe this year's outcomes are appropriate for the CEO and Disclosed Executives).

Better explain how consequences are applied for executives for poor conduct/issues 'on their watch' that damaged customers and shareholders.

- In 2019 we implemented a strengthened Accountability and Consequence Framework so that meaningful consequences are applied to executives and employees at all levels, where it is appropriate, for material risk events.
- The Consequence Review Group (CRG), which is now chaired by the CEO, meets at least four times a year. The CRG reviews material risk events, and considers recommendations from each business regarding accountability and the application of consequences for significant Code of Conduct breaches and material risk and audit events. We have also expanded our disclosures in this report to provide more information on the number of employees where formal consequences have been applied in the 2019 financial year. See section 7.
- The departure of the Group Executive and CEO, NZ was a clear and public example of the application of meaningful consequences this year. His employment ceased, he was paid no variable remuneration and all unvested deferred remuneration (~$7.4 million) was immediately forfeited.

Use 'face value' rather than 'fair value' when determining the number of deferred share rights awarded to the CRO.

- We have changed our approach and will award the CRO deferred share rights using the face value of the Company's shares (rather than the fair value – which is the face value adjusted for the loss of dividends). In order to maintain the same opportunity value, the VR maximum opportunity percentage has been adjusted to 270% of fixed remuneration (previously 255%). This change maintains – it does not increase – the dollar value maximum opportunity, therefore the CRO would not receive greater VR for the same level of performance.

Focus on maximum variable remuneration opportunity rather than target opportunity.

- Variable remuneration outcomes are now primarily expressed as a percentage of maximum opportunity, and the value of performance rights shown using the face value of the rights at full (100%) vesting. This approach more clearly demonstrates the executives' actual outcomes in comparison to the value they could be awarded if expectations were exceeded at the highest level. There is no change in practice or opportunity.

2. WHO IS COVERED BY THIS REPORT

2.1 DISCLOSED EXECUTIVE AND NED CHANGES

There were several changes to our Key Management Personnel (KMP) during the 2019 year:

- Lee Hsien Yang (former NED) retired at the 2018 AGM in December 2018.
- Fred Ohlsson stepped down as Group Executive, Australia in December 2018 to take an extended unpaid career-break, and Mark Hand subsequently acted in the role whilst the Australia Division structure was reviewed.
- Following a structure review, effective March 2019 Mark Hand and Maile Carnegie share responsibility for the financial performance of our business in Australia. Mark was appointed to the Group Executive, Australia Retail and Commercial Banking role and Maile's role expanded to Group Executive, Digital and Australia Transformation.
- David Hisco (former Group Executive and CEO, NZ) departed ANZ in June 2019. Antonia Watson has been subsequently acting in the role.

2.2 KEY MANAGEMENT PERSONNEL (KMP)

The KMP whose remuneration is disclosed in this year's report are:

Non-Executive Directors (NEDs) – Current	
D Gonski	Chairman
I Atlas	Director
P Dwyer	Director
J Halton	Director
J Key	Director
G Liebelt	Director
J Macfarlane	Director
Non-Executive Directors (NEDs) – Former	
H Lee	Former Director – retired 19 December 2018

Chief Executive Officer (CEO) and Disclosed Executives – Current	
S Elliott	Chief Executive Officer and Executive Director
M Carnegie	Group Executive, Digital and Australia Transformation – appointed 1 March 2019 (formerly Group Executive, Digital Banking)
K Corbally	Chief Risk Officer (CRO)
A George	Deputy Chief Executive Officer and Group Executive, Wealth Australia
M Hand	Group Executive, Australia Retail and Commercial Banking – appointed 1 March 2019 (Acting Group Executive, Australia from 29 December 2018 to 28 February 2019)
M Jablko	Chief Financial Officer (CFO)
A Watson	Acting Group Executive and Chief Executive Officer, New Zealand – appointed 17 June 2019
M Whelan	Group Executive, Institutional
Disclosed Executives – Former	
D Hisco	Former Group Executive and Chief Executive Officer, New Zealand – concluded in role and ceased employment 14 June 2019
F Ohlsson	Former Group Executive, Australia – concluded in role 28 December 2018

The Remuneration Report for the Group outlines our remuneration strategy and framework and the remuneration practices that apply to KMP. This report has been prepared, and audited, as required by the Corporations Act 2001. It forms part of the Directors' Report.

3. 2019 REMUNERATION OUTCOMES AT A GLANCE

Chief Executive Officer (CEO) remuneration

For 2019, our CEO:

- Did not receive an increase in fixed remuneration.
- Received an Annual Variable Remuneration (AVR) award of 48% of maximum opportunity. This reflects performance against his individual objectives and the Group Performance Framework, and the exercise of Board discretion considering his accountability as CEO for the overall performance of the Group.
- Subject to shareholder approval at the 2019 AGM, he will be awarded Long Term Variable Remuneration (LTVR) of $4.2 million (200% of fixed remuneration) which may vest in 2023 subject to meeting performance hurdles.
- Received total remuneration of $4.09 million for 2019.

Disclosed Executive remuneration

For 2019:

- Fixed remuneration increases were only received by two Disclosed Executives – Mark Hand on appointment to the Group Executive, Australia Retail and Commercial Banking role to reflect his expanded responsibilities, and Kevin Corbally (CRO) based on a review of internal and external market relativities, and in recognition of the increase in regulatory activity and complexity of the risk environment.
- Variable Remuneration (VR) outcomes for our Disclosed Executives averaged 45% of maximum opportunity, with substantial differentiation at an individual level ranging from 0% to 74% (40% to 60% in 2018).
- Upon cessation of employment David Hisco (former Group Executive and CEO, NZ) forfeited all his unvested equity (~$7.4 million). He received his contracted and statutory entitlements to notice and untaken leave, and was not awarded any VR.

Performance rights outcomes (CEO and Disclosed Executives)

The performance rights awarded to the CEO and Disclosed Executives in November/December 2015 were tested in November 2018 against their three equal Total Shareholder Return (TSR) performance hurdles. A total of 21.8% of the award vested and the remaining 78.2% lapsed. See section 5.4.3 for further details.

Non-Executive Director (NED) fees

There were no increases to NED fees in 2019 (or 2018). Rather, the Board decided to apply a 20% reduction to the Chairman and NED member fees for 2019.

4. OVERVIEW OF ANZ'S REMUNERATION FRAMEWORK

4.1 CHANGES TO THE CEO AND DISCLOSED EXECUTIVES' REMUNERATION FRAMEWORKS MADE IN 2019

The following changes were made to the CEO and Disclosed Executives' remuneration frameworks for 2019:

- **Four-year deferral:** The deferral and performance period for the performance rights (excluding the CRO who receives deferred share rights) has been extended from three years to four years. This provides an additional year for the performance rights to remain at risk (subject to malus) and for the performance hurdles to be measured.
- **Vesting period:** The deferred shares will be delivered over four years with staggered vesting (previously even vesting). See section 6.2.
- **For the CRO:** The number of deferred share rights awarded will be determined using the face value (previously fair value), and these share rights will now be subject to a four-year deferral period (previously three years).

  The differing remuneration structure for the CRO is designed to preserve the independence of the role and to minimise any conflicts of interest in carrying out the risk control function across ANZ.

As a result of these changes, 68% of variable remuneration (AVR plus LTVR) for the CEO, 53% of VR for Disclosed Executives (other than the CRO), and 41% of VR for the CRO will be deferred for at least four years, noting that this is in excess of the BEAR minimum deferral requirement of 60% for the CEO and 40% for Disclosed Executives. See section 6.2 for more detail.

4.2 REMUNERATION FRAMEWORK OVERVIEW

The structure of our remuneration framework is aligned with our Reward Principles and has been designed to support ANZ's purpose and strategy.

ANZ'S PURPOSE AND STRATEGY[1]

Is underpinned by our Remuneration Policy which includes our Reward Principles:

Attract, motivate and keep great people	Reward our people for doing the right thing having regard to our customers and shareholders	Focus on **how** things are achieved as much as **what** is achieved	Are fair and simple to understand

With remuneration delivered to our CEO and Disclosed Executives through:

Fixed remuneration Cash salary and superannuation contributions. The Board sets (and reviews annually) the CEO and Disclosed Executives' fixed remuneration based on financial services market relativities reflecting their responsibilities, performance, qualifications, experience and location.

Variable remuneration (at risk) The CEO and Disclosed Executives are eligible to receive variable remuneration under the ANZ Incentive Plan (ANZIP), our main variable remuneration plan.

CEO

Annual Variable Remuneration (AVR)

- Rewards the achievement of Group, Division and individual outcomes over a 12-month period
- Determination: ANZ Group Performance Framework, individual strategic objectives, ANZ values[2] and risk/compliance assessments, and Board discretion
- Maximum opportunity: 150% of fixed remuneration
- Delivery: 50% cash and 50% as ANZ shares deferred over four years, subject to malus

Long Term Variable Remuneration (LTVR)

- Reinforces the CEO's focus on achieving longer term strategic objectives and creating long-term value for all stakeholders
- Face value at full vesting: 200% of fixed remuneration
- Delivery: Performance rights deferred for four years subject to performance hurdles and malus
- Performance hurdles: Relative TSR (75%), Absolute TSR (25%)

Disclosed Executives[3]

Variable Remuneration (VR)

- Rewarded under a single VR framework enabling us to:
  - Provide the appropriate mix of short and long-term rewards (including performance hurdles) to drive performance, and attract and retain talent;
  - Tie the full VR award to the performance of ANZ; and
  - Defer VR over the short, medium and longer term.
- Determination: ANZ Group Performance Framework, Divisional Performance Frameworks, ANZ values and risk/compliance assessments, and Board discretion
- Maximum opportunity: 402% of fixed remuneration[4]
- Delivery: 25% cash, 25% as ANZ shares deferred over four years subject to malus, and 50% as performance rights deferred for four years subject to performance hurdles and malus
- Performance hurdles: Relative TSR (75%), Absolute TSR (25%)

Board discretion is applied when determining CEO and Disclosed Executive performance and remuneration outcomes, and also before any scheduled release of previously deferred remuneration.

Reinforced by aligning remuneration and risk:

Assessing behaviours based on ANZ's values and risk/compliance standards (including BEAR)	Determining variable remuneration outcomes, with risk as a key input at a pool and individual level	Weighting remuneration toward the longer-term with a significant proportion at risk	Determining accountability and applying consequences where appropriate	Prohibiting the hedging of unvested equity

While supporting the alignment of executives and shareholders through:

Substantial shareholding requirements	Significant variable remuneration deferral in ANZ equity	Use of relative and absolute TSR hurdles	Use of economic profit as a key input in determining the ANZIP variable remuneration pool

While governed by:

The HR Committee and the Board determining the variable remuneration outcomes for both the CEO and each Disclosed Executive. Additionally, the CEO's LTVR outcome is also subject to shareholder approval at the AGM.

1. See the 'About our Business' and 'Our Strategy' sections of the Annual Report.
2. ANZ's values (**I**ntegrity, **C**ollaboration, **A**ccountability, **R**espect, **E**xcellence (ICARE)) – the foundation of how we work, supported by our Code of Conduct.
3. The maximum opportunity and delivery of VR differ for the CRO and Acting Group Executive and CEO, NZ to that of other Disclosed Executives. See section 6 for further details.
4. Performance rights face value at full vesting.

5. 2019 OUTCOMES

We are mindful of the fact that variable remuneration (more broadly than it pertains to ANZ) has been the subject of much scrutiny with questions raised regarding whether it is truly at risk and sufficiently variable. Variable remuneration at ANZ is truly at risk and can range from zero to maximum opportunity, as evidenced by the outcomes in 2019.

The variable remuneration outcomes for both the CEO and Disclosed Executives are the subject of considerable debate and evaluation by the HR Committee and the Board. These decisions are not taken lightly or quickly.

The tables in sections 5.1 and 5.2 supplement, and are different to, the Statutory Remuneration table (see section 10.1) which presents the accounting expense for both vested and unvested awards in accordance with Australian Accounting Standards.

5.1 YEAR-ON-YEAR REMUNERATION AWARDED

These tables show a year-on-year comparison of remuneration awarded to the CEO and Disclosed Executives for the 2017, 2018 and 2019 performance periods. Remuneration awarded includes any cash payments (e.g. fixed remuneration and cash variable remuneration) and the value of deferred shares and performance rights awarded for the year but which have not yet vested (i.e. the value which has not yet been received during the year). These tables also show the AVR/VR as a % of target and maximum opportunity – this % remains unchanged whether using the threshold or full vesting value of performance rights.

Fixed remuneration is largely unchanged year-on-year other than where executives have changed roles. Variable remuneration differs significantly both year-on-year and between different executives, and appropriately reflects the variability in Group and individual performance year-on-year. See section 5.4 for details.

CEO						Threshold vesting		Full vesting		AVR as % of	
	Financial year	Fixed remuneration $	AVR cash $	AVR deferred shares $	Total AVR $	LTVR performance rights $	Total remuneration awarded $	LTVR performance rights $	Total remuneration awarded $	Target opport-unity	Maximum opport-unity
CEO											
S Elliott	2019	2,100,000	750,000	750,000	1,500,000	2,100,000	5,700,000	4,200,000	7,800,000	71%	48%
	2018	2,100,000	875,000	875,000	1,750,000	1,400,000	5,250,000	2,800,000	6,650,000	83%	56%
	2017	2,100,000	1,000,000	1,000,000	2,000,000	2,100,000	6,200,000	4,200,000	8,300,000	95%	63%

Note the 2019 LTVR has not yet been awarded, approval will be sought from shareholders at the 2019 AGM for the LTVR award shown above. The 2018 LTVR award was significantly reduced as further acknowledgement of the conduct issues and reputation damage of the matters raised in the Royal Commission.

Disclosed Executives					Threshold vesting		Full vesting		VR as % of	
	Financial year	Fixed remuneration $	VR cash $	VR deferred shares $	VR performance rights[1] $	Total remuneration awarded $	VR performance rights[1] $	Total remuneration awarded $	Target opport-unity	Maximum opport-unity
Current Disclosed Executives										
M Carnegie	2019	1,000,000	495,000	495,000	510,000	2,500,000	1,020,000	3,010,000	75%	50%
	2018	1,000,000	528,000	528,000	544,000	2,600,000	1,088,000	3,144,000	80%	53%
	2017	1,000,000	561,000	561,000	578,000	2,700,000	1,156,000	3,278,000	85%	57%
K Corbally	2019	950,000	478,500	478,500	493,000	2,400,000	493,000	2,400,000	85%	57%
	2018 (6.5 months in role)	486,000	164,835	164,835	169,830	985,500	169,830	985,500	83%	55%
A George	2019	1,000,000	528,000	528,000	544,000	2,600,000	1,088,000	3,144,000	80%	53%
	2018 (12 months/4.5 months as Deputy CEO)	876,000	354,750	354,750	365,500	1,951,000	731,000	2,316,500	61%	41%
	2017 (10 months in role)	664,000	301,290	301,290	310,420	1,577,000	620,840	1,887,420	76%	51%
M Hand	2019 (9 months as Disclosed Executive)	726,000	198,000	198,000	204,000	1,326,000	408,000	1,530,000	41%	28%

M Jablko	2019	1,000,000	544,500	544,500	561,000	2,650,000	1,122,000	3,211,000	83%	55%
	2018	1,000,000	577,500	577,500	595,000	2,750,000	1,190,000	3,345,000	88%	58%
	2017	1,000,000	739,200	739,200	761,600	3,240,000	1,523,200	4,001,600	112%	75%
A Watson[2] (3.5 months in role)	2019	219,440	170,255	113,504	-	503,199	-	503,199	65%	43%
M Whelan	2019	1,200,000	874,500	874,500	901,000	3,850,000	1,802,000	4,751,000	110%	74%
	2018	1,200,000	717,750	717,750	739,500	3,375,000	1,479,000	4,114,500	91%	60%
	2017	1,200,000	1,080,750	1,080,750	1,113,500	4,475,000	2,227,000	5,588,500	136%	91%
Former Disclosed Executives										
D Hisco[2] (8.5 months in role)	2019	843,521	-	-	-	843,521	-	843,521	0%	0%
	2018	1,170,713	644,397	644,397	663,925	3,123,432	1,327,849	3,787,356	83%	56%
	2017	1,195,013	726,181	726,181	748,187	3,395,563	1,496,374	4,143,749	92%	61%
F Ohlsson (3 months in role)	2019	240,000	n/a	n/a	n/a	240,000	n/a	240,000	n/a	n/a
	2018	1,000,000	396,000	396,000	408,000	2,200,000	816,000	2,608,000	60%	40%
	2017	1,000,000	534,600	534,600	550,800	2,620,000	1,101,600	3,170,800	81%	54%

1. Deferred share rights for the CRO.
2. Paid in NZD and converted to AUD. The year-on-year difference in 2017 and 2018 fixed remuneration for D Hisco relates to fluctuations in the exchange rate.

5.2 2019 ACTUAL REMUNERATION RECEIVED

This table shows the remuneration the CEO and Disclosed Executives actually received in relation to the 2019 performance year as cash, or in the case of prior equity awards, the value which vested in 2019. The final column also shows the value of prior equity awards which lapsed/were forfeited in 2019 (these awards reflect the 2015 performance rights which partially met the performance hurdles when tested in November 2018, and additionally for David Hisco the forfeiture of all of his unvested deferred remuneration on cessation of employment).

	Fixed remuneration $	Cash variable remuneration $	Total cash $	Deferred variable remuneration which vested during the year[1] $	Other deferred remuneration which vested during the year[1] $	Actual remuneration received $	Deferred variable remuneration which lapsed/forfeited during the year[1, 2] $
CEO and Current Disclosed Executives							
S Elliott	2,100,000	750,000	**2,850,000**	1,243,464	-	**4,093,464**	(3,038,880)
M Carnegie	1,000,000	495,000	**1,495,000**	153,490	-	**1,648,490**	-
K Corbally[3]	950,000	478,500	**1,428,500**	430,229	573,129	**2,431,858**	(184,676)
A George	1,000,000	528,000	**1,528,000**	301,609	-	**1,829,609**	(101,328)
M Hand	726,000	198,000	**924,000**	-	-	**924,000**	-
M Jablko[4]	1,000,000	544,500	**1,544,500**	192,589	318,564	**2,055,653**	-
A Watson[5]	219,440	170,255	**389,695**	-	-	**389,695**	-
M Whelan	1,200,000	874,500	**2,074,500**	704,915	-	**2,779,415**	(1,059,695)
Former Disclosed Executives							
D Hisco[2, 5, 6]	843,521	-	**843,521**	654,067	-	**1,497,588**	(7,385,293)
F Ohlsson	240,000	n/a	**240,000**	433,146	-	**673,146**	(191,526)

1. The point in time value of previously deferred remuneration granted as shares/share rights and/or performance rights is based on the one day Volume Weighted Average Price (VWAP) of the Company's shares traded on the ASX on the date of vesting or lapsing/forfeiture multiplied by the number of shares/share rights and/or performance rights.
2. The lapsed/forfeited values relate to the performance rights we awarded in November 2015 which lapsed due to the performance hurdles not being met, and for D Hisco forfeiture on cessation of unvested deferred remuneration.
3. Other deferred remuneration for K Corbally relates to a previously disclosed equity retention award relating to his role prior to appointment to the Group Executive Committee.
4. Other deferred remuneration for M Jablko relates to previously disclosed compensation for deferred remuneration forfeited as a result of joining ANZ.
5. Paid in NZD and converted to AUD.
6. The vested values for D Hisco relate to deferred shares, deferred share rights and performance rights awarded in prior years that vested prior to cessation.

5.3 FIXED REMUNERATION

The Board sets (and reviews annually) the CEO and Disclosed Executives' fixed remuneration based on financial services market relativities and reflecting their responsibilities, performance, qualifications, experience and location.

There was no change to the CEO's fixed remuneration for 2019 and it has not changed since commencement in the role on 1 January 2016.

During 2019, the HR Committee and Board reviewed the Disclosed Executives' fixed remuneration. The only changes made were for two executives.

- Kevin Corbally received a fixed remuneration increase from $900,000 to $1,000,000 on 1 April 2019. On commencing in his role as CRO, Kevin's fixed remuneration was set below the market median for comparable roles in peer group companies and lower than that of his predecessor. With the significant increase in regulatory activity and complexity of the risk environment, and following a strong performance in his role and reviewing internal relativities, the Board considered the increase appropriate.
- Mark Hand received a fixed remuneration increase from $800,000 to $1,000,000 on his appointment to the Group Executive, Australia Retail and Commercial Banking role effective 1 March 2019 to reflect his expanded responsibilities.

5.4 VARIABLE REMUNERATION – DETAIL

5.4.1 CEO performance, AVR and LTVR

Performance

With regard to AVR, the CEO is assessed 50% on the ANZ Group Performance Framework and 50% on achievement of individual strategic objectives aligned to ANZ's strategy. Both the Group Performance Framework and individual strategic objectives are agreed by the Board at the start of the financial year and intended to be stretching.

Weighting of financial metrics

AVR: Financial metrics have a 35% weighting in the Group Performance Framework and therefore notionally have a 17.5% weighting in the CEO's AVR. However, the CEO's AVR is not formulaic – outcomes are moderated by the Risk and Reputation element of the Group Performance Framework and the Board's judgement on the appropriate AVR considering all aspects of performance.

LTVR: 100% of the LTVR hurdles are based on TSR (both relative and absolute). ANZ's view is that TSR is not purely a financial measure as it reflects a range of factors including investors' judgement about the prospects of a company.

At the end of the financial year, ANZ's performance is assessed against the Group Performance Framework, and the CEO's performance is assessed against his individual strategic objectives, the ANZ values (behaviours), delivery of the BEAR obligations and ANZ's risk and compliance standards. In conducting the CEO's performance assessment, the HR Committee seeks input from the Chairman, CRO (on risk management), CFO (on financial performance), Group Executive, Talent and Culture (GE T&C) (on talent and culture matters) and Group General Manager Internal Audit (GGM IA) (on internal audit matters).

The Board has assessed the CEO's 2019 performance as follows:

- Group Performance Framework = Below Expectations (see section 5.5.3)
- Individual strategic objectives = Slightly Below Expectations (see Board assessment below)
- ANZ values = Above Expectations
- Risk/compliance assessment = Met Expectations
- Board discretion = As CEO Shayne Elliott is ultimately accountable for the Group's overall performance, the Board has exercised their discretion in determining the appropriate AVR outcome for 2019 as detailed below.

2019 CEO individual strategic objectives

- Lead and role model the culture and accountability required to transform ANZ to deliver better customer outcomes and long-term shareholder value
- Enhance the reputation of ANZ
- Drive the strategic direction of the organisation to deliver long-term, sustainable and profitable growth
- Drive the success of New Ways of Working (NWOW) at ANZ and demonstrate better customer outcomes and productivity gains
- Continue to build Group Executive Committee effectiveness and CEO succession

Board assessment of performance on individual strategic objectives: **Slightly Below Expectations**

The CEO consistently role modelled the ANZ culture and values in his actions throughout a challenging year for the banking sector. This included the content and manner of his testimony before the Royal Commission and also his handling of the Code of Conduct breach by the former Group Executive and CEO, NZ.

Work continued on rebuilding ANZ's reputation following the Royal Commission last year. However, this was impacted by further remediation charges and challenges in our NZ business. In Australia Retail and Commercial, poor execution of changes to certain processes and procedures including technology transition saw customer loan assessment and approval times extend, leading to a loss of market share. Actions taken throughout mid calendar 2019 have improved these issues.

The CEO has continued to build on the key planks of the ANZ strategy – capital efficiency, productivity and simplification – to deliver long-term targeted growth. ANZ delivered a solid financial performance in 2019 – with capital well above APRA's unquestionably strong Common Equity Tier 1 (CET1) requirements, continued productivity savings and the completion of further asset/business disposals. While lending growth in the year was modest, delivery of the core aspects of the strategy positions ANZ well for the future.

Around 25% of our people now work in new ways which is driving speed and productivity benefits. These changes are enhancing speed of delivery to customers and producing higher employee engagement results.

The CEO has restructured accountability of the Group Executive Committee in 2019 to enhance success and strengthen succession – filling the gaps arising in the Australian business leadership and in dealing with the NZ business leadership issues including the cessation of the former Group Executive and CEO, NZ.

AVR and LTVR

At the end of the financial year, the HR Committee determines the CEO's AVR outcome which is ultimately approved by the Board.

The CEO's AVR will vary up or down year-on-year, it is not guaranteed, and may range from zero to a maximum opportunity.

The 2019 AVR awarded to the CEO is 48% of maximum opportunity. Shayne Elliott has demonstrated strong leadership both within ANZ and the industry more broadly and delivered solid results for the Group. He has dealt with challenges which arose during the year in a way that is consistent with the culture we are seeking.

Despite having been assessed as met or being above expectations on the risk/compliance assessment and ANZ values, and being slightly below on individual strategic objectives and the Group Performance Framework, the Board has exercised its discretion and reduced the AVR having regard to the CEO's ultimate accountability for the overall performance of the Group. The Board determined that an AVR outcome of 48% of maximum opportunity was appropriate for 2019.

The CEO's proposed LTVR of $4.2 million (performance rights face value at full vesting) is subject to shareholder approval at the 2019 AGM.

2019 AVR Awarded

This table shows the AVR awarded to the CEO for the year ending 30 September 2019.

CEO **Maximum opportunity**

S Elliott[1]
AVR $1,500,000
48% of max = $750,000 + $750,000
+
LTVR $4,200,000 performance rights face value at full vesting (subject to shareholder approval at the 2019 AGM)

Cash Deferred shares

1. Variable remuneration for the CEO = AVR + LTVR.

Summary of Total Remuneration

The remuneration Shayne Elliott received in 2019 differs to the remuneration he was awarded in relation to the 2019 performance year (which may or may not vest in future years), and also how his remuneration was expensed (on a statutory basis) for 2019. Awarded remuneration shown below includes the value of the performance rights at both threshold (50%) and full (100%) vesting.

	Total Remuneration			
	Awarded		Received[1]	Statutory[2]
	Threshold vesting	Full vesting		
2019	$5,700,000	$7,800,000	$4,093,464	$5,181,339
2018	$5,250,000	$6,650,000	$3,849,666	$5,645,295
2017	$6,200,000	$8,300,000	$4,261,588	$5,634,860

1. Includes the value of previously awarded AVR deferred shares and LTVR performance rights at the date of vesting.
2. Includes the value of AVR and LTVR that has been expensed in the year.

The difference in the CEO's awarded remuneration reflects the variability in Group and individual performance and the reduction in his 2018 variable remuneration to acknowledge the conduct issues and reputational damage of the matters raised in the Royal Commission.

The difference in the CEO's received remuneration also reflects the partial vesting in 2019 of performance rights granted in December 2015.

Historical AVR and LTVR

This table shows the AVR as a % of maximum opportunity and LTVR vesting outcomes for the CEO over the last three years.

	2017	2018	2019
AVR outcome (% of maximum opportunity)	63%	56%	48%
LTVR vesting outcome (% vested)	0%	0%	21.8%

5.4.2 Disclosed Executive performance and VR

Performance

At the start of each year, the Board sets stretching performance objectives in the form of Divisional Performance Frameworks for each of our Disclosed Executives, in alignment with the Group Performance Framework.

Similar to the Group Performance Framework, the Divisional Performance Frameworks include the key elements of Financial and Discipline, Customer, and People and Culture, with Risk and Reputation acting as a modifier. The weighting of measures varies to reflect the responsibilities of each individual's role. The Financial and Discipline element weightings range from 20% to 45%.

At the end of the financial year, the performance of each Disclosed Executive is assessed against their contribution to the Group Performance Framework, their Divisional Performance Framework, ANZ's values (behaviours), delivery of BEAR obligations and ANZ's risk and compliance standards.

The HR Committee seeks input from the CEO, CRO (on risk management), CFO (on financial performance), GE T&C (on talent and culture matters) and GGM IA (on internal audit matters).

The HR Committee reviews and recommends to the Board for approval the overall performance outcomes for each Disclosed Executive.

VR

At the end of the financial year, the CEO and HR Committee also determine VR recommendations for each Disclosed Executive, which are ultimately approved by the Board. VR should and does vary year-on-year in line with performance – it is not guaranteed and may be adjusted up or down ranging from zero to a maximum opportunity.

The average 2019 VR for Disclosed Executives is 45% of maximum opportunity. There is significant differentiation at an individual level ranging between 0% to 74% of maximum. The different VR outcomes reflect the relative performance of the different areas/individuals, ensuring appropriate alignment between performance and reward. The outcomes also demonstrate the at risk nature of VR, showing that VR is truly variable, and that outcomes do vary significantly across the Disclosed Executives and also from year to year. To illustrate we note that:

- Mark Whelan has been awarded 74% of maximum opportunity reflecting the delivery of strong financial results across Institutional, sound risk management, the continued transformation of this business, and the strong focus on culture.
- Alexis George has a broad role: she is Deputy CEO and also has responsibility for Operations and Services and Wealth Australia. Her VR outcome of 53% of maximum opportunity was impacted for Wealth remediation while also taking into account her strong performance across all aspects of her role.
- Mark Hand moved into leading Australia Retail and Commercial part way through the year. He is the right person to run this part of the business going forward and has already led a strong program of work to restore business momentum. However as Group Executive he is held accountable for the weaker performance of this business and has been awarded VR at 28% of maximum opportunity.
- David Hisco was in his role for eight and a half months of the year, however given the circumstances of his departure, was not awarded any VR (and he also immediately forfeited all unvested remuneration).
- Fred Ohlsson was not eligible for 2019 VR due to being in his role for approximately three months in 2019.

2019 VR Awarded

This table shows the combined VR awarded to Disclosed Executives for the year ending 30 September 2019. Based on shareholder feedback, the face value of performance rights is disclosed at full vesting, which differs from the disclosures in previous years.

Current Disclosed Executives — Maximum opportunity

Executive	VR	% of max	Cash	Deferred shares or deferred share rights	Performance rights face value at full vesting[4]
M Carnegie	VR $2,010,000	50% of max	$495,000	$495,000	$1,020,000
K Corbally[1]	VR $1,450,000	57% of max	$478,500	$478,500	$493,000
A George	VR $2,144,000	53% of max	$528,000	$528,000	$1,088,000
M Hand[2]	VR $804,000	28% of max	$198,000	$198,000	$408,000
M Jablko	VR $2,211,000	55% of max	$544,500	$544,500	$1,122,000
A Watson[2]	VR $283,759	43% of max	$170,255	$113,504	
M Whelan	VR $3,551,000	74% of max	$874,500	$874,500	$1,802,000

Former Disclosed Executives

Executive	VR	% of max	Cash	Deferred shares or deferred share rights	Performance rights face value at full vesting[4]
D Hisco[3]	VR $0	0% of max			
F Ohlsson	VR n/a				

1. CRO receives deferred share rights instead of performance rights.
2. Remuneration disclosed from commencement in Disclosed Executive role. Acting Group Executive and CEO, NZ role awarded 60% of VR as cash and 40% as deferred shares.
3. Remuneration disclosed to date of cessation.
4. Divide by two to convert to face value at threshold vesting for performance rights.

Historical Disclosed Executive VR

This table shows the VR as a % of maximum opportunity for the current and prior Disclosed Executives over the last three years.

	2017	2018	2019
VR outcome (average % of maximum opportunity)	64%	51%	**45%**
VR outcome (range % of maximum opportunity)	51% – 91%	40% – 60%	**0% – 74%**
VR performance rights vesting outcome (% vested)	0%	0%	**21.8%**

5.4.3 Performance rights outcomes (CEO and Disclosed Executives)

Performance rights granted to the CEO in December 2015 and Disclosed Executives (excluding the CRO) in November 2015 reached the end of their performance period in November 2018. Based on performance against hurdles, 21.8% of these rights vested, the remaining 78.2% lapsed and provided no value.

Hurdle	Grant date[1]	First date exercisable[1]	ANZ TSR over three years/ CAGR[2] TSR	Median TSR over three years/ CAGR[2] TSR target	% vested	Overall performance rights outcome
1/3 relative TSR – Select Financial Services comparator group	18 Nov 15	18 Nov 18	15.79%	10.57%	65.3%	21.8% vested and 78.2% lapsed
1/3 relative TSR – ASX 50 comparator group	18 Nov 15	18 Nov 18	15.79%	32.16%	0%	
1/3 absolute CAGR[2] TSR	18 Nov 15	18 Nov 18	5.01%	9.00%	0%	

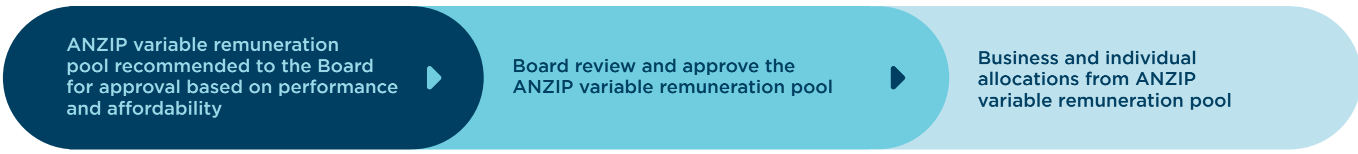
1. Grant date for the CEO was 17 December 2015, and date first exercisable was 17 December 2018. The CEO's performance period was the same as the performance period for Disclosed Executives.
2. Compound Annual Growth Rate (CAGR).
3. From 2016 ANZ moved from three to two TSR hurdles (the relative TSR – ASX 50 hurdle was discontinued).

5.5 ANZIP VARIABLE REMUNERATION POOL AND GROUP PERFORMANCE

5.5.1 ANZIP variable remuneration pool

The ANZ Incentive Plan (ANZIP) is the variable remuneration plan that covers the CEO and Disclosed Executives (and the majority of employees). Individual variable remuneration outcomes are funded from the ANZIP pool for all eligible employees, including the CEO's AVR and Disclosed Executives' VR.

At the end of each financial year, the HR Committee makes a recommendation to the Board for their approval on the size of the ANZIP variable remuneration pool for that year, including its allocation to each Division. The Board exercise their judgement to determine the appropriate pool size – it is not a formulaic outcome.



When determining the size of the 2019 variable remuneration pool the HR Committee and Board considered a range of inputs. These included:

- our financial performance – a range of metrics are used including cash profit, economic profit and return on risk weighted assets. Economic profit, which is a risk adjusted measure and a strong indicator of shareholder value, is the primary financial driver but is balanced against other financial metrics and qualitative factors.
  - Solid financial performance with cash profit up 6%, while on a continuing operations basis cash profit is flat and economic profit down 1%.
- our performance against the ANZ Group Performance Framework.
  - Assessed overall as being below expectations in 2019 (as detailed in section 5.5.3).
- other relevant factors such as the overall operating environment, market competitive remuneration positioning, affordability, the quality of our results and prior year pools.

ANZ substantially reduced the size of the ANZIP pool in 2018 decreasing it by around 23% compared to the prior financial year.

In 2019, having considered all of the above inputs, the Board determined that a year-on-year increase of around 9% was appropriate, and recognising that the pool remains 15% below that of 2017.

5.5.2 ANZ Group Performance Framework

The ANZ Group Performance Framework is approved by the Board at the start of each year and is designed around the following three **key inputs**:

1. Creating a safe bank with sound risk practices
2. Achieving our agreed annual and longer term goals
3. Realising our strategic vision

The key objective of our Group Performance Framework is to enable aligned focus across the organisation on delivering the critical outcomes that matter most in successful realisation of our strategy, which includes strong and sustainable performance within the year. It plays a key role to:

- message internally what matters most;
- reinforce the importance of sound management in addition to risk, customer, people and financial outcomes; and
- inform focus of effort, prioritisation and decision outcomes across ANZ.

5.5.3 Assessment against the Group Performance Framework for 2019

Risk & Reputation		Customer		People & Culture		Financial & Discipline		Overall
Overall Adjustment	x	35% weight	+	30% weight	+	35% weight	=	Group Performance
ASSESSMENT: Below Expectations		ASSESSMENT: Below Expectations		ASSESSMENT: Above Expectations		ASSESSMENT: Met Expectations		ASSESSMENT: Below Expectations

As managing risk appropriately is fundamental to the way ANZ operates, Risk and Reputation forms an integral part of the assessment, directly impacting the overall Group Performance Framework outcome (a modifier ranging from 0% to 110% of the Group Performance Assessment).

Overall, ANZ's performance was below expectations when considering the environment and the objectives we set ourselves. While we largely achieved the targets we set, more broadly we recognise we have much to do to regain community trust.

The below table outlines ANZ's focus areas in 2019 (aligned to the three key inputs), and provides a summary of performance outcomes for each of the key performance categories to inform the overall assessment for 2019. Performance against expectations is evaluated using a range of objective indicators and subjective considerations including management input on work undertaken, evidence of outcomes realised and lessons learned, and with consideration given to the operating, regulatory and competitive environment.

Risk & Reputation (modifier 0% to 110%)

ANZ continues to operate in a dynamic and a challenging external and regulatory environment placing significant demands on the Risk and Compliance function. There were no material breaches of our Group Risk Appetite Statement, and the number of adverse audits fell by a third with management demonstrating accountability for fixing issues in a timely and sustainable manner. Strong leadership has been paramount, coupled with a focus on seeking to regain the trust of the community through our commitment to fair and responsible banking. A combination of management actions over several years together with the current relatively benign credit environment, delivered one of the lowest loss rates on record. While there were many positives from a risk perspective, our overall risk assessment was brought back to below expectations when balanced against some non-financial risk shortcomings from a regulatory, customer and community perspective and the work that still needs to be done to regain community trust.

2019 focus areas	Performance commentary	Performance against Expectations		
		Below	Met	Above
Adhere to the Risk Appetite Statement	• Metrics within agreed tolerances (e.g. no material breaches). • Disciplined risk management over several years (including reshaping the loan portfolio often at the expense of revenue), saw the 2019 loss rate at 13 bps.		●	
Adopt a sound approach to regulatory matters	• ANZ continued to work to support our regulators desired outcomes in their activities and addressing their requirements, however there were some shortcomings in 2019: – Two material regulatory infractions in NZ in relation to capital models and attestation process. – Along with domestic peers an additional capital overlay required for operational risk following APRA's self-assessment into governance, culture and accountability.	●		
Ensure our leaders demonstrate accountability for managing risk, including creating an environment where people can raise issues	• Strong progress made on risk culture maturity, evidenced in employee engagement scores, with 'Leaders accountable for risk' (83%) – improvement on 2018 and above 2019 target, and 'Raise issues without fear of reprisal' (69%) – also up on 2018.			●
Quickly and effectively remediate individual and systemic customer issues	• While remediation focused on strategic and long-term fixes (systems, terms and conditions and product decommissioning), short-term fixes included refunding greater than 1 million accounts. In 2019, we returned approximately $108 million to impacted customers. • Dispute Resolution Principles launched in 2019. • Continued efforts still required to improve customer complaints and remediation processes.		●	
Identify and address community priorities	• ANZ was the first bank to make Royal Commission commitments and has retained high scores in a number of indices: – Corporate Confidence Index (CCI)[1]: Score above peer average – Dow Jones Sustainability Indices (DJSI)[2]: 2019 score of 82 (2018: 83). ANZ returned to global top ten (#10 overall) – Glassdoor[3] employer of choice ratings: score of 3.9 represents a 0.4 uplift on prior period (Glassdoor average 3.4) • Our Reptrak community sentiment indicator improved over the 12 months to 58.8 but remains well below pre Royal Commission levels. • Regaining the trust of the community, government and other key stakeholders remains a major focus – which includes working to deliver more consistent outcomes in credit approval processes, and providing clarity to customers regarding ANZ's risk tolerance.	●		
Risk & Reputation overall: Below Expectations		●		

Customer (35% weight)

We are committed to improving the customer experience, as highlighted by the implementation of 16 initiatives in Australia in response to the Royal Commission. There were however some challenges during the year which led to a below expectations assessment. These included some technology stability issues, and a period of underperformance in respect of assessment and approval times relative to peers in home lending. Institutional performance in key customer satisfaction/relationship strength surveys continued to be a highlight, along with strong digital engagement with customers.

2019 focus areas	Performance commentary	Performance against Expectations		
		Below	Met	Above
Improve customer experience (key impact to customer assessment outcome)	• Examples of initiatives to improve the customer experience include: in Australia introducing Customer Promises to improve service, and organising our people around customer episodes; in NZ launching the Healthy Homes initiative and helping customers with persistent card debt. • A period of below peer approval and assessment times in Australian home lending (an outcome of a higher level of change, including enhanced assessment criteria and delays in moving to a single assessment platform).	●		
Listen, Learn, Act to drive continuous improvement	• Net Promoter Score (NPS)[4] centred on key onboarding episodes. Results were mixed with improvement in retail transaction accounts, business lending and business transaction accounts. Down in NZ. • ANZ ranked the #1 lead institutional bank by Peter Lee Associates[5] for the fourth year and #1 for relationship strength for the sixth year. Institutional recorded strongest results ever with leadership positions obtained for the majority of key indicators including overall satisfaction, and most trusted adviser.		●	
Delivering innovative solutions	• Single view of customer now available in Retail and Commercial in Australia and improved customer insights within the business customer space. • ANZ's New Payments Platform (NPP) solution is being used as a white label offering by 10 other banks. • In line with our objective of delivering digital solutions that improve the customer experience, digital purchases increased (28% vs 24% target) and NZ #1 for being a 'Leader in Mobile Banking'. • We have invested in Machine Learning in our Institutional Trade business leading to significant improvements in processing times and risk controls.		●	
Help our people to make wise customer focused choices every day	• More than 1 million customers contacted to help them get better value from their banking products. • 16 initiatives implemented to improve the treatment of customers in Australia. These included new dispute resolution principles to ensure customer complaints and disputes are handled reasonably and fairly.		●	
Customer overall: Below Expectations		●		

People & Culture (30% weight)

A number of highlights contributed to an above expectations assessment including: strengthening our Accountability and Consequence Framework, evolving our approach to measurement and governance of culture initiatives, redesigning and launching changes to how we manage and reward our people, solid progress in the investment in key skills for our future, launch of a digital learning platform, and a record level engagement survey result.

2019 focus areas	Performance commentary	Performance against Expectations		
		Below	Met	Above
Engaging our people and diversifying our workforce	• Overall engagement score increased to 77% (up 4% from 2018), with improvements also seen in key measures, such as leaders role modelling our values (73% up 2% from 2018). • Women in leadership increased to 32.5% (against a 33.1% target). Positive progress was made in Technology (up 3.3% from 2018) and Institutional (up 3.2% from 2018), two of our most challenging areas historically. • Maintained a high score (>90%) of an environment that is open and accepting of individual differences.			●
Strengthen governance and accountability for culture, including an effective Accountability and Consequence Framework	• The Accountability and Governance Model for Culture evolved to provide greater clarity and transparency on accountabilities, and improved measurement. • Continued strengthening of our Accountability and Consequence Framework.			●
Improve leader capability	• Continued focus on building leader capability through initiatives such as the 180 leadership survey. • Leadership Promotor Scores improved from 20 in 2018 to 24 and then 28 over the course of 2019.		●	
Implement Reimagining Reward	• ANZ redesigned and launched changes to how we manage and reward our people to better focus on the interests of our customers, the long-term health of the bank, and team rather than individual outcomes.			●
Strengthen strategic capabilities	• Invested in technology engineering and data capability (>350 roles now dedicated to data analysis and science). • Launched a digital learning platform.		●	
People & Culture overall: Above Expectations				●

Financial & Discipline (35% weight)

The operating environment remains challenging, due to competitive pressures and economic conditions. ANZ was well prepared for these difficult conditions, maintaining a strong balance sheet, peer leading levels of capital, demonstrating good cost management despite higher regulatory and compliance spend, and further improvements in our credit risk profile. At no time did the bank deviate from its strategy or risk appetite to seek higher revenues. Divestments during the year again reduced the complexity of the Group. Ongoing work to identify customers in need of remediation led to further remediation charges, which impacted financial performance.

2019 focus areas	Performance commentary	Performance against Expectations		
		Below	Met	Above
Balance appropriately between financial results, safety and soundness, and investment in the future	• Return on equity (ROE) (cash continuing) of 10.9% was on target, noting the difficult operating environment. • Operating expenses were down 4%. Excluding the impact of large/notable items[6], costs remained flat despite increased investment in the business and higher compliance spend. • Capital and funding continue to be well managed. A$3 billion share buyback was completed during the year enabling cash earnings per share (EPS) growth and CET1 of 11.4% was above minimum regulatory requirements. Net Stable Funding Ratio of 116%. • The completion of divestments during the year further reduced the complexity of the Group (e.g. OnePath sale to Zurich, OnePath NZ to Cigna, sale of businesses in Cambodia and Papua New Guinea).		●	
Establish a framework and governance structure with agreed outcomes, and start to execute on simplification	• Simplification framework and governance structures were established during the year, and planning commenced across all businesses to progress our simplification ambition – which is centred on delivering better customer and employee experience, while lowering operational risk and reducing the cost to serve.		●	
Simplify and standardise our technology landscape in support of our ambitions	• Significant increase in usage of Technology Platforms across Automation, Data and Payments (e.g. NPP) resulting in enhanced customer insights, and improved service delivery from a single view of the customer in Australia Retail and Commercial. • Machine Learning as a service platform launched. Benefits include a 40% improvement in customer service level agreements for Trade Guarantees.		●	
Make reasonable steps towards the separation of Wealth	• During the year, the legal separation of the Pensions and Investments business from the life insurance business was completed. Following this, the sale of the Australian life insurance business to Zurich was completed. • ANZ and IOOF continue to work towards the sale of the Pensions and Investments business. Subject to APRA approval, ANZ expects the transaction to complete in the first quarter of calendar year 2020. • Separation activities continue for both businesses.		●	
Financial & Discipline overall: Met Expectations			●	

Overall

Group Performance assessment: Below Expectations	●		

1. Corporate Confidence Index (CCI): Outcomes of the CCI are provided to ANZ on a confidential basis.
2. Dow Jones Sustainability Indices (DJSI): Evaluates the sustainability performance of thousands of companies trading publicly, operated under a strategic partnership between S&P Dow Jones Indices and RobecoSAM (Sustainable Asset Management).
3. Glassdoor is a website where employees and former employees anonymously review companies and their management.
4. Net Promoter Score (NPS) is a customer loyalty metric used globally to evaluate a company's brand, products or services. Net Promoter® and NPS® are registered trademarks and Net Promoter Score and Net Promoter System are trademarks of Bain & Company, Satmetrix Systems and Fred Reichheld.
5. Peter Lee Associates 2019 Large Corporate and Institutional Relationship Banking surveys, Australia and NZ.
6. Large/notable items include the impact of divestments, customer remediation, accelerated software amortisation, Royal Commission legal costs and restructuring.

5.5.3 ANZ performance outcomes

ANZ's financial performance 2015 – 2019

As discussed in section 5.5.1, the sizing of the ANZIP variable remuneration pool takes into account a range of financial metrics, including economic profit and cash profit. The Group uses cash profit as a measure of performance for the Group's ongoing business activities, as this provides a basis to assess Group and Divisional performance against earlier periods and against peer institutions. We calculate cash profit by adjusting statutory profit for non-core items. Although cash profit is not audited, the external auditor has informed the Audit Committee that recurring adjustments have been determined on a consistent basis across each period presented.

The table below provides ANZ's financial performance, including cash profit, over the last five years.

	2015	2016	2017	2018	2019
Statutory profit ($m)	7,493	5,709	6,406	6,400	**5,953**
Cash profit ($m, unaudited)	7,216	5,889	6,938	5,805	**6,161**
Cash profit – Continuing operations ($m, unaudited)[1]	7,216	5,889	6,809	6,487	**6,470**
Cash ROE (%) – Continuing operations (unaudited)[1]	14.0	10.3	11.7	11.0	**10.9**
Cash EPS – Continuing operations (unaudited)[1]	260.3	202.6	232.7	223.4	**227.6**
Share price at 30 September ($) (On 1 October 2014, opening share price was $30.74)	27.08	27.63	29.60	28.18	**28.52**
Total dividend (cents per share)	181	160	160	160	**160**
Total shareholder return (12 month %)	(7.5)	9.2	13.1	0.6	**9.2**

1. Cash profit from continuing operations has been presented for 2017, 2018 and 2019. Prior periods are not restated. Cash profit from continuing operations represents the Group's cash profit excluding the impact of our discontinued businesses, which consist of OnePath Pensions and Investments and aligned dealer groups, and the Group's life insurance business in Australia. The businesses were reclassified to discontinuing in 2018, and only the 2017 result was restated in the table above. During 2019, the Group adopted AASB 15 Revenue from Contracts with Customers and only 2018 has been restated.

ANZ TSR performance (1 to 10 years)

The table below compares ANZ's TSR performance against the median TSR and upper quartile TSR of the performance rights Select Financial Services (SFS) comparator group over one to ten years. ANZ's TSR performance was below the median TSR of the SFS Comparator Group when comparing over one, three, five and ten years to 30 September 2019, noting that the below table measures TSR over a different timeframe to the performance period for our performance rights.

	YEARS TO 30 SEPTEMBER 2019			
	1	3[1]	5	10
ANZ (%)	9.2	22.3	21.6	109.8
Median TSR SFS (%)	14.2	31.2	31.8	134.0
Upper quartile TSR SFS (%)	15.7	37.0	40.2	180.9

1. The outcomes for performance rights granted in November/December 2015 and tested in November 2018 are detailed in section 5.4.3.

6. EXECUTIVE REMUNERATION STRUCTURE AND DELIVERY

There are two core components of remuneration at ANZ – fixed remuneration and at risk variable remuneration.

In structuring remuneration, the Board aims to find the right balance between fixed and variable remuneration (at risk), the way it is delivered (cash versus deferred remuneration) and appropriate time frames (the short, medium and long-term).

The way variable remuneration operates differs somewhat between the CEO and Disclosed Executives. Namely:

- The CEO's variable remuneration is comprised of AVR and LTVR (subject to shareholder approval), which provides consistency with external market practice, and LTVR reinforces his focus on achieving longer term strategic objectives and long-term stakeholder value creation.
- Disclosed Executives are subject to one combined VR plan which enables us to:
  - provide the appropriate mix of short and long-term rewards (including performance hurdles) to drive performance, and attract and retain talent;
  - tie the full VR award to the performance of ANZ; and
  - defer VR over the short, medium and longer term.

Variable remuneration seeks to differentiate for performance and is designed to focus our CEO and Disclosed Executives on stretching performance objectives supporting our business strategy, and encourage the delivery of long-term stakeholder value.

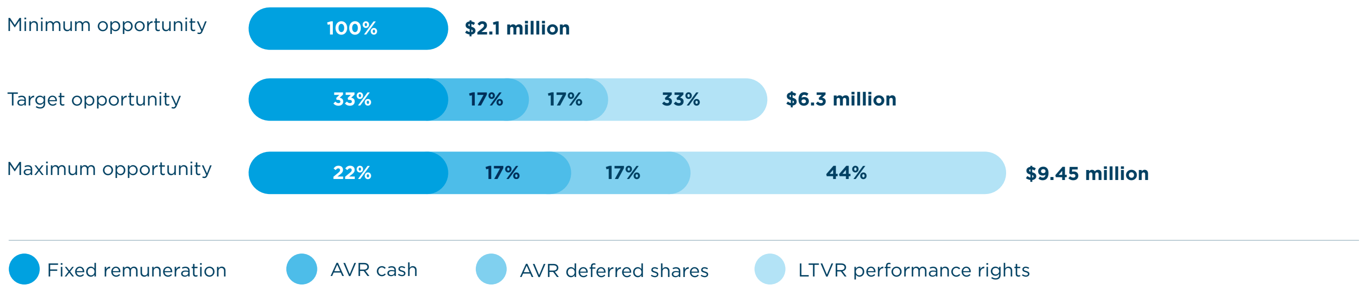
By deferring a significant portion of variable remuneration (79% of maximum opportunity for the CEO, 75% for Disclosed Executives, 67% for the CRO and 40% for the Acting Group Executive and CEO, NZ), we seek to ensure alignment with shareholder interests to deliver on ANZ's strategic objectives and ensure a focus on long-term value creation. Deferred variable remuneration has significant retention elements, and most importantly, can be adjusted downwards, including to zero, allowing the Board to hold executives accountable, individually or collectively, for the longer term impacts of their decisions and actions.

Board discretion is applied when determining all CEO and Disclosed Executive variable remuneration outcomes, and also before any scheduled release of previously deferred remuneration (i.e. consider malus or further deferral).

6.1 REMUNERATION MIX

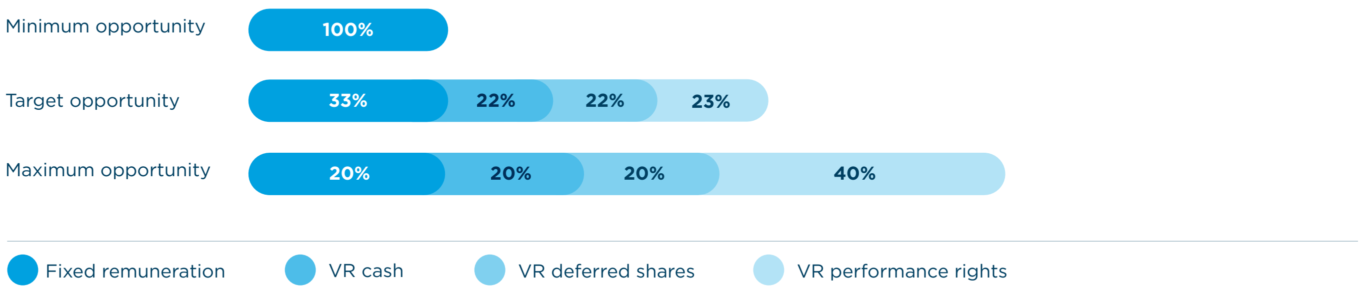
We structure the CEO and Disclosed Executives' remuneration as follows:

CEO



Minimum = Fixed remuneration ($2.1 million)
Target = Fixed remuneration + target AVR (100% of fixed remuneration) + target LTVR (100% of fixed remuneration (performance rights face value at threshold vesting))
Maximum = Fixed remuneration + maximum AVR (150% of fixed remuneration) + maximum LTVR (200% of fixed remuneration (performance rights face value to full vesting))

Disclosed Executive[1]



Minimum = Fixed remuneration
Target = Fixed remuneration + target VR (200% of fixed remuneration (performance rights face value at threshold vesting))
Maximum = Fixed remuneration + maximum VR (402% of fixed remuneration (150% of target VR and performance rights face value to full vesting))

1. Excluding CRO and Acting Group Executive and CEO, NZ.

CRO

To preserve the independence of the role and to minimise any conflicts of interest in carrying out the risk control function across the organisation, the CRO's remuneration arrangements differ to other Disclosed Executives.

The remuneration mix is 27% fixed remuneration and 73% VR maximum opportunity. The VR target opportunity is 180% of fixed remuneration and VR maximum opportunity is 270% of fixed remuneration. VR is delivered as 33% cash, 33% deferred shares and 34% deferred share rights (instead of performance rights).

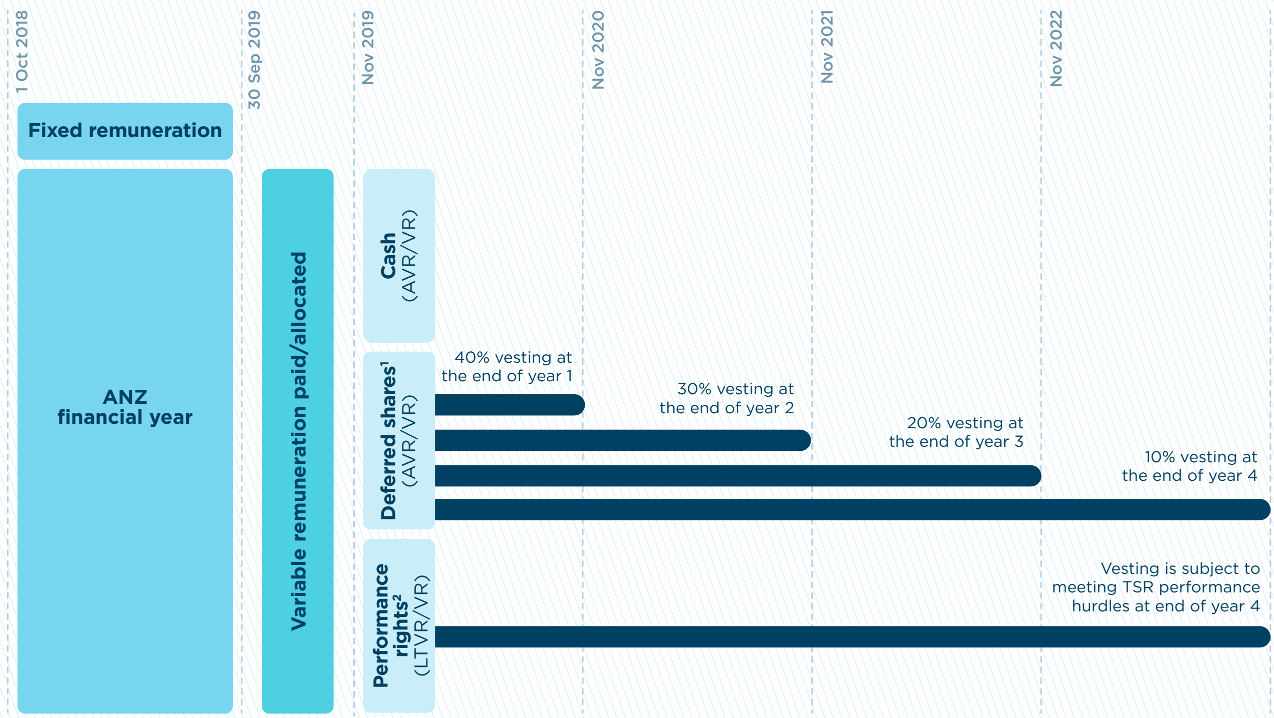
Acting Group Executive and CEO, NZ

Due to the acting nature of Antonia Watson's appointment her remuneration arrangements differ to other Disclosed Executives. For the time spent in this acting role, her fixed remuneration has been set at NZ$800,000 per annum (from 17 June 2019) and her VR maximum opportunity has been increased to 300% of fixed remuneration (her remuneration mix is therefore 25% fixed remuneration and 75% VR maximum opportunity). Her VR will be delivered as 60% cash and 40% as shares deferred for four years (ensuring compliance with the BEAR).

6.2. VARIABLE REMUNERATION DELIVERY

Variable remuneration for the CEO and the Disclosed Executives (excluding the CRO and Acting Group Executive and CEO, NZ) is delivered partly in cash, shares deferred over four years, and performance rights deferred over four years. The performance rights are also subject to performance hurdles which determine whether they vest in four years' time.

Before any scheduled release of deferred shares/deferred share rights/performance rights, the Board considers whether any malus/downward adjustment of previously deferred remuneration (or further deferral of vesting) should be made for the CEO and Disclosed Executives. See section 6.3.



1. Deferred shares for the CRO vest as follows: 30% at the end of years 1 and 2, and 20% at the end of years 3 and 4. Deferred shares for the Acting Group Executive and CEO, NZ vest as follows: 100% at the end of year 4.
2. Deferred share rights for the CRO. No performance rights for the Acting Group Executive and CEO, NZ.

6.2.1 Cash – CEO (AVR) and Disclosed Executives (VR)

The cash component is paid to executives at the end of the annual Performance and Remuneration Review (usually in late November).

6.2.2 Deferred shares – CEO (AVR) and Disclosed Executives (VR)

Deferred shares are ordinary shares, deferred over one to four years (deferred for four years for the Acting Group Executive and CEO, NZ). By deferring part of an executives' remuneration over time (and it remaining subject to malus), we enable a substantial amount of their remuneration to be directly linked to delivering long-term shareholder value. We grant deferred shares in respect of performance for the 1 October to 30 September financial year in late November each year.

We calculate the number of deferred shares to be granted based on the VWAP of the shares traded on the ASX in the week leading up to and including the date of grant. For disclosure and expensing purposes, we use the one day VWAP to determine the fair value.

In some cases (generally due to regulatory or tax reasons), we may grant deferred share rights to executives instead of deferred shares. Each deferred share right entitles the holder to one ordinary share.

6.2.3a Performance rights – CEO (LTVR) and Disclosed Executives (VR) excluding the CRO and Acting Group Executive and CEO, NZ

A performance right is a right to acquire one ordinary ANZ share at nil cost – as long as time and performance hurdles are met. The future value of performance rights may range from zero to an indeterminate value. The value depends on our performance against the hurdles and on the share price at the time of exercise.

The performance rights have a four-year performance period. For the 2019 grant, the performance period is from 22 November 2019 to 21 November 2023. A four-year performance period provides sufficient time for longer term performance to be reflected.

More detail relating to the 2019 performance rights is provided below.

Element	Detail
Performance rights hurdles	The performance rights have TSR performance hurdles reflecting the importance of focusing on achieving longer term strategic objectives and aligning executives' and shareholders' interests. We will apply two TSR performance hurdles for the 2019 grants of performance rights: • 75% will be measured against a relative TSR hurdle, tranche 1. • 25% will be measured against an absolute TSR hurdle, tranche 2. TSR represents the change in value of a share plus the value of reinvested dividends paid. We regard it as the most appropriate long-term measure – it focuses on the delivery of shareholder value and is a well understood and tested mechanism to measure performance. The combination of relative and absolute TSR hurdles provides balance to the plan by: • Relative: rewarding executives for performance that exceeds that of comparator companies; and • Absolute: ensuring there is a continued focus on providing positive growth – even when the market is declining. The two hurdles measure separate aspects of performance: • the relative TSR hurdle measures our TSR compared to that of the Select Financial Services comparator group, made up of core local and global competitors. This comparator group is chosen to broadly reflect the geographies and business segments in which ANZ competes for revenue; and • the absolute Compound Annual Growth Rate (CAGR) TSR hurdle provides executives with a more direct line of sight to the level of shareholder return to be achieved. It also provides a tighter correlation between the executives' rewards and the shareholders' financial outcomes. We will measure ANZ's TSR against each hurdle at the end of the four-year performance period to determine whether each tranche of performance rights become exercisable. We measure each tranche independently from the other – that is: one tranche may vest fully or partially but the other tranche may not vest.
Relative TSR hurdle for the 2019 grant	The relative TSR hurdle is an external hurdle that measures our TSR against that of the Select Financial Services comparator group over four years. The Select Financial Services comparator group (unchanged from prior years) is made up of: Bank of Queensland Limited; Bendigo and Adelaide Bank Limited; Commonwealth Bank of Australia Limited; DBS Bank Limited; Macquarie Group Limited; National Australia Bank Limited; Standard Chartered PLC; Suncorp Group Limited; and Westpac Banking Corporation.

If our TSR when compared to the TSR of the comparator group	then the percentage of performance rights that vest
is less than the 50th percentile	is nil
reaches at least the 50th percentile, but is less than the 75th percentile	is 50% plus 2% for every one percentile increase above the 50th percentile
reaches or exceeds the 75th percentile	is 100%

Element	Detail
Absolute TSR hurdle for the 2019 grant	The Absolute CAGR TSR hurdle is an internal hurdle as to whether ANZ achieves or exceeds a threshold level of growth the Board sets at the start of the performance period. The Board reviews and approves the absolute TSR targets each year for that year's award. When reviewing the targets, the Board references ANZ's assessed Cost of Capital. The Cost of Capital is determined using methodologies including the Capital Asset Pricing Model (CAPM). The primary driver of the reduction in the Cost of Capital used in setting this year's target is the reduction in the risk free rate (government bond yield) that has occurred in Australia and other developed economies in the last 12 months.

If the absolute CAGR of our TSR	then the percentage of performance rights that vest
is less than 8.5%	is nil
is 8.5%	is 50%
reaches at least 8.5%, but is less than 12.75%	is progressively increased on a pro-rata, straight-line, basis from 50% to 100%
reaches or exceeds 12.75%	is 100%

Calculating TSR performance	When calculating performance against TSR, we: • reduce the impact of share price volatility – by using an averaging calculation over a 90-day period for start and end values; • ensure an independent measurement – by engaging the services of an external organisation, Mercer Consulting (Australia) Pty Ltd, to calculate ANZ's performance against the TSR hurdles; and • test the performance against the relevant hurdle once only at the end of the four-year performance period – the rights lapse if the performance hurdle is not met – there is no retesting.
Calculating the number of performance rights	The number of performance rights we grant is calculated using a face value basis – i.e. the full share price. Face value at full vesting is split into two tranches. Each tranche value is then divided by the market price (five trading day VWAP of ANZ shares at the start of the performance period) to determine the number of performance rights we award in each tranche. Performance rights are allocated in November for Disclosed Executives and December for the CEO (subject to shareholder approval).
Expensing performance rights	ANZ engages PricewaterhouseCoopers to independently determine the fair value of performance rights, which is only used for expensing purposes. They consider factors including: the performance conditions, share price volatility, life of the instrument, dividend yield, and share price at grant date.

6.2.3b Deferred share rights – CRO (VR)

The CRO receives deferred share rights instead of performance rights to preserve the independence of the role and to minimise any conflicts of interest in carrying out the risk control function across the organisation.

The CRO's deferred share rights are subject to a time-based vesting hurdle of four years. The value the Board uses to determine the number of deferred share rights to be allocated to the CRO is the face value of the Company's shares traded on the ASX at the time of grant (five trading day VWAP).

6.3 MALUS (DOWNWARD ADJUSTMENT OF PREVIOUSLY DEFERRED REMUNERATION) – BOARD DISCRETION

All deferred remuneration we award to an employee is subject to ANZ's on-going and absolute discretion to adjust this downward (malus) (including to zero) at any time.

ANZ may exercise this discretion, for example, where:

- there is a need to protect the financial soundness of ANZ or to meet regulatory requirements or there has been a material failure of risk management or controls within ANZ;
- the employee has acted fraudulently or dishonestly, failed to act with due care, skill and diligence, or failed to comply with ANZ policies (including the Code of Conduct), processes or directions;
- the employee is responsible or accountable, directly or indirectly, by virtue of their role or seniority for an occurrence/event which has had an adverse impact on ANZ;
- there has been misconduct and the employee was involved directly or indirectly, failed to take adequate steps, could be considered responsible due to their seniority, or the decision to award or grant the deferred remuneration was made on the basis of misinformation.

Further, where the CEO and/or Disclosed Executives of ANZ have failed to comply with their accountability obligations under the BEAR, their deferred remuneration will be reduced by an amount that is proportionate to the failure, as required by the BEAR.

An employee's deferred remuneration is also subject to ANZ's on-going and absolute discretion to further defer the vesting. Where ANZ exercises this discretion, the vesting date is postponed and will not vest unless and until ANZ determines it should vest.

Before any scheduled release of deferred remuneration, the Board (for the CEO and Disclosed Executives) and/or the CRG (for other employees) considers whether malus/downward adjustment or further deferral should be applied.

7. ACCOUNTABILITY AND CONSEQUENCE FRAMEWORK

This year we further strengthened the way we deal with material risk events through an enhanced Accountability and Consequence Framework.

The Consequence Review Group (CRG) is chaired by the CEO and members include the CRO, CFO, GE T&C and GGM IA. The CRG oversees the implementation and ongoing effectiveness of ANZ's Accountability and Consequence Framework, being cognisant of its impact on the culture of ANZ. The CRG reviews material events, accountability and the application of suitable consequences (the HR Committee and Board determine accountability and consequences for the CEO and Disclosed Executives). Appropriate consequences are determined in light of the severity of the issue and may include, for example, one or more of the following: coaching, counselling, formal warnings, impacts to performance and remuneration outcomes, impacts on promotion, application of malus and ultimately termination of employment for the most serious issues. Our ongoing focus on accountability, consequences and driving a strong risk culture supports our customer commitment that when things go wrong, we fix them quickly and consistently hold executives, current (and former where we can), to account where appropriate.

We also seek to support a strong 'speak up' culture and ensure managers recognise exemplary risk and audit behaviours. The focus on speak up is being supported through our New Ways of Leading (NWOL) that are aligned with our purpose and values. NWOL focuses on five behaviours relevant for all employees and imperative for people leaders: be curious, create shared clarity, empower people, connect with empathy and grow people selflessly. We are incorporating culture into leader-led team activities to facilitate open, purposeful conversations about our culture and practices and create a psychologically safe environment for employees to speak up. We continue to raise employee awareness of, and promote the various ways that employees can speak up including through initiatives such as the Whistleblower Awareness Week.

Where employees role model the ANZ values and exemplary risk management we also seek to recognise and reward this, including through our annual Performance and Remuneration Review.

In 2019 across the Group, 151 employees were terminated for breaches of our Code of Conduct. A further 516 employees received a formal disciplinary outcome, with managers required to apply impacts to their performance and remuneration outcomes as part of the annual review process.

ANZ announced in June 2019 that David Hisco would depart ANZ. The Board noted their concerns regarding the characterisation of certain transactions following an internal review of personal expenses. This was a clear and public example of the application of meaningful consequences. David's employment was ceased, he was awarded no variable remuneration for 2019 and he immediately forfeited all unvested deferred remuneration which totalled around $7.4 million. This provided a clear message both internally and externally of the importance of doing the right thing and that this is expected of all our people regardless of seniority.

No malus was applied to the previously deferred remuneration of the CEO and Disclosed Executives during 2019. As disclosed in 2018 malus (downward adjustment) was applied to the unvested equity held by former Disclosed Executives.

At the senior leadership level, 30 current or former senior leaders (senior executives, executives and senior managers) had consequences applied in 2019 for Code of Conduct breaches or findings of accountability for a material event, or otherwise left the bank after an investigation had been initiated. The 30 employees represent ~1% of the senior leader population. The consequences applied included warnings, impacts to performance and/or remuneration outcomes and cessation of employment.

SENIOR LEADER CONSEQUENCES IN 2019[1]

Performance and remuneration consequence	23
Formal warnings	12
No longer employed	7

1. Individuals are included under all categories that are relevant meaning one individual may be reflected in multiple categories.

8. NON-EXECUTIVE DIRECTOR (NED) REMUNERATION

8.1 REMUNERATION STRUCTURE

The Board reviewed NED fees for 2019 and determined once again not to increase their fees (which remain unchanged from 2016).

As disclosed in last year's Remuneration Report, the NEDs who served on the Board in 2018 agreed to a 20% reduction of their Board fee for 2019 (20% reduction to the Chairman fee from $825,000 to $660,000, and 20% reduction to the NED member fee from $240,000 to $192,000) as a consequence for the shared accountability for the failures highlighted by the Royal Commission.

NEDs receive a base fee for being a Director of the Board, and additional fees for either chairing, or being a member of a Board Committee. The Chairman of the Board does not receive additional fees for serving on a Board Committee.

In setting Board and Committee fees, the Board considers: general industry practice, corporate governance principles, the responsibilities and risks attached to the NED role, the time commitment expected of NEDs on Group and Company matters, and fees paid to NEDs of comparable companies.

ANZ compares NED fees to a comparator group of Australian listed companies with a similar market capitalisation, with particular focus on the major financial services institutions. This is considered an appropriate group, given similarity in size, nature of work and time commitment by NEDs.

To maintain NED independence and impartiality:

- NED fees are not linked to the performance of the Group; and
- NEDs are not eligible to participate in any of the Group's variable remuneration arrangements.

The current aggregate fee pool for NEDs of $4 million was approved by shareholders at the 2012 AGM. The annual total of NEDs' fees, including superannuation contributions, is within this agreed limit.

This table shows the NED fee policy structure for 2019:

	Board[1, 2]	Board fee after reduction[1, 2]	Audit Committee	Risk Committee	HR Committee	Digital Business & Technology Committee	Ethics, Environment, Social & Governance Committee
Chair fee	$825,000	$660,000	$65,000	$62,000	$57,000	$35,000	$35,000
Member fee	$240,000	$192,000	$32,500	$31,000	$29,000	$15,000	$15,000

1. Including superannuation.
2. The Chairman of the Board does not receive additional fees for serving on a Board Committee.

NED shareholding guidelines

We expect our NEDs to hold ANZ shares. NEDs are required:

- to accumulate shares – over a five-year period from their appointment – to the value of 100% (200% for the Chairman) of the NED member fee; and
- to maintain this shareholding while they are a Director of ANZ.

All NEDs have met or, if appointed within the last five years, are on track to meet their minimum shareholding requirement.

8.2 2019 STATUTORY REMUNERATION - NEDS

		SHORT-TERM NED BENEFITS		POST-EMPLOYMENT	
	Financial year	Fees[1] $	Non monetary benefits $	Super contributions[1] $	Total remuneration[2] $
Current Non-Executive Directors					
D Gonski	**2019**	**639,351**	**-**	**20,649**	**660,000**
	2018	804,831	-	20,169	825,000
I Atlas	**2019**	**275,851**	**-**	**20,649**	**296,500**
	2018	324,331	-	20,169	344,500
P Dwyer	**2019**	**296,351**	**-**	**20,649**	**317,000**
	2018	344,831	-	20,169	365,000
J Halton	**2019**	**246,058**	**-**	**20,649**	**266,707**
	2018	277,567	-	20,169	297,736
J Key[3]	**2019**	**229,131**	**-**	**20,649**	**249,780**
	2018	148,546	-	11,996	160,542
G Liebelt	**2019**	**294,851**	**-**	**20,649**	**315,500**
	2018	345,858	-	20,169	366,027
J Macfarlane	**2019**	**249,851**	**-**	**20,649**	**270,500**
	2018	298,331	-	20,169	318,500
Former Non-Executive Director					
H Lee[4]	**2019**	**57,258**	**4,832**	**5,133**	**67,223**
	2018	314,831	-	20,169	335,000
Total of all Non-Executive Directors	**2019**	**2,288,702**	**4,832**	**149,676**	**2,443,210**
	2018	2,859,126	-	153,179	3,012,305

1. Year-on-year differences in fees relate to the 20% reduction to the Chairman fee and the NED member fees in 2019, changes in Committee memberships and changes to the superannuation Maximum Contribution Base.
2. Long-term benefits and share-based payments do not apply for the NEDs.
3. J Key commenced as a NED for Australia and New Zealand Banking Group Limited (ANZBGL) on 28 February 2018, so 2018 remuneration reflects a partial service year. In addition for 2018, in relation to his Non-Executive Directorship from 18 October 2017 for ANZ Bank New Zealand Limited, J Key also received a total of NZD 302,925 as a NED until 31 December 2017 and from 1 January 2018 as Chairman. In 2019, J Key also received a total of NZD 382,950 as Chairman for ANZ Bank New Zealand Limited.
4. H Lee retired as a NED on 19 December 2018, so 2019 remuneration reflects partial service year up to his date of retirement. Non monetary benefits relate to gifts on retirement including Fringe Benefits Tax.

9. REMUNERATION GOVERNANCE

9.1 THE HUMAN RESOURCES (HR) COMMITTEE

9.1.1 Role of the HR Committee

The HR Committee supports the Board on remuneration and other HR matters. It reviews the remuneration policies and practices of the Group, and monitors market practice and regulatory and compliance requirements in Australia and overseas.

The HR Committee has a strong focus on the relationship between business performance, risk management and remuneration, aligned with our business strategy. The chairs of the Risk and Audit Committees are members of the HR Committee and often the full Board is in attendance for specific HR Committee meetings. During the year the HR Committee met on six occasions and reviewed and approved, or made recommendations to the Board on matters including:

- remuneration for the CEO and other key executives (broader than those disclosed in the Remuneration Report) covered by the ANZBGL Remuneration Policy and ANZ NZ Remuneration Policy, and fees for the NEDs;
- the design of significant variable remuneration plans – for example: the ANZIP – and the progress of the implementation of changes in Divisional Business Unit Incentive Plans in response to the industry-wide Retail Remuneration Review by Stephen Sedgwick AO;
- the design and implementation of Reimagining Reward – an organisational-wide change to our approach to remuneration, performance management and recognition, which supports positive risk culture and includes the redesign of how we manage and reward our people to better focus on the interests of our customers, and the long-term health of our bank and team, rather than individual outcomes;
- the ANZ Group Performance Framework (annual objectives setting and assessment) and annual variable remuneration spend;
- performance and reward outcomes for key senior executives, including the consideration of malus/downward adjustment;
- key senior executive appointments and terminations;
- the effectiveness of the ANZBGL Remuneration Policy and changes to the policy to incorporate the BEAR requirements;
- succession plans for key senior executives;
- culture and governance including endorsing a new culture accountability model and the strengthened Accountability and Consequence Framework; and
- diversity, inclusion, and employee engagement.

More details about the role of the HR Committee, including its Charter, can be found on our website. Go to anz.com > Our company > Strong governance framework > ANZ Human Resources Committee Charter.

9.1.2 Link between remuneration and risk

To further reflect the importance of the link between remuneration and risk:

- the Board had two NEDs (in addition to the Chairman) in 2019 who served on both the HR Committee and the Risk Committee; and
- the HR Committee has free and unfettered access to risk and financial control personnel (the CRO and CFO attend HR Committee meetings for specific agenda items).

9.1.3 External advisors provided information but not recommendations

The HR Committee can engage independent external advisors as needed.

Throughout the year, the HR Committee and management received information from the following external providers: Aon, Ashurst, EY, Mercer Consulting (Australia) Pty Ltd, Morrow Sodali and PricewaterhouseCoopers. This information related to market data, market practices, legislative requirements and the interpretation of governance and regulatory requirements.

During the year, ANZ did not receive any remuneration recommendations from external consultants about the remuneration of KMP.

ANZ employs in-house remuneration professionals who provide recommendations to the HR Committee and the Board. The Board made its decisions independently, using the information provided and with careful regard to ANZ's strategic objectives, purpose and values, risk appetite and the ANZBGL Remuneration Policy and Principles.

9.2 INTERNAL GOVERNANCE

9.2.1 Hedging prohibition

All deferred equity must remain at risk until it has fully vested. Accordingly, executives and their associated persons must not enter into any schemes that specifically protect the unvested value of equity allocated. If they do so, then they forfeit the relevant equity.

9.2.2 CEO and Disclosed Executives' shareholding guidelines

We expect the CEO and each Disclosed Executive to, over a five-year period:

- accumulate ANZ shares to the value of 200% of their fixed remuneration; and
- maintain this shareholding level while they are an executive of ANZ.

For this purpose, shareholdings include all vested and unvested equity that is not subject to performance hurdles. Based on equity holdings as at 30 September 2019, the CEO and all Disclosed Executives:

- who have been with us for at least five years, meet this requirement; and
- who have been with us for less than five years, are on track to meet it.

9.2.3 CEO and Disclosed Executives' contract terms and equity treatment

The details of the contract terms and also the equity treatment on termination (in accordance with the Conditions of Grant) relating to the CEO and Disclosed Executives are below. Although they are similar, they vary in some cases to suit different circumstances.

Type of contract	Permanent ongoing employment contract.
Notice on resignation	• 12 months by CEO; • 6 months by Disclosed Executives; • 3 months by Acting Group Executive and CEO, NZ.
Notice on termination by ANZ	• 12 months by ANZ for CEO and Disclosed Executives; • 3 months by ANZ for Acting Group Executive and CEO, NZ. However, ANZ may immediately terminate an individual's employment at any time in the case of serious misconduct. In that case, the individual will be entitled only to payment of fixed remuneration up to the date of their termination and their statutory entitlements.
How unvested equity is treated on leaving ANZ	Executives who resign or are terminated will forfeit all their unvested deferred equity – unless the Board determines otherwise. If an executive is terminated due to redundancy or they are classified as a 'good leaver', then: • their deferred shares/share rights are released at the original vesting date; and • their performance rights[1] are prorated for service to the full notice termination date and released at the original vesting date (to the extent that the performance hurdles are met). On an executive's death or total and permanent disablement, their deferred equity vests. Unvested equity remains subject to malus post termination.
Change of control (applies to the CEO only)	If a change of control or other similar event occurs, then we will test the performance conditions applying to the CEO's performance rights. They will vest to the extent that the performance conditions are satisfied.

1. Or deferred share rights granted to the CRO instead of performance rights.

10. OTHER INFORMATION

10.1 2019 STATUTORY REMUNERATION – CEO AND DISCLOSED EXECUTIVES

The following table outlines the statutory remuneration disclosed in accordance with Australian Accounting Standards. While it shows the fixed remuneration awarded (cash and superannuation contributions) and also the cash component of the 2019 variable remuneration award, **it does not show the actual variable remuneration awarded or received in 2019** (see sections 5.1 and 5.2), but instead shows the amortised accounting value for this financial year of deferred remuneration (including prior year awards).

		SHORT-TERM EMPLOYEE BENEFITS				POST-EMPLOYMENT	
	Financial year	Cash salary[1] $	Non monetary benefits[2] $	Total cash incentive[3] $	Other cash[4] $	Super contributions[5] $	Retirement benefit accrued during year[6] $
CEO and Current Disclosed Executives							
S Elliott	2019	2,079,351	19,383	750,000	-	20,649	-
	2018	2,079,831	17,321	875,000	-	20,169	-
M Carnegie[9]	2019	979,351	32,221	495,000	-	21,149	-
	2018	979,831	29,254	528,000	-	20,669	-
K Corbally[10]	2019	929,351	16,633	478,500	-	20,649	-
	2018	472,582	6,383	164,835	-	10,145	-
A George[11]	2019	979,351	37,721	528,000	-	21,149	-
	2018	843,584	40,254	354,750	250,000	20,669	-
M Hand[12]	2019	710,307	10,868	198,000	-	15,693	17,851
M Jablko[13]	2019	979,351	17,083	544,500	-	21,149	-
	2018	979,831	15,341	577,500	-	20,669	-
A Watson[14, 15]	2019	214,999	273	170,255	-	4,441	-
M Whelan	2019	1,179,351	13,883	874,500	-	20,649	-
	2018	1,179,831	11,821	717,750	-	20,169	-
Former Disclosed Executives							
D Hisco[15, 16]	2019	746,754	246,687	-	-	96,767	-
	2018	1,168,324	477,076	644,397	-	2,389	2,305
F Ohlsson[17]	2019	235,044	24,143	-	-	4,956	-
	2018	979,831	31,668	396,000	-	20,169	-

1. Cash salary includes any adjustments required to reflect the use of ANZ's Lifestyle Leave Policy for the period in the KMP role.
2. Non monetary benefits generally consist of company-funded benefits (and the associated Fringe Benefits Tax) such as car parking, taxation services and costs met by the Company in relation to relocation and cessation.
3. The total cash incentive relates to the cash component only. The relevant amortisation of the AVR/VR deferred components is included in share-based payments and has been amortised over the vesting period. The total AVR/VR was approved by the Board on 25 October 2019. 100% of the cash component of the AVR/VR awarded for the 2018 and 2019 years vested to the executive in the applicable financial year.
4. Other cash and other equity allocations relate to employment arrangements such as compensation for bonus opportunity foregone and deferred remuneration forfeited, retention awards, and shares received in relation to the Employee Share Offer. For further details, see the individual footnotes for each relevant executive.
5. For all Australian based executives, the 2018 and 2019 superannuation contributions reflect the Superannuation Guarantee Contribution based on the Maximum Contribution Base. From 31 August 2018, D Hisco commenced superannuation contributions to KiwiSaver where ANZ provides an employer contribution matching member contributions up to 4% of total gross pay (less employer superannuation contribution tax). A Watson also participates in KiwiSaver.
6. Accrual relates to Retirement Allowance. As a result of being employed with ANZ before November 1992, M Hand is, and D Hisco was eligible to receive a Retirement Allowance on retirement, retrenchment, death, or resignation for illness, incapacity or domestic reasons. The Retirement Allowance is calculated as three months of preserved notional salary (which is 65% of fixed remuneration) plus an additional 3% of notional salary for each year of full-time service above 10 years less the total accrual value of long service leave (including taken and untaken).
7. As required by AASB 2 Share-based payments, the amortisation value includes a proportion of the fair value (taking into account market-related vesting conditions) of all equity that had not yet fully vested as at the commencement of the financial year. The fair value is determined at grant date and is allocated on a straight-line basis over the relevant vesting period. The amount included as remuneration neither relates to, nor indicates, the benefit (if any) that the executive may ultimately realise if the equity becomes exercisable.
8. Termination benefits reflect payment for accrued annual leave, long service leave and pay in lieu of notice in accordance with contract, payable on cessation.
9. 2018 other equity allocations for M Carnegie relate to previously disclosed compensation for bonus opportunity foregone and deferred remuneration forfeited.
10. K Corbally commenced in a Disclosed Executive role on 19 March 2018. So his 2018 remuneration reflects a partial service year. K Corbally's fixed remuneration was adjusted on 1 April 2019 based on a review of internal and external market relativities, and in recognition of the increase in regulatory activity and the broader risk environment. In relation to K Corbally's role before his appointment to the Group Executive Committee, in August 2016 the Board approved an equity retention award of $600,000 vesting in August 2019. Other equity allocations relate to this award.

LONG-TERM EMPLOYEE BENEFITS	SHARE-BASED PAYMENTS[7]					
	Total amortisation value of					
	Variable remuneration			Other equity allocations[4]		
Long service leave accrued during the year $	Shares $	Share rights $	Performance rights $	Shares $	Termination benefits[8] $	Total remuneration $
31,819	**830,753**	**-**	**1,449,384**	**-**	**-**	**5,181,339**
31,819	1,023,295	-	1,597,860	-	-	5,645,295
15,152	**470,209**	**-**	**344,501**	**-**	**-**	**2,357,583**
15,152	366,123	-	282,708	353,951	-	2,575,688
29,179	**340,108**	**171,583**	**35,455**	**194,492**	**-**	**2,215,950**
24,255	172,709	40,943	33,129	118,316	-	1,043,297
15,152	**392,589**	**-**	**260,314**	**-**	**-**	**2,234,276**
26,767	308,376	-	194,781	-	-	2,039,181
80,949	**259,006**	**-**	**129,198**	**-**	**-**	**1,421,872**
15,152	**539,647**	**-**	**400,011**	**133,552**	**-**	**2,650,445**
15,152	436,228	-	331,802	323,545	-	2,700,068
3,580	**35,358**	**83,500**	**11,290**	**141**	**-**	**523,837**
18,182	**839,283**	**-**	**717,098**	**-**	**-**	**3,662,946**
18,182	730,160	-	723,576	-	-	3,401,489
-	**-**	**(686,411)**	**(902,582)**	**(871)**	**2,112,376**	**1,612,720**
3,782	-	589,413	651,112	475	-	3,539,273
3,636	**55,668**	**13,050**	**67,641**	**10**	**-**	**404,148**
15,152	283,517	127,777	341,086	284	-	2,195,484

11. A George's fixed remuneration was adjusted in May 2018 when she commenced in the expanded role of Deputy CEO and Group Executive, Wealth Australia. As disclosed in 2017, in relation to A George's role before her appointment to the Group Executive Committee, in July 2016 the Board approved a cash retention award of $500,000 with partial vesting in June 2017 ($250,000) and December 2017 ($250,000).
12. M Hand commenced in a Disclosed Executive role on 29 December 2018. So his 2019 remuneration reflects a partial service year. M Hand's fixed remuneration was adjusted on 1 March 2019 on appointment to the Group Executive, Australia Retail and Commercial Banking role.
13. Other cash and other equity allocations for M Jablko relate to previously disclosed compensation for bonus opportunity foregone and deferred remuneration forfeited.
14. A Watson commenced in a Disclosed Executive role on 17 June 2019. So her 2019 remuneration reflects a partial service year. A Watson's fixed remuneration is paid in NZD and converted to AUD.
15. In 2016 A Watson, D Hisco and F Ohlsson, and in 2018 and 2019 A Watson and D Hisco, were eligible to receive shares under the Employee Share Offer. That offer provides a grant of ANZ shares in each financial year to eligible employees subject to Board approval. See Note 31 Employee Share and Option Plans for further details on the Employee Share Offer.
16. D Hisco ceased employment 14 June 2019. Remuneration reflects up to his date of cessation (noting his annual fixed remuneration for 2019 remained unchanged at NZD 1.274 million). Share-based payments include the expensing treatment on cessation for unvested deferred remuneration (including reversals for forfeiture on cessation). D Hisco's fixed remuneration was paid in NZD and converted to AUD. Termination benefits reflect payment for accrued annual leave, long service leave and pay in lieu of notice in accordance with his contract, payable on cessation. Following an internal review it was determined that certain expense and allowances previously provided to D Hisco and categorised as business related would more appropriately be characterised as non-business related and included as non monetary benefits in the Remuneration Report. The 2018 comparative balances have been restated to increase non monetary benefits by $8,360 plus related Fringe Benefit Tax of $4,117. Similar items existed in the period between 2010-2017 which would have increased the non monetary benefits disclosed for D Hisco on average each year by approximately $44,580 plus related Fringe Benefit Tax of $21,956.
17. F Ohlsson concluded in his role 28 December 2018. Remuneration reflects up to his date of conclusion in role (noting his annual fixed remuneration for 2019 remained unchanged at $1 million).

10.2 EQUITY HOLDINGS

For the equity granted to the CEO and Disclosed Executives in November/December 2018, all deferred shares were purchased on the market. For deferred share rights and performance rights, we will determine our approach to satisfying awards closer to the time of vesting.

10.2.1 CEO and Disclosed Executives equity granted, vested, exercised/sold and lapsed/forfeited

The table below sets out details of deferred shares and rights that we granted to the CEO and Disclosed Executives:

- during the 2019 year; or
- in prior years and that then vested, were exercised/sold or which lapsed/were forfeited during the 2019 year.

							Vested			Lapsed/ Forfeited			Exercised/Sold				
Name	Type of equity	Number granted[1]	Equity fair value at grant (for 2019 grants only) $	Grant date	First date exercisable	Date of expiry	Number	%	Value[2] $	Number	%	Value[2] $	Number	%	Value[2] $	Vested and exercisable as at 30 Sep 2019[3]	Unexercisable as at 30 Sep 2019[4]
CEO and Current Disclosed Executives																	
S Elliott	Deferred shares	22,796		18 Nov 15	18 Nov 17	-	-	-	-	-	-	-	(22,796)	100	625,278	-	-
	Deferred shares	6,941		22 Nov 16	22 Nov 17	-	-	-	-	-	-	-	(6,941)	100	190,387	-	-
	Deferred shares	6,941		22 Nov 16	22 Nov 18	-	6,941	100	178,543	-	-	-	(6,941)	100	190,387	-	-
	Deferred shares	8,531		22 Nov 17	22 Nov 18	-	8,531	100	219,443	-	-	-	(8,531)	100	233,999	-	-
	Deferred shares	8,623	25.72	22 Nov 18	22 Nov 19	-	-	-	-	-	-	-	-	-	-	-	8,623
	Deferred shares	8,622	25.72	22 Nov 18	22 Nov 20	-	-	-	-	-	-	-	-	-	-	-	8,622
	Deferred shares	8,622	25.72	22 Nov 18	22 Nov 21	-	-	-	-	-	-	-	-	-	-	-	8,622
	Deferred shares	8,622	25.72	22 Nov 18	22 Nov 22	-	-	-	-	-	-	-	-	-	-	-	8,622
	Performance rights	53,191		17 Dec 15	17 Dec 18	17 Dec 20	34,733	65	845,478	(18,458)	35	(449,308)	-	-	-	34,733	-
	Performance rights	53,191		17 Dec 15	17 Dec 18	17 Dec 20	-	-	-	(53,191)	100	(1,294,786)	-	-	-	-	-
	Performance rights	53,191		17 Dec 15	17 Dec 18	17 Dec 20	-	-	-	(53,191)	100	(1,294,786)	-	-	-	-	-
	Performance rights	82,774	8.33	19 Dec 18	19 Dec 21	26 Dec 21	-	-	-	-	-	-	-	-	-	-	82,774
	Performance rights	27,591	3.77	19 Dec 18	19 Dec 21	26 Dec 21	-	-	-	-	-	-	-	-	-	-	27,591
M Carnegie	Deferred shares	7,228		20 Aug 16	01 Jun 18	-	-	-	-	-	-	-	(7,228)	100	198,259	-	-
	Deferred shares	15,752		20 Aug 16	20 Aug 17	-	-	-	-	-	-	-	(15,752)	100	432,066	-	-
	Deferred shares	1,182		22 Nov 16	22 Nov 17	-	-	-	-	-	-	-	(1,182)	100	32,421	-	-
	Deferred shares	1,182		22 Nov 16	22 Nov 18	-	1,182	100	30,405	-	-	-	(1,182)	100	32,421	-	-
	Deferred shares	4,785		22 Nov 17	22 Nov 18	-	4,785	100	123,085	-	-	-	-	-	-	4,785	-
	Deferred shares	5,205	25.72	22 Nov 18	22 Nov 19	-	-	-	-	-	-	-	-	-	-	-	5,205
	Deferred shares	5,202	25.72	22 Nov 18	22 Nov 20	-	-	-	-	-	-	-	-	-	-	-	5,202
	Deferred shares	5,202	25.72	22 Nov 18	22 Nov 21	-	-	-	-	-	-	-	-	-	-	-	5,202
	Deferred shares	5,202	25.72	22 Nov 18	22 Nov 22	-	-	-	-	-	-	-	-	-	-	-	5,202
	Performance rights	32,163	10.39	22 Nov 18	22 Nov 21	22 Nov 23	-	-	-	-	-	-	-	-	-	-	32,163
	Performance rights	10,721	5.15	22 Nov 18	22 Nov 21	22 Nov 23	-	-	-	-	-	-	-	-	-	-	10,721
K Corbally[5]	Deferred shares	3,780		18 Nov 15	18 Nov 18	-	3,780	100	96,260	-	-	-	(3,780)	100	101,361	-	-
	Deferred shares	5,517		22 Nov 16	22 Nov 18	-	5,517	100	141,914	-	-	-	(5,517)	100	147,939	-	-
	Deferred shares	21,497		22 Nov 16	20 Aug 19	-	21,497	100	573,129	-	-	-	-	-	-	21,497	-
	Deferred shares	4,231		22 Nov 17	22 Nov 18	-	4,231	100	108,834	-	-	-	(4,231)	100	113,455	-	-
	Deferred shares	3,010	25.72	22 Nov 18	22 Nov 19	-	-	-	-	-	-	-	-	-	-	-	3,010
	Deferred shares	3,007	25.72	22 Nov 18	22 Nov 20	-	-	-	-	-	-	-	-	-	-	-	3,007
	Deferred shares	3,007	25.72	22 Nov 18	22 Nov 21	-	-	-	-	-	-	-	-	-	-	-	3,007
	Deferred shares	3,007	25.72	22 Nov 18	22 Nov 22	-	-	-	-	-	-	-	-	-	-	-	3,007
	Deferred share rights	14,546	21.62	22 Nov 18	22 Nov 21	29 Nov 21	-	-	-	-	-	-	-	-	-	-	14,546
	Performance rights	5,005		18 Nov 15	18 Nov 18	18 Nov 20	3,268	65	83,221	(1,737)	35	(44,234)	(3,268)	65	87,632	-	-
	Performance rights	5,515		18 Nov 15	18 Nov 18	18 Nov 20	-	-	-	(5,515)	100	(140,442)	-	-	-	-	-

Name	Type of equity	Number granted[1]	Equity fair value at grant (for 2019 grants only) $	Grant date	First date exercisable	Date of expiry	Vested			Lapsed/ Forfeited			Exercised/Sold			Vested and exer-cisable as at 30 Sep 2019[3]	Unexer-cisable as at 30 Sep 2019[4]
							Number	%	Value[2] $	Number	%	Value[2] $	Number	%	Value[2] $		
CEO and Current Disclosed Executives																	
A George	Deferred shares	2,074		18 Nov 15	18 Nov 18	-	2,074	100	52,815	-	-	-	-	-	-	2,074	-
	Deferred shares	4,801		22 Nov 16	22 Nov 18	-	4,801	100	123,496	-	-	-	-	-	-	4,801	-
	Deferred shares	3,096		22 Nov 17	22 Nov 18	-	3,096	100	79,638	-	-	-	-	-	-	3,096	-
	Deferred shares	3,498	25.72	22 Nov 18	22 Nov 19	-	-	-	-	-	-	-	-	-	-	-	3,498
	Deferred shares	3,495	25.72	22 Nov 18	22 Nov 20	-	-	-	-	-	-	-	-	-	-	-	3,495
	Deferred shares	3,495	25.72	22 Nov 18	22 Nov 21	-	-	-	-	-	-	-	-	-	-	-	3,495
	Deferred shares	3,495	25.72	22 Nov 18	22 Nov 22	-	-	-	-	-	-	-	-	-	-	-	3,495
	Performance rights	2,746		18 Nov 15	18 Nov 18	18 Nov 20	1,793	65	45,660	(953)	35	(24,269)	-	-	-	1,793	-
	Performance rights	3,026		18 Nov 15	18 Nov 18	18 Nov 20	-	-	-	(3,026)	100	(77,059)	-	-	-	-	-
	Performance rights	21,610	10.39	22 Nov 18	22 Nov 21	22 Nov 23	-	-	-	-	-	-	-	-	-	-	21,610
	Performance rights	7,203	5.15	22 Nov 18	22 Nov 21	22 Nov 23	-	-	-	-	-	-	-	-	-	-	7,203
M Hand[5]	Performance rights	4,663		18 Nov 15	18 Nov 18	18 Nov 20	-	-	-	-	-	-	(4,663)	100	132,474	-	-
M Jablko	Deferred shares	11,444		20 Aug 16	27 Feb 19	-	11,444	100	318,564	-	-	-	-	-	-	11,444	-
	Deferred shares	1,182		22 Nov 16	22 Nov 18	-	1,182	100	30,405	-	-	-	-	-	-	1,182	-
	Deferred shares	6,305		22 Nov 17	22 Nov 18	-	6,305	100	162,184	-	-	-	-	-	-	6,305	-
	Deferred shares	5,693	25.72	22 Nov 18	22 Nov 19	-	-	-	-	-	-	-	-	-	-	-	5,693
	Deferred shares	5,690	25.72	22 Nov 18	22 Nov 20	-	-	-	-	-	-	-	-	-	-	-	5,690
	Deferred shares	5,690	25.72	22 Nov 18	22 Nov 21	-	-	-	-	-	-	-	-	-	-	-	5,690
	Deferred shares	5,690	25.72	22 Nov 18	22 Nov 22	-	-	-	-	-	-	-	-	-	-	-	5,690
	Performance rights	35,179	10.39	22 Nov 18	22 Nov 21	22 Nov 23	-	-	-	-	-	-	-	-	-	-	35,179
	Performance rights	11,726	5.15	22 Nov 18	22 Nov 21	22 Nov 23	-	-	-	-	-	-	-	-	-	-	11,726
A Watson[5]																	
M Whelan	Deferred shares	6,724		22 Nov 16	22 Nov 18	-	6,724	100	172,961	-	-	-	(6,724)	100	177,848	-	-
	Deferred shares	9,219		22 Nov 17	22 Nov 18	-	9,219	100	237,140	-	-	-	(9,219)	100	243,840	-	-
	Deferred shares	7,075	25.72	22 Nov 18	22 Nov 19	-	-	-	-	-	-	-	-	-	-	-	7,075
	Deferred shares	7,072	25.72	22 Nov 18	22 Nov 20	-	-	-	-	-	-	-	-	-	-	-	7,072
	Deferred shares	7,072	25.72	22 Nov 18	22 Nov 21	-	-	-	-	-	-	-	-	-	-	-	7,072
	Deferred shares	7,072	25.72	22 Nov 18	22 Nov 22	-	-	-	-	-	-	-	-	-	-	-	7,072
	Performance rights	17,730		18 Nov 15	18 Nov 18	18 Nov 20	11,577	65	294,814	(6,153)	35	(156,689)	(11,577)	65	310,934	-	-
	Performance rights	17,730		18 Nov 15	18 Nov 18	18 Nov 20	-	-	-	(17,730)	100	(451,503)	-	-	-	-	-
	Performance rights	17,730		18 Nov 15	18 Nov 18	18 Nov 20	-	-	-	(17,730)	100	(451,503)	-	-	-	-	-
	Performance rights	43,722	10.39	22 Nov 18	22 Nov 21	22 Nov 23	-	-	-	-	-	-	-	-	-	-	43,722
	Performance rights	14,574	5.15	22 Nov 18	22 Nov 21	22 Nov 23	-	-	-	-	-	-	-	-	-	-	14,574

Name	Type of equity	Number granted[1]	Equity fair value at grant (for 2019 grants only) $	Grant date	First date exercisable	Date of expiry	Vested Number	Vested %	Vested Value[2] $	Lapsed/ Forfeited Number	Lapsed/ Forfeited %	Lapsed/ Forfeited Value[2] $	Exercised/Sold Number	Exercised/Sold %	Exercised/Sold Value[2] $	Vested and exer-cisable as at 30 Sep 2019[3]	Unexer-cisable as at 30 Sep 2019[4]
Former Disclosed Executives																	
D Hisco[6]	Employee Share Offer	26		03 Dec 15	03 Dec 18	-	26	100	697	-	-	-	-	-	-	26	-
	Employee Share Offer	24		01 Dec 17	01 Dec 20	-	-	-	-	(24)	100	(677)	-	-	-	-	-
	Employee Share Offer	29		03 Dec 18	03 Dec 21	-	-	-	-	(29)	100	(818)	-	-	-	-	-
	Deferred share rights	7,386		22 Nov 16	22 Nov 18	22 Nov 20	7,386	100	189,990	-	-	-	(7,386)	100	198,057	-	-
	Deferred share rights	7,867		22 Nov 16	22 Nov 19	22 Nov 21	-	-	-	(7,867)	100	(221,851)	-	-	-	-	-
	Deferred share rights	8,379		22 Nov 16	22 Nov 20	22 Nov 22	-	-	-	(8,379)	100	(236,289)	-	-	-	-	-
	Deferred share rights	6,565		22 Nov 17	22 Nov 18	22 Nov 20	6,565	100	168,871	-	-	-	(6,565)	100	176,042	-	-
	Deferred share rights	6,942		22 Nov 17	22 Nov 19	22 Nov 21	-	-	-	(6,942)	100	(195,766)	-	-	-	-	-
	Deferred share rights	7,344		22 Nov 17	22 Nov 20	22 Nov 22	-	-	-	(7,344)	100	(207,102)	-	-	-	-	-
	Deferred share rights	7,764		22 Nov 17	22 Nov 21	22 Nov 23	-	-	-	(7,764)	100	(218,946)	-	-	-	-	-
	Deferred share rights	6,632	24.29	22 Nov 18	22 Nov 19	22 Nov 21	-	-	-	(6,632)	100	(187,024)	-	-	-	-	-
	Deferred share rights	7,031	22.91	22 Nov 18	22 Nov 20	22 Nov 22	-	-	-	(7,031)	100	(198,276)	-	-	-	-	-
	Deferred share rights	7,451	21.62	22 Nov 18	22 Nov 21	22 Nov 23	-	-	-	(7,451)	100	(210,120)	-	-	-	-	-
	Deferred share rights	7,900	20.39	22 Nov 18	22 Nov 22	22 Nov 24	-	-	-	(7,900)	100	(222,782)	-	-	-	-	-
	Performance rights	17,711		18 Nov 15	18 Nov 18	18 Nov 20	11,565	65	294,509	(6,146)	35	(156,511)	(11,565)	65	310,118	-	-
	Performance rights	17,711		18 Nov 15	18 Nov 18	18 Nov 20	-	-	-	(17,711)	100	(451,019)	-	-	-	-	-
	Performance rights	17,711		18 Nov 15	18 Nov 18	18 Nov 20	-	-	-	(17,711)	100	(451,019)	-	-	-	-	-
	Performance rights	40,198		22 Nov 16	22 Nov 19	22 Nov 21	-	-	-	(40,198)	100	(1,133,592)	-	-	-	-	-
	Performance rights	13,399		22 Nov 16	22 Nov 19	22 Nov 21	-	-	-	(13,399)	100	(377,854)	-	-	-	-	-
	Performance rights	38,290		22 Nov 17	22 Nov 20	22 Nov 22	-	-	-	(38,290)	100	(1,079,786)	-	-	-	-	-
	Performance rights	12,763		22 Nov 17	22 Nov 20	22 Nov 22	-	-	-	(12,763)	100	(359,919)	-	-	-	-	-
	Performance rights	39,254	10.39	22 Nov 18	22 Nov 21	22 Nov 23	-	-	-	(39,254)	100	(1,106,971)	-	-	-	-	-
	Performance rights	13,084	5.15	22 Nov 18	22 Nov 21	22 Nov 23	-	-	-	(13,084)	100	(368,971)	-	-	-	-	-
F Ohlsson[7]	Deferred shares	4,562		22 Nov 17	22 Nov 18	-	4,562	100	117,348	-	-	-	(4,562)	100	106,436	-	-
	Deferred shares	3,902	25.72	22 Nov 18	22 Nov 19	-	-	-	-	-	-	-	-	-	-	-	3,902
	Deferred shares	3,902	25.72	22 Nov 18	22 Nov 20	-	-	-	-	-	-	-	-	-	-	-	3,902
	Deferred shares	3,902	25.72	22 Nov 18	22 Nov 21	-	-	-	-	-	-	-	-	-	-	-	3,902
	Deferred shares	3,902	25.72	22 Nov 18	22 Nov 22	-	-	-	-	-	-	-	-	-	-	-	3,902
	Employee Share Offer	25		04 Dec 13	04 Dec 16	-	-	-	-	-	-	-	(25)	100	583	-	-
	Employee Share Offer	23		04 Dec 14	04 Dec 17	-	-	-	-	-	-	-	(23)	100	537	-	-
	Employee Share Offer	26		03 Dec 15	03 Dec 18	-	26	100	697	-	-	-	(26)	100	607	-	-
	Deferred share rights	4,627		18 Nov 15	18 Nov 18	18 Nov 20	4,627	100	117,829	-	-	-	(4,627)	100	124,272	-	-
	Deferred share rights	4,314		22 Nov 16	22 Nov 18	29 Nov 18	4,314	100	110,969	-	-	-	(4,314)	100	110,969	-	-
	Performance rights	5,190		18 Nov 15	18 Nov 18	18 Nov 20	3,389	65	86,303	(1,801)	35	(45,863)	(3,389)	65	91,021	-	-
	Performance rights	5,720		18 Nov 15	18 Nov 18	18 Nov 20	-	-	-	(5,720)	100	(145,663)	-	-	-	-	-
	Performance rights	24,122	10.39	22 Nov 18	22 Nov 21	22 Nov 23	-	-	-	-	-	-	-	-	-	-	24,122
	Performance rights	8,040	5.15	22 Nov 18	22 Nov 21	22 Nov 23	-	-	-	-	-	-	-	-	-	-	8,040

1. For the purpose of the five highest paid executive disclosures, Executives are defined as Disclosed Executives or other members of the Group Executive Committee. For the 2019 financial year the five highest paid executives include four Disclosed Executives and the Group Executive, International (F Faruqui). Rights granted to Disclosed Executives as remuneration in 2019 are included in the table. Rights granted to F Faruqui as remuneration in 2019 include four tranches of deferred share rights and two tranches of performance rights granted on 22 Nov 2018. (7,132 (tranche 1) deferred share rights first exercisable 22 Nov 2019, expiring 29 Nov 2019; 7,562 (tranche 2) deferred share rights first exercisable 22 Nov 2020, expiring 29 Nov 2020; 8,013 (tranche 3) deferred share rights first exercisable 22 Nov 2021, expiring 29 Nov 2021; 8,496 (tranche 4) deferred share rights first exercisable 22 Nov 2022, expiring 29 Nov 2022; 42,215 (tranche 1) and 14,071 (tranche 2) performance rights first exercisable 22 Nov 2021 subject to meeting performance hurdles, expiring 22 Nov 2023). No rights have been granted to the CEO, Disclosed Executives or the five highest paid executives since the end of 2019 up to the Directors' Report sign-off date.
2. The point in time value of shares/share rights and/or performance rights is based on the one day VWAP of the Company's shares traded on the ASX on the date of vesting, lapsing/forfeiture or exercising/sale/transfer out of trust, multiplied by the number of shares/share rights and/or performance rights. The exercise price for all share rights/performance rights is \$0.00. No terms of share-based payment transactions have been altered or modified during the reporting period.
3. The number vested and exercisable is the number of shares, options and rights that remain vested at the end of the reporting period. No shares, options and rights were vested and unexercisable.
4. Performance rights granted in prior years (by grant date) that remained unexerciseable at 30 Sep 2019 or date ceased in a Disclosed Executive role include:

	Nov-16	Nov-17	Nov-18
S Elliott	150,482	143,294	110,365
M Carnegie	9,745	39,440	42,884
K Corbally	5,445	4,230	-
A George	4,738	25,520	28,813
M Hand	7,920	6,277	26,802
M Jablko	9,745	51,968	46,905
A Watson	3,649	3,934	4,802
M Whelan	55,428	75,980	58,296
D Hisco	-	-	-
F Ohlsson	31,306	37,584	32,162

5. Equity disclosed from commencement in Disclosed Executive role. There are no disclosable transactions since commencement for A Watson.
6. Equity transactions disclosed up to date of cessation of employment.
7. Equity transactions disclosed up to date ceased in a Disclosed Executive role.

10.2.2 NED, CEO and Disclosed Executives equity holdings

The table below sets out details of equity held directly, indirectly or beneficially by each NED, the CEO and each Disclosed Executive, including their related parties.

Name	Type of equity	Opening balance at 1 Oct 2018	Granted during the year as remuneration[1]	Received during the year on exercise of options or rights	Resulting from any other changes during the year[2]	Closing balance at 30 Sep 2019[3, 4]
Current Non-Executive Directors						
D Gonski	Ordinary shares	31,488	-	-	-	31,488
I Atlas	Ordinary shares	14,360	-	-	-	14,360
P Dwyer	Ordinary shares	17,500	-	-	-	17,500
J Halton	Ordinary shares	9,049	-	-	-	9,049
J Key	Ordinary shares	3,000	-	-	-	3,000
G Liebelt	Ordinary shares	20,315	-	-	-	20,315
	Capital notes 1	1,500	-	-	-	1,500
	Capital notes 2	2,500	-	-	-	2,500
J Macfarlane	Ordinary shares	17,851	-	-	-	17,851
	Capital notes 2	2,000	-	-	-	2,000
	Capital notes 3	5,000	-	-	-	5,000
Former Non-Executive Directors						
H Lee[6]	Directors' Share Plan	2,662	-	-	-	2,662
	Ordinary shares	8,000	-	-	82	8,082
CEO and Current Disclosed Executives						
S Elliott	Deferred shares	92,089	34,489	-	(52,620)	73,958
	Ordinary shares	131,679	-	-	57,579	189,258
	Performance rights	453,349	110,365	-	(124,840)	438,874
M Carnegie	Deferred shares	62,921	20,811	-	(29,000)	54,732
	Ordinary shares	14	-	-	3,057	3,071
	Performance rights	49,185	42,884	-	-	92,069
K Corbally	Deferred shares	45,639	12,031	-	(15,039)	42,631
	Ordinary shares	-	-	3,268	(1,918)	1,350
	Deferred share rights	-	14,546	-	-	14,546
	Performance rights	20,195	-	(3,268)	(7,252)	9,675
A George	Deferred shares	44,979	13,983	-	-	58,962
	Ordinary shares	2,678	-	-	2,936	5,614
	Capital notes 1	802	-	-	-	802
	Performance rights	36,030	28,813	-	(3,979)	60,864
M Hand[5]	Deferred shares	26,434	-	-	-	26,434
	Ordinary shares	1,081	-	4,663	(4,984)	760
	Performance rights	45,662	-	(4,663)	-	40,999
M Jablko	Deferred shares	61,731	22,763	-	-	84,494
	Ordinary shares	-	-	-	2,925	2,925
	Performance rights	61,713	46,905	-	-	108,618
A Watson[5]	Employee Share Offer	102	-	-	-	102
	Deferred share rights	22,129	-	-	-	22,129
	Performance rights	12,385	-	-	-	12,385
M Whelan	Deferred shares	59,980	28,291	-	(18,878)	69,393
	Ordinary shares	-	-	11,577	(11,577)	-
	Performance rights	184,598	58,296	(11,577)	(41,613)	189,704
Former Disclosed Executives						
D Hisco[6]	Employee Share Offer	98	29	-	(53)	74
	Ordinary shares	138,000	-	25,516	(138,516)	25,000
	Deferred share rights	52,247	29,014	(13,951)	(67,310)	-
	Performance rights	157,783	52,338	(11,565)	(198,556)	-
F Ohlsson[6]	Deferred shares	18,765	15,608	-	(5,088)	29,285
	Employee Share Offer	74	-	-	(74)	-
	Ordinary shares	4,050	-	12,330	(16,380)	-
	Deferred share rights	18,430	-	(8,941)	-	9,489
	Performance rights	79,800	32,162	(3,389)	(7,521)	101,052

1. Details of options/rights granted as remuneration during 2019 are provided in the previous table.
2. Shares resulting from any other changes during the year include the net result of any shares purchased (including under the ANZ Share Purchase Plan), forfeited, sold or acquired under the Dividend Reinvestment Plan.
3. The following shares (included in the holdings above) were held on behalf of the NEDs, CEO and Disclosed Executives (i.e. indirect beneficially held shares) as at 30 September 2019: D Gonski - 31,488, I Atlas - 14,360, P Dwyer - 17,500, J Halton - 0, J Key - 3,000, G Liebelt - 8,158, J Macfarlane - 24,851, H Lee - 2,662, S Elliott - 261,087, M Carnegie - 54,732, K Corbally - 42,631, A George - 62,442, M Hand - 26,434, M Jablko - 84,494, A Watson - 102, M Whelan - 69,393, D Hisco - 25,000 and F Ohlsson - 29,285.
4. 36,526 rights were vested and exercisable, and zero options/rights were vested and unexerciseable as at 30 September 2019. There was no change in the balance as at the Directors' Report sign-off date.
5. Commencing balance is based on holdings as at the date of commencement in a KMP role.
6. Concluding balance is based on holdings as at the date ceased in a KMP role.

10.3 LOANS

10.3.1 Overview

When we lend to NEDs, the CEO or Disclosed Executives, we do so in the ordinary course of business and on normal commercial terms and conditions that are no more favourable than those given to other employees or customers – this includes the term of the loan, the security required and the interest rate. No amounts have been written off during the period, or individual provisions raised in respect of these balances.

The table below sets out details of loans outstanding to NEDs, the CEO and Disclosed Executives including their related parties, if – at any time during the year – the individual's aggregate loan balance exceeded $100,000.

Total loans to NEDs, the CEO and Disclosed Executives, including their related parties at 30 September 2019 (including those with balances less than $100,000) was $26,862,152 (2018: $25,000,240) with interest paid of $738,710 (2018: $931,926) during the period.

10.3.2 NED, CEO and Disclosed Executives loan transactions

Name	Opening balance at 1 October 2018 $	Closing balance at 30 September 2019 $	Interest paid and payable in the reporting period[1] $	Highest balance in the reporting period $
Current Non-Executive Directors				
J Macfarlane[2]	11,142,758	13,330,653	453,647	15,746,151
Current CEO and Disclosed Executives				
S Elliott[2]	3,011,535	2,926,267	106,450	3,036,159
A George[3]	1,731,394	1,594,166	64,245	1,747,316
M Hand[4]	4,483,147	4,437,179	66,311	5,503,012
M Whelan[2]	1,721,465	1,657,264	40,452	1,762,791
Former Disclosed Executives				
F Ohlsson[2, 5]	2,887,607	2,874,688	7,357	2,909,358
Total	**24,977,906**	**26,820,217**	**738,462**	**30,704,787**

1. Actual interest paid after considering offset accounts. The loan balance is shown gross, however the interest paid takes into account the impact of offset amounts.
2. Opening balances have been restated to include credit card balances.
3. Opening balance has been restated to exclude an available for redraw component previously included within loans.
4. Opening balance is as at the date of commencement in a KMP role.
5. Closing balance is as at the date ceased in a KMP role.

10.4 OTHER TRANSACTIONS

Other transactions with NEDs, the CEO and Disclosed Executives, and their related parties included deposits.

	Opening balance at 1 October 2018[1] $	Closing balance at 30 September 2019[2, 3] $
Total KMP deposits	55,943,066	**60,237,940**

1. Opening balance is at 1 October 2018 or the date of commencement as KMP if part way through the year.
2. Closing balance is at 30 September 2019 or at the date of cessation as KMP if part way through the year.
3. Interest paid on deposits for 2019 was $705,949.

Other transactions with KMP and their related parties included amounts paid to the Group in respect of insurance premiums, investment management service fees, brokerage, bank fees and charges. The Group has reimbursed KMP for the costs incurred for secretarial services associated with the performance of their duties. These transactions are conducted on normal commercial terms and conditions are no more favourable than those given to other employees or customers.

Directors' Report

The Directors' Report for the financial year ended 30 September 2019 has been prepared in accordance with the requirements of the Corporations Act 2001. The information below forms part of this Directors' Report:

- Principal activities on page 8
- Operating and financial review on pages 52 to 64
- Dividends on page 63
- Information on the Directors, Company Secretaries and Directors' meetings on pages 32 to 42
- Remuneration report on pages 66 to 98

Significant changes in state of affairs

There has been no significant changes in the Group's state of affairs.

Events since the end of the financial year

On 17 October the Group announced it had agreed a revised price for the sale of its OnePath P&I business and ADGs to IOOF of $850 million, being a $125 million reduction from the original sale price of $975 million announced in October 2017. The new price of $850 million includes approximately $25 million that ANZ has already received for the sale of ADGs in October 2018. The revised terms reflect changing market conditions and include lower overall warranty caps as well as some changes to the strategic alliance arrangements. Subject to APRA approval, the Group expects the transaction to complete in the first quarter of calendar year 2020. The impact of the reduction in price has been reflected in the 2019 financial results.

Other than the matter above, there have been no significant events from 30 September 2019 to the date of signing this report.

Political donations

Our policy is that we will make an annual donation to the two major federal parties to support the democratic process in Australia. In the 2019 calendar year, we donated $100,000 to the Liberal Party of Australia and $100,000 to the Australian Labor Party.

Environmental regulation

ANZ recognises the expectations of its stakeholders – customers, shareholders, staff and the community – to operate in a way that mitigates its environmental impact.

In Australia, ANZ meets the requirements of the *National Greenhouse and Energy Reporting Act 2007 (Cth)*, which imposes reporting obligations where energy production, usage or greenhouse gas emissions trigger specified thresholds.

ANZ holds a licence under the *Water Act 1989 (Vic)*, allowing it to extract water from the Yarra River for thermal regulation of its Melbourne head office building. The licence specifies daily and annual limits for the extraction of water from the Yarra River with which ANZ fully complies. The extraction of river water reduces reliance on the high quality potable water supply and is one of several environmental initiatives that ANZ has introduced at its Melbourne head office building.

The Group does not believe that its operations are subject to any particular and significant environmental regulation under a law of the Commonwealth of Australia or of an Australian State or Territory. It may become subject to environmental regulation as a result of its lending activities in the ordinary course of business and has developed policies to identify and manage such environmental matters.

Having made due enquiry, and to the best of ANZ's knowledge, no entity of the Group has incurred any material environmental liability during the year.

Further details of ANZ's environmental performance, including progress against its targets and details of its emissions profile, are available on anz.com>About us>Corporate Sustainability.

Corporate Governance Statement

ANZ is committed to maintaining a high standard in its governance framework. ANZ confirms it has followed the *ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (3rd edition)* during the 2019 financial year. ANZ's Corporate Governance Statement, together with the ASX Appendix 4G which relates to the Corporate Governance Statement, can be viewed at anz.com/corporategovernance and has been lodged with the ASX.

Pillar 3 information

ANZ provides information required by APS 330: Public Disclosure in the Regulatory Disclosures section at www.anz.com/shareholder/centre/reporting/regulatory-disclosure/

Non-audit services

The Group's Stakeholder Engagement Model for Relationship with the External Auditor (the Policy), which incorporates requirements of the Corporations Act 2001 and industry best practice, prevents the external auditor from providing services that are perceived to be in conflict with the role of the external auditor or breach independence requirements. This includes consulting advice and sub-contracting of operational activities normally undertaken by management, and engagements where the external auditor may ultimately be required to express an opinion on its own work.

Specifically the Policy:

- limits the scope of non-audit services that may be provided;
- requires that audit, audit-related and permitted non-audit services be considered in light of independence requirements and for any potential conflicts of interest before they are approved by the Audit Committee, or approved by the Chair of the Audit Committee (or delegate) and notified to the Audit Committee; and
- requires pre-approval before the external auditor can commence any engagement for the Group.

Further details about the Policy can be found in the Corporate Governance Statement.

The external auditor has confirmed to the Audit Committee that it has:

- implemented procedures to ensure it complies with independence rules in applicable jurisdictions; and
- complied with applicable policies and regulations in those jurisdictions regarding the provision of non-audit services, and the Policy.

The Audit Committee has reviewed the non-audit services provided by the external auditor during the 2019 financial year, and has confirmed that the provision of these services is consistent with the Policy, compatible with the general standard of independence for auditors imposed by the Corporations Act 2001 and did not compromise the auditor independence requirements of the Corporations Act 2001. This has been formally advised by the Audit Committee to the Board of Directors.

The categories of non-audit services supplied to the Group during the year ended 30 September 2019 by the external auditor, KPMG, or by another person or firm on KPMG's behalf, and the amounts paid or payable (including GST) by the Group are as follows:

	Amount paid/payable $'000	
Non-audit services	2019	2018
General market or regulatory insights	–	187
Training related services	106	17
Controls related assessments	–	94
Methodology and procedural reviews	10	10
Total	116	308

Further details on the compensation paid to KPMG is provided in Note 34 Compensation of Auditors to the financial statements including details of audit-related services provided during the year of $5.71 million (2018: $6.28 million).

For the reasons set out above, the Directors are satisfied that the provision of non-audit services by the external auditor during the year ended 30 September 2019 is compatible with the general standard of independence for external auditors imposed by the Corporations Act 2001 and did not compromise the auditor independence requirements of the Corporations Act 2001.

Directors' and officers' indemnity

The Company's Constitution (Rule 11.1) permits the Company to:

- indemnify any officer or employee of the Company, or its auditor, against liabilities (so far as may be permitted under applicable law) incurred as such by an officer, employee or auditor, including liabilities incurred as a result of appointment or nomination by the Company as a trustee or as an officer or employee of another corporation; and
- make payments in respect of legal costs incurred by an officer, employee or auditor in defending an action for a liability incurred as such by an officer, employee or auditor, or in resisting or responding to actions taken by a government agency, a duly constituted Royal Commission or other official inquiry, a liquidator, administrator, trustee in bankruptcy or other authorised official.

It is the Company's policy that its employees should be protected from any liability they incur as a result of acting in the course of their employment, subject to appropriate conditions.

Under the policy, the Company will indemnify employees and former employees against any liability they incur to any third party as a result of acting in the course of their employment with the Company or a subsidiary of the Company and this extends to liability incurred as a result of their appointment/nomination by or at the request of the Group as an officer or employee of another corporation or body or as trustee.

The indemnity is subject to applicable law and certain exceptions.

In accordance with the employee indemnity policy, the Company has during or since the year ended 30 September 2019 paid legal expenses totalling $874,534 incurred by Mr Richard Moscati in relation to legal proceedings brought against him and the Company by a third party.

The Company has entered into Indemnity Deeds with each of its Directors, with certain secretaries and former Directors of the Company, and with certain employees and other individuals who act as directors or officers of related bodies corporate or of another company, to indemnify them against liabilities and legal costs of the kind mentioned in the Company's Constitution.

During the financial year, the Company has paid premiums for insurance for the benefit of the Directors and employees of the Company and related bodies corporate of the Company. In accordance with common commercial practice, the insurance prohibits disclosure of the nature of the liability insured against and the amount of the premium.

Key management personnel and employee share and option plans

The Remuneration Report contains details of Non-Executive Directors, Chief Executive Officer and Disclosed Executives' equity holdings and options/rights issued during the 2019 financial year and as at the date of this report.

Note 31 Employee Share and Option Plans to the 2019 Financial Report contains details of the 2019 financial year and as at the date of this report:

- Options/rights issued over shares granted to employees;
- Shares issued as a result of the exercise of options/rights granted to employees; and
- Other details about share options/rights issued, including any rights to participate in any share issues of the Company.

The names of all persons who currently hold options/rights are entered in the register kept by the Company pursuant to section 170 of the Corporations Act 2001. This register may be inspected free of charge.

Rounding of amounts

The Company is a company of the kind referred to in Australian Securities and Investments Commission Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 dated 24 March 2016 and, in accordance with that Instrument, amounts in the consolidated financial statements and this Directors' Report have been rounded to the nearest million dollars unless specifically stated otherwise.

This report is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the Directors.

David M Gonski, AC
Chairman

Shayne C Elliott
Director

30 October 2019

Lead Auditor's Independence Declaration

The Lead Auditors Independence Declaration given under Section 307C of the Corporations Act 2001 is set out below and forms part of the Directors Report for the year ended 30 September 2019.

To: the Directors of Australia and New Zealand Banking Group Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Australia and New Zealand Banking Group Limited for the financial year ended 30 September 2019, there have been:

- no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

Alison Kitchen
Partner

30 October 2019

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INCOME STATEMENT

For the year ended 30 September	Note	2019 $m	2018[1] $m
Interest income[2]		31,077	30,327
Interest expense		(16,738)	(15,813)
Net interest income	2	14,339	14,514
Other operating income	2	4,058	5,014
Net income from insurance business	2	126	273
Share of associates' profit	2	262	183
Operating income		18,785	19,984
Operating expenses	3	(9,071)	(9,401)
Profit before credit impairment and income tax		9,714	10,583
Credit impairment charge	13	(794)	(688)
Profit before income tax		8,920	9,895
Income tax expense	4	(2,609)	(2,784)
Profit after tax from continuing operations		6,311	7,111
Profit/(Loss) after tax from discontinued operations	29	(343)	(695)
Profit for the year		5,968	6,416
Comprising:			
Profit attributable to shareholders of the Company		5,953	6,400
Profit attributable to non-controlling interests		15	16
Earnings per ordinary share (cents) including discontinued operations			
Basic	6	210.0	221.6
Diluted	6	201.9	212.1
Earnings per ordinary share (cents) from continuing operations			
Basic	6	222.1	245.6
Diluted	6	213.0	234.2
Dividend per ordinary share (cents)	5	160	160

1. On adoption of AASB 15, the Group reclassified certain items previously netted which are now presented gross in operating income and operating expenses. Comparative information has been restated accordingly which increased total operating income and total operating expenses by $153 million.
2. Includes interest income calculated using the effective interest method of $30,224 million on financial assets measured at amortised cost or fair value through other comprehensive income (2018: $29,181 million on financial assets measured at amortised cost and available-for-sale assets).

The notes appearing on pages 107 to 209 form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 September	2019 $m	2018 $m
Profit for the year from continuing operations	6,311	7,111
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss		
Investment securities - equity securities at FVOCI[1]	45	-
Other reserve movements	67	32
Items that may be reclassified subsequently to profit or loss		
Foreign currency translation reserve[2]	697	222
Other reserve movements	909	137
Income tax attributable to the above items	(288)	(118)
Share of associates' other comprehensive income[3]	26	25
Other comprehensive income after tax from continuing operations	1,456	298
Profit/(Loss) after tax from discontinued operations	(343)	(695)
Other comprehensive income/(loss) after tax from discontinued operations	(97)	18
Total comprehensive income for the year	7,327	6,732
Comprising total comprehensive income attributable to:		
Shareholders of the Company	7,307	6,706
Non-controlling interests	20	26

1. On adoption of AASB 9 on 1 October 2018, the classification and measurement of financial assets were revised. The available-for-sale classification used in comparative periods ceases to exist under AASB 9 and a new classification of investment securities was introduced. Refer to Note 1 and 35 for further details. Comparative information has not been restated.
2. Includes foreign currency translation differences attributable to non-controlling interests of a $5 million gain (2018: $10 million gain).
3. Share of associates' other comprehensive income includes a FVOCI reserve gain of $20 million (available-for-sale revaluation reserve 2018: $28 million gain), defined benefits gain of $7 million (2018: nil), cash flow hedge reserve loss of $2 million (2018: nil) and a foreign currency translation reserve gain of $1 million (2018: $3 million loss) that may be reclassified subsequently to profit or loss.

The notes appearing on pages 107 to 209 form an integral part of these financial statements.

BALANCE SHEET

As at 30 September	Note	2019 $m	2018 $m
Assets			
Cash and cash equivalents	8	81,621	84,636
Settlement balances owed to ANZ		3,739	2,319
Collateral paid		15,006	11,043
Trading securities	9	43,169	37,722
Derivative financial instruments	10	120,667	68,423
Investment securities[1,2]	11	83,709	-
Available-for-sale assets[1]	11	-	74,284
Net loans and advances[2,3]	12	615,258	604,464
Regulatory deposits		879	882
Assets held for sale	29	1,831	45,248
Investments in associates	26	2,957	2,553
Current tax assets		265	268
Deferred tax assets		1,356	900
Goodwill and other intangible assets	20	4,861	4,930
Premises and equipment		1,924	1,833
Other assets[3]		3,895	3,677
Total assets		981,137	943,182
Liabilities			
Settlement balances owed by ANZ		10,867	11,810
Collateral received		7,929	6,542
Deposits and other borrowings	14	637,677	618,150
Derivative financial instruments	10	120,951	69,676
Current tax liabilities		260	300
Deferred tax liabilities[3]		67	69
Liabilities held for sale	29	2,121	47,159
Payables and other liabilities[3]		7,968	6,894
Employee entitlements		589	540
Other provisions[2,3]	21	2,223	1,458
Debt issuances	15	129,691	121,179
Total liabilities		920,343	883,777
Net assets		60,794	59,405
Shareholders' equity			
Ordinary share capital	22	26,490	27,205
Reserves	22	1,629	323
Retained earnings[3]	22	32,664	31,737
Share capital and reserves attributable to shareholders of the Company	22	60,783	59,265
Non-controlling interests	22	11	140
Total shareholders' equity	22	60,794	59,405

1. On adoption of AASB 9 on 1 October 2018, the classification and measurement of financial assets were revised. Available-for-sale classification used in comparative periods ceases to exist under AASB 9 and a new classification of investment securities was introduced. Refer Note 1 and 35 for further details. Comparative information has not been restated.
2. On adoption of AASB 9 on 1 October 2018, the Group increased the collectively assessed provisions by $813 million ($647 million in Net loans and advances, $11 million in Investment securities, and $155 million in Provisions). Comparative information has not been restated. Refer to Note 1 and 35 for further details.
3. Comparative information has been restated for the adoption of AASB 15 and other reclassification adjustments to enhance comparability with current period presentation. Refer Note 1 and 35 for further details

The notes appearing on pages 107 to 209 form an integral part of these financial statements.

CASH FLOW STATEMENT

The Consolidated Cash Flow Statement includes discontinued operations. Please refer to Note 29 for cash flows associated with discontinued operations and cash and cash equivalents reclassified as held for sale.

For the year ended 30 September[1]	2019 $m	2018 $m
Profit after income tax	5,968	6,416
Adjustments to reconcile to net cash provided by/(used in) operating activities:		
Allowance for expected credit losses	794	688
Depreciation and amortisation	871	1,199
(Profit)/loss on sale of premises and equipment	(5)	(4)
Net derivatives/foreign exchange adjustment	4,940	6,721
(Gain)/loss on sale from divestments	(137)	(594)
Reclassification of businesses to held for sale	-	693
Other non-cash movements	(356)	(55)
Net (increase)/decrease in operating assets:		
Collateral paid	(3,493)	(1,648)
Trading securities	(7,941)	8,565
Net loans and advances	(10,268)	(25,265)
Investments backing policy liabilities	(3,542)	(3,914)
Other assets	(454)	(973)
Net increase/(decrease) in operating liabilities:		
Deposits and other borrowings	7,006	12,207
Settlement balances owed by ANZ	(1,077)	1,853
Collateral received	1,004	186
Life insurance contract policy liabilities	-	4,263
Other liabilities	2,140	228
Total adjustments	(10,518)	4,150
Net cash (used in)/provided by operating activities[2]	(4,550)	10,566
Cash flows from investing activities		
Investment securities/available-for-sale assets[3]		
Purchases	(23,847)	(23,806)
Proceeds from sale or maturity	21,228	20,592
Proceeds from divestments, net of cash disposed	2,121	2,148
Proceeds from Zurich reinsurance arrangement	-	1,000
Proceeds from IOOF secured notes	800	-
Other assets	(508)	232
Net cash (used in)/provided by investing activities	(206)	166
Cash flows from financing activities		
Debt issuances:[4]		
Issue proceeds	25,900	25,075
Redemptions	(22,958)	(15,898)
Dividends paid[5]	(4,471)	(4,563)
On market purchase of treasury shares	(112)	(114)
Share buyback	(1,120)	(1,880)
Net cash (used in)/provided by financing activities	(2,761)	2,620
Net (decrease)/increase in cash and cash equivalents	(7,517)	13,352
Cash and cash equivalents at beginning of year	84,964	68,048
Effects of exchange rate changes on cash and cash equivalents	4,174	3,564
Cash and cash equivalents at end of year[6]	81,621	84,964

1. As a result of restatements impacting prior period balance sheet items, certain items in the Cash Flow Statement have restated accordingly. Refer Note 35 for further information.
2. Net cash inflows/(outflows) from operating activities includes income taxes paid of $3,129 million (2018: $3,373 million).
3. On adoption of AASB 9 on 1 October 2018, the classification and measurement of financial assets were revised. Available-for-sale classification used in comparative periods ceases to exist under AASB 9 and a new classification of investment securities was introduced. Refer Note 1 and 35 for further details.
4. Non-cash changes in debt issuances includes fair value hedging loss of $2,437 million (2018: $1,443 million gain) and foreign exchange losses of $3,815 million (2018: $5,712 million loss).
5. Cash outflow for shares purchased to satisfy the dividend reinvestment plan are classified in Dividends paid
6. Includes cash and cash equivalents recognised on the face of balance sheet of $81,621 million (2018: $84,636 million) with no amounts recorded as part of assets held for sale. (2018: $328 million).

The notes appearing on pages 107 to 209 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

	Ordinary share capital $m	Reserves $m	Retained earnings $m	Share capital and reserves attributable to shareholders of the Company $m	Non-controlling interests $m	Total shareholders' equity $m
As at 1 October 2017	29,088	37	29,834	58,959	116	59,075
Impact on transition to AASB 15	-	-	22	22	-	22
Profit or loss from continuing operations	-	-	7,095	7,095	16	7,111
Profit or loss from discontinued operations	-	-	(695)	(695)	-	(695)
Other comprehensive income for the year from continuing operations	-	264	24	288	10	298
Other comprehensive income for the year from discontinued operations	-	18	-	18	-	18
Total comprehensive income for the year	-	282	6,424	6,706	26	6,732
Transactions with equity holders in their capacity as equity holders:[1]						
Dividends paid	-	-	(4,585)	(4,585)	(2)	(4,587)
Dividend income on treasury shares held within the Group's life insurance statutory funds	-	-	24	24	-	24
Group share buy-back[2]	(1,880)	-	-	(1,880)	-	(1,880)
Other equity movements:[1]	-	-	-	-	-	-
Treasury shares Wealth Australia discontinued operations adjustment	(2)	-	-	(2)	-	(2)
Group employee share acquisition scheme	(1)	-	-	(1)	-	(1)
Other items	-	4	18	22	-	22
As at 30 September 2018	27,205	323	31,737	59,265	140	59,405
Impact on transition to AASB 9	-	14	(624)	(610)	-	(610)
Profit or loss from continuing operations	-	-	6,296	6,296	15	6,311
Profit or loss from discontinued operations	-	-	(343)	(343)	-	(343)
Other comprehensive income for the year from continuing operations	-	1,393	58	1,451	5	1,456
Other comprehensive income for the year from discontinued operations	-	(97)	-	(97)	-	(97)
Total comprehensive income for the year	-	1,296	6,011	7,307	20	7,327
Transactions with equity holders in their capacity as equity holders:[1]						
Dividends paid[3]	-	-	(4,481)	(4,481)	(2)	(4,483)
Dividend income on treasury shares held within the Group's life insurance statutory funds	-	-	12	12	-	12
Group share buy-back[2]	(1,120)	-	-	(1,120)	-	(1,120)
Other equity movements:[1]	-	-	-	-	-	-
Treasury shares Wealth Australia discontinued operations adjustment[4]	405	-	-	405	-	405
Group employee share acquisition scheme	-	-	-	-	-	-
Other items	-	(4)	9	5	(147)	(142)
As at 30 September 2019	26,490	1,629	32,664	60,783	11	60,794

1 Current and prior periods include discontinued operations.

2 The Company has completed a $3.0 billion on-market share buy-back of ANZ ordinary shares purchasing $1,120 million worth of shares in 2019 (2018: $1,880 million) resulting in 42.0 million shares being cancelled in 2019 (2018: 66.7 million).

3 No new shares were issued under the Dividend Reinvestment Plan (DRP) for the 2019 Interim dividend (nil shares for the 2018 final dividend; nil shares for the 2018 Interim dividend) as the shares were purchased on-market and provided directly to the shareholders participating in the DRP. On-market share purchases for the DRP in 2019 were $432 million (2018: $392 million).

4 The successor funds transfer performed in preparation for the sale of the Group's wealth business to Zurich and IOOF completed on 13 April 2019. As a result, the Group no longer eliminates the ANZ shares previously held in Wealth Australia discontinued operations (treasury shares).

The notes appearing on pages 107 to 209 form an integral part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. ABOUT OUR FINANCIAL STATEMENTS

These are the financial statements for Australia and New Zealand Banking Group Limited (the Company) and its controlled entities (together, 'the Group' or 'ANZ') for the year ended 30 September 2019. The Company is incorporated and domiciled in Australia. The address of the Company's registered office and its principal place of business is ANZ Centre, 833 Collins Street, Docklands, Victoria, Australia 3008.

On 30 October 2019, the Directors resolved to authorise the issue of these financial statements.

Information in the financial statements is included only to the extent we consider it material and relevant to the understanding of the financial statements. A disclosure is considered material and relevant if, for example:

- the amount is significant in size (quantitative factor);
- the information is significant by nature (qualitative factor);
- the user cannot understand the Group's results without the specific disclosure (qualitative factor);
- the information is critical to a user's understanding of the impact of significant changes in the Group's business during the period - for example, business acquisitions or disposals (qualitative factor);
- the information relates to an aspect of the Group's operations that is important to its future performance (qualitative factor); and
- the information is required under legislative requirements of the *Corporations Act 2001*, the *Banking Act 1959 (Cth)* or by the Group's principal regulators, including the Australian Securities and Investments Commission (ASIC) and the Australian Prudential Regulation Authority (APRA).

This section of the financial statements:

- outlines the basis upon which the Group's financial statements have been prepared; and
- discusses any new accounting standards or regulations that directly impact the financial statements.

BASIS OF PREPARATION

This financial report is a general purpose (Tier 1) financial report prepared by a 'for profit' entity, in accordance with Australian Accounting Standards (AASs) and other authoritative pronouncements of the Australian Accounting Standards Board (AASB), the *Corporations Act 2001*, and International Financial Reporting Standards (IFRS) and interpretations published by the International Accounting Standards Board (IASB).

We present the financial statements of the Group in Australian dollars, which is the Company's functional and presentation currency. We have rounded values to the nearest million dollars ($m), unless otherwise stated, as allowed under the *ASIC Corporations (Rounding in Financial/Directors Report) Instrument 2016/191*. We measure the financial statements of each entity in the Group using the currency of the primary economic environment in which that entity operates (the functional currency).

BASIS OF MEASUREMENT

We have prepared the financial information in accordance with the historical cost basis - except the following assets and liabilities which we have stated at their fair value:

- derivative financial instruments and in the case of fair value hedging, a fair value adjustment is made on the underlying hedged exposure;
- financial instruments held for trading;
- financial assets and financial liabilities designated at fair value through profit or loss;
- available-for-sale financial assets (prior to 1 October 2018);
- financial assets at fair value through other comprehensive income (applicable from 1 October 2018); and
- certain other assets and liabilities held for sale where the fair value less costs of disposal is less than their carrying value (excludes assets and liabilities held for sale which are exempt from this requirement).

In accordance with AASB 1038 *Life Insurance Contracts* (AASB 1038) we have measured life insurance liabilities using the Margin on Services (MoS) model. In accordance with AASB 119 *Employee Benefits* (AASB 119) we have measured defined benefit obligations using the Projected Unit Credit Method.

DISCONTINUED OPERATIONS

The aligned dealer groups business sold to IOOF Holdings Limited (IOOF) completed on 1 October 2018; the life insurance business sold to Zurich Financial Services Australia Limited completed on 31 May 2019; and the Wealth Australia pensions and investments business sold to IOOF and associated Group reclassification and consolidation impacts are treated as discontinued operations from a financial reporting perspective. These businesses qualify as discontinued operations, which are a subset of assets held for sale, as they represent a major line of business. The results of the divested businesses have been included in the 'Profit/(Loss) from discontinued operations' until their divestment date. The Balance Sheet is not restated when a business is reclassified as a discontinued operation.

1. ABOUT OUR FINANCIAL STATEMENTS (continued)

BASIS OF CONSOLIDATION

The consolidated financial statements of the Group comprise the financial statements of the Company and all its subsidiaries. An entity, including a structured entity, is considered a subsidiary of the Group when we determine that the Company has control over the entity. Control exists when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. We assess power by examining existing rights that give the Group the current ability to direct the relevant activities of the entity. We have eliminated, on consolidation, the effect of all transactions between entities in the Group.

FOREIGN CURRENCY TRANSLATION

TRANSACTIONS AND BALANCES

Foreign currency transactions are translated into the relevant functional currency at the exchange rate prevailing at the date of the transaction. At the reporting date, monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the relevant spot rate. Any foreign currency translation gains or losses that arise are included in profit or loss in the period they arise.

We measure translation differences on non-monetary items at fair value through profit or loss and report them as part of the fair value gain or loss on these items. We include any translation differences on non-monetary items classified as investment securities measured at fair value through other comprehensive income (applicable from 1 October 2018) and non-monetary items classified as available-for-sale financial assets in the available-for-sale revaluation reserve in equity (applicable prior to 1 October 2018).

FINANCIAL STATEMENTS OF FOREIGN OPERATIONS THAT HAVE A FUNCTIONAL CURRENCY THAT IS NOT AUSTRALIAN DOLLARS

The financial statements of our foreign operations are translated into Australian dollars for consolidation into the Group Financial Statements using the following method:

Foreign currency item	Exchange rate used
Assets and liabilities	The reporting date rate
Equity	The initial investment date rate
Income and expenses	The average rate for the period – but if for a significant transaction we believe the average rate is not reasonable, then we use the transaction date rate

Exchange differences arising from the translation of financial statements of foreign operations are recognised in the foreign currency translation reserve in equity. When we dispose of a foreign operation, the cumulative exchange differences are transferred to profit or loss as part of the gain or loss on sale.

FIDUCIARY ACTIVITIES

The Group provides fiduciary services to third parties including custody, nominee, trustee, administration and investment management services predominantly through the wealth businesses. This involves the Group holding assets on behalf of third parties and making decisions regarding the purchase and sale of financial instruments. If ANZ is not the beneficial owner or does not control the assets, then we do not recognise these transactions in these financial statements, except when required by accounting standards or another legislative requirement.

KEY JUDGEMENTS AND ESTIMATES

In the process of applying the Group's accounting policies, management has made a number of judgements and applied estimates and assumptions about past and future events. Further information on the key judgements and estimates that we consider material to the financial statements are contained within the relevant notes to the financial statements.

1. ABOUT OUR FINANCIAL STATEMENTS (continued)

ACCOUNTING STANDARDS ADOPTED IN THE PERIOD

AASB 9 *FINANCIAL INSTRUMENTS* (AASB 9)

The Group has applied AASB 9 effective from 1 October 2018 (with the exception of the 'own credit' requirements relating to financial liabilities designated as measured at fair value, which were early adopted by the Group effective from 1 October 2013). In addition, the Group chose to early adopt AASB 2017-6 *Amendments to Australian Accounting Standards – Prepayment Features with Negative Compensation* (AASB 2017-6) effective from 1 October 2018. AASB 9 provides an accounting policy choice, which the Group has taken in current period, to continue to apply the AASB 139 hedge accounting requirements until the International Accounting Standards Board's ongoing project on macro hedge accounting is completed.

AASB 9 and AASB 2017-6 stipulate new requirements for the impairment of financial assets, classification and measurement of financial assets and financial liabilities and general hedge accounting. Details of the key requirements are outlined within the Financial Assets and Financial Liabilities sections on pages 125 and 144 respectively, and a reconciliation of the transitional impact of adopting the standard at 1 October 2018 is set out in Note 35.

AASB 15 *REVENUE FROM CONTRACTS WITH CUSTOMERS* (AASB 15)

The Group adopted AASB 15 from 1 October 2018 which resulted in changes in accounting policies and adjustments to amounts recognised in the consolidated financial statements. The standard requires identification of distinct performance obligations within a contract, and allocation of the transaction price of the contract to those performance obligations. Revenue is then recognised as each performance obligation is satisfied. The standard also provides guidance on whether an entity is acting as a principal or an agent which impacts the presentation of revenue on a gross or net basis. In accordance with the transitional provisions of AASB 15, the Group has adopted the full retrospective transition approach. Under this approach, the cumulative effect of initially applying the standard has been recognised as an adjustment to opening retained earnings as at 1 October 2017 and comparative information for the 2018 reporting period has been restated.

The adoption of AASB 15 resulted in the following changes in accounting policy:

- Recognition of trail commission revenue: trail commission revenue previously recognised over time is now recognised at the time the Group initially distributes the underlying product to the customer where it is highly probable the revenue will not need to be reversed in future periods.

  This policy change resulted in an increase to the opening balances of Other assets of $32 million, Deferred tax liabilities of $10 million and Retained earnings of $22 million as at 1 October 2017 to recognise revenue that qualifies for upfront recognition under AASB 15 but was not previously recognised under AASB 118 *Revenue* (AASB 118). The change did not impact net profit or earnings per share in the comparative periods.

- Presentation: Certain credit card loyalty costs and other costs will be presented as operating expenses where the Group has assessed that it is acting as principal (rather than an agent). Previously these costs were presented as a reduction of other operating income. In addition, certain incentives received from card scheme providers related to card marketing activities will be presented as operating income where the Group has assessed that it is acting as principal (rather than an agent). Previously these incentives were presented as a reduction of operating expenses.

  The presentation of these costs under AASB 15 increased other operating income and operating expenses by $153 million in 2018. The changes did not impact net profit or earnings per share in the comparative periods.

  A minor balance sheet reclassification associated with credit card loyalty programs is set out in Note 35.

ACCOUNTING STANDARDS NOT EARLY ADOPTED

A number of new standards, amendments to standards and interpretations have been published but are not mandatory for the financial statements for the year ended 30 September 2019, and have not been applied by the Group in preparing these financial statements. Further details of these are set out below.

GENERAL HEDGE ACCOUNTING

AASB 9 introduces new hedge accounting requirements which more closely align accounting with risk management activities undertaken when hedging financial and non-financial risks. AASB 9 provides the Group with an accounting policy choice to continue to apply the AASB 139 hedge accounting requirements until the International Accounting Standards Board's ongoing project on macro hedge accounting is completed. The Group currently applies the hedge accounting requirements of AASB 139.

AASB 16 *LEASES* (AASB 16)

AASB 16 is effective for the Group from 1 October 2019 and replaces the previous standard AASB 117 *Leases* (AASB 117). AASB 16 primarily impacts the Group's property and technology leases which were previously classified as operating leases. Under AASB 117, operating leases were not recognised on balance sheet and rent payments were expensed over the lease term.

Under AASB 16, lessees must recognise all leases (except for leases of low value assets and short term leases) on balance sheet under a single accounting model. Accordingly, the Group will recognise its right to use an underlying leased asset over the lease term as a right-of-use (ROU) asset, and its obligation to make lease payments as a lease liability. In the income statement, the Group will recognise depreciation expense on the ROU asset and interest expense on the lease liability. As a result, lease expenses will be higher in the early periods of a lease and lower in the later periods of the lease compared to the previous standard where expenses were constant over the lease term. Cumulative expenses over the life of a lease will not change.

1. ABOUT OUR FINANCIAL STATEMENTS (continued)

The Group will apply the modified retrospective transition approach whereby initial lease liabilities are recognised based on the present value of remaining lease payments as of the transition date. The initial ROU asset recognised for certain large commercial and retail leases will be measured as if AASB 16 had always been applied to the leases. For all other leases, the initial ROU asset will be measured as equal to the initial lease liability. Based on this transition approach, the Group expects to recognise an increase in liabilities of $1.7 billion and an increase in assets of $1.6 billion. This is expected to result in a reduction to opening retained earnings of $82 million and an increase in deferred tax assets of $43 million as of 1 October 2019. Comparative information from prior periods will not be restated.

The implementation of AASB 16 requires management to make certain key judgements including the determination of lease terms, discount rates and identifying arrangements that contain a lease. These estimates may be refined as the Group finalises its implementation of the standard in the first half of the 2020 financial year.

AASB 17 *INSURANCE CONTRACTS* (AASB 17)

The final version of AASB 17 was issued in July 2017 and is not effective for the Group until 1 October 2021. It will replace AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*. AASB 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts.

The measurement, presentation and disclosure requirements under AASB 17 are significantly different from current accounting standards. Although the overall profit recognised in respect of insurance contracts will not change, it is expected that the timing of profit recognition will change.

The impact of AASB 17 is not expected to have material impact on the Group.

AASB INTERPRETATION 23 *UNCERTAINTY OVER INCOME TAX TREATMENTS (INTERPRETATION 23)*

In July 2017 the AASB issued Interpretation 23 Uncertainty over Income Tax Treatments. The Interpretation clarifies application of recognition and measurement requirements in AASB 112 Income Taxes when there is uncertainty over income tax treatments.

Interpretation 23 will apply to the Group from 1 October 2019, and is not expected to have a material impact on the Group.

REVISED CONCEPTUAL FRAMEWORK

In June 2019 the AASB issued a revised Conceptual Framework for Financial Reporting. The new Framework includes updated definitions and criteria for the recognition and derecognition of assets and liabilities. Additionally it introduces new concepts on measurement, including factors to consider when selecting a measurement basis. The revised Conceptual Framework will apply to the Group from 1 October 2020 and is not expected to have a material impact on the Group.

INTEREST RATE BENCHMARK REFORM

Interbank offered rates (IBORs), such as LIBOR, are a key reference rate for derivatives, loans and securities for global financial markets. In response to concerns about the transparency and liquidity of IBOR rates, regulators in a number of jurisdictions across the globe are well advanced in developing benchmark rates to phase out and replace IBORs, these projects are collectively known as 'IBOR Reform'. The International Accounting Standards Board (IASB) is also considering the financial reporting implications of IBOR reform which is expected to impact elements of financial instrument accounting, including hedge accounting, loan modifications, fair value methodologies and disclosures.

The IASB project is split into two phases: Phase 1 deals with pre-replacement issues (issues affecting financial reporting in the period before the replacement of IBOR's); and Phase 2 deals with replacement issues (issues affecting financial reporting when existing IBOR's are replaced).

In September 2019, the IASB issued a final standard, Interest Rate Benchmark Reform—Amendments to IFRS 9, IAS 39 and IFRS 7 which focuses on 'pre-rate replacement issues' and provides exceptions to specific hedge accounting requirements under IAS 39 and IFRS 9 so that entities will be able to apply those hedge accounting requirements under an assumption that the interest rate benchmark is not altered as a result of the interest rate benchmark reform. In October 2019, AASB adopted these amendments in AASB 2019-3 Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform.

Although the Group anticipates the new standard, once adopted, will provide certain relief in relation to hedge accounting requirements, for 30 September 2019 reporting purposes, it has considered the existing portfolio of hedge accounted relationships in light of:

- the significant uncertainty surrounding the method and timing of transition away from IBORs; and
- ongoing application and reliance in capital markets on IBOR's for financial instrument pricing.

As result of the above factors, the Group has concluded that continuation of hedge accounting relationships for potentially impacted hedge relationship remains appropriate.

The Group is considering the new standard which is effective on 1 October 2020 but may be adopted earlier.

2. OPERATING INCOME

	2019 $m	2018[1] $m
Net interest income		
Interest income by type of financial asset		
Investment securities - FVOCI /Available-for-sale assets	1,624	1,524
Financial assets at amortised cost	28,600	27,657
Trading securities	848	1,140
Financial assets designated at FV through profit or loss	5	6
Interest income	31,077	30,327
Interest expense by type of financial liability		
Financial liabilities at amortised cost	(16,149)	(15,082)
Securities sold short	(110)	(253)
Financial liabilities designated at FV through profit or loss	(116)	(123)
Interest expense	(16,375)	(15,458)
Major bank levy	(363)	(355)
Net interest income	14,339	14,514
Other operating income		
i) Fee and commission income		
Lending fees	602	652
Non-lending fees	3,059	3,054
Commissions	124	92
Funds management income	254	248
Fee and commission income	4,039	4,046
Fee and commission expense	(1,462)	(1,336)
Net fee and commission income	2,577	2,710
ii) Other income		
Net foreign exchange earnings and other financial instruments income[2]	1,278	1,666
Sale of Asia Retail and Wealth businesses	-	99
Sale of Shanghai Rural Commercial Bank (SRCB)	-	233
Sale of Metrobank Card Corporation (MCC)	-	240
Sale of ANZ Royal Bank (Cambodia) Ltd (Cambodia JV)	10	(42)
Sale of PNG Retail, Commercial & SME	1	(19)
Sale of OnePath Life (NZ) Ltd (OPL NZ)	89	(3)
Sale of Paymark Limited (Paymark)	37	-
Dividend income on equity securities	28	39
Other	38	91
Other income	1,481	2,304
Other operating income	4,058	5,014
Net income from insurance business	126	273
Share of associates' profit	262	183
Operating income[3]	18,785	19,984

1. On adoption of AASB 15, the Group reclassified certain items previously netted which are now presented gross in operating income and operating expenses. Comparative information has been restated accordingly which increased total operating income by $153 million.
2. Includes fair value movements (excluding realised and accrued interest) on derivatives not designated as accounting hedges entered into to manage interest rate and foreign exchange risk on funding instruments, ineffective portions of cash flow hedges, and fair value movements in financial assets and liabilities designated at fair value through profit and loss.
3. Includes customer remediation of $212 million (2018: $228 million).

2. OPERATING INCOME (continued)

RECOGNITION AND MEASUREMENT

NET INTEREST INCOME

Interest Income and Expense

We recognise interest income and expense for all financial instruments, including those classified as held for trading, assets measured at fair value through other comprehensive income (applicable from 1 October 2018), available-for-sale assets (applicable prior to 1 October 2018) or designated at fair value through profit or loss in net interest income. For assets held at amortised cost we use the effective interest rate method to calculate amortised cost. The effective interest rate is the rate that discounts the stream of estimated future cash receipts or payments over the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or liability. For assets subject to prepayment, we determine their expected life on the basis of historical behaviour of the particular asset portfolio - taking into account contractual obligations and prepayment experience.

We recognise fees and costs, which form an integral part of the financial instrument (for example loan origination fees and costs), using the effective interest rate method. This is presented as part of interest income or expense depending on whether the underlying financial instrument is a financial asset or financial liability.

Major Bank Levy

The Major Bank Levy Act 2017 ('Levy' or 'Major bank levy') applies a rate of 0.06% to certain liabilities of the Company. The Group has determined that the levy represents a finance cost for the Group and $363 million (2018: $355 million) is presented in interest expense in the Income Statement.

OTHER OPERATING INCOME

Fee and Commission Revenue

We recognise fee and commission revenue arising from contracts with customers (a) over time when the performance obligation is satisfied across more than one reporting period or (b) at a point in time when the performance obligation is satisfied immediately or is satisfied within one reporting period.

- Lending fees exclude fees treated as part of the effective yield calculation of interest income. Lending fees include certain guarantee and commitment fees where the loan or guarantee is not likely to be drawn upon, and other fees charged for providing customers a distinct good or service that are recognised separately from the underlying lending product (including annual package fees that provide benefits on other ANZ products).
- Non lending fees includes fees associated with deposit and credit card accounts, interchange fees and fees charged for specific customer transactions such as international money transfers. Where the Group provides multiple goods or services to a customer under the same contract, the Group allocates the transaction price of the contract to distinct performance obligations based on the relative stand-alone selling price of each performance obligation. Revenue is recognised as each performance obligation is satisfied.
- Commissions represent fees from third parties where ANZ acts as an agent by arranging a third party (e.g. an insurance provider) to provide goods and services to a customer. In such cases, ANZ is not primarily responsible for providing the underlying good or service to the customer. If the Group collects funds on behalf of a third party when acting as an agent, the Group only recognises the net commission it retains as revenue. When the commission is variable based on factors outside the control of the Group (e.g. a trail commission), revenue is only recognised if it is highly probable that a significant reversal of the variable amount will not be required in future periods.
- Funds management income represent fees earned from customers for providing financial advice and fees for asset management services and advice provided to investment funds. Revenue is recognised either at the point the financial advice is provided or over the period in which the asset management services are delivered. Performance fees associated with funds management activities are only recognised when it becomes highly probable the performance hurdle will be achieved.

Net Foreign Exchange Earnings and Other Financial Instruments Income

We recognise the following as net foreign exchange earnings and other financial instruments income:

- exchange rate differences arising on the settlement of monetary items and translation differences on monetary items translated at rates different to those at which they were initially recognised or included in a previous financial report;
- fair value movements (excluding realised and accrued interest) on derivatives that we use to manage interest rate and foreign exchange risk on funding instruments not designated as accounting hedges;
- the ineffective portions of fair value hedges, cash flow hedges and net investment hedges;

2. OPERATING INCOME (continued)

RECOGNITION AND MEASUREMENT

- immediately upon sale or repayment of a hedged item, the unamortised fair value adjustments in items designated as fair value hedges and amounts accumulated in equity related to designated cash flow hedges;
- fair value movements on financial assets and financial liabilities designated at fair value through profit or loss or held for trading;
- amounts released from the available-for-sale asset (AFS) revaluation reserve (applicable prior to 1 October 2018) when an available-for-sale asset is sold;
- amounts released from the fair value through other comprehensive income (FVOCI) reserve (applicable from 1 October 2018) when a debt instrument classified as FVOCI is sold; and
- the gain or loss on derecognition of financial assets or liabilities measured at amortised cost.

Gain or Loss on Disposal of Non-Financial Assets

The gain or loss on the disposal of assets is the difference between the carrying value of the asset and the proceeds of disposal net of costs. This is recognised in other income in the year in which the significant risks and rewards transfer to the buyer.

NET INCOME FROM INSURANCE BUSINESS

We recognise:

- premiums received (net of reinsurance premiums paid) based on an assessment of the likely pattern in which risk will emerge over the term of the policies written. This assessment is undertaken periodically and updated in accordance with the latest pattern of risk emergence; and
- claims incurred net of reinsurance, on an accruals basis once the liability to the policy owner has been established under the terms of the contract and through actuarial assumptions of future claims.

SHARE OF ASSOCIATES' PROFIT

The equity method is applied to accounting for associates. Under the equity method, the Group's share of the after tax results of associates is included in the Income Statement and the Statement of Comprehensive Income.

3. OPERATING EXPENSES

	2019 $m	2018[1] $m
Personnel		
Salaries and related costs[2]	4,249	4,225
Superannuation costs	293	290
Other[2]	223	243
Personnel	4,765	4,758
Premises		
Rent	450	468
Other	345	343
Premises	795	811
Technology		
Depreciation and amortisation[3]	694	990
Licences and outsourced services	672	675
Other	168	234
Technology (excluding personnel)	1,534	1,899
Restructuring	77	227
Other		
Advertising and public relations	226	248
Professional fees[2]	537	530
Freight, stationery, postage and communication	216	223
Royal Commission legal costs	15	55
Other[2]	906	650
Other	1,900	1,706
Operating expenses[2]	9,071	9,401

1. On adoption of AASB 15, the Group reclassified certain items previously netted which are now presented gross in operating income and operating expenses. Comparative information has been restated accordingly which increased total operating expense by $153 million for 2018.
2. Includes customer remediation expenses of $373 million in 2019 (2018: $191 million).
3. 2018 includes an accelerated amortisation expense of $251 million.

RECOGNITION AND MEASUREMENT

OPERATING EXPENSES

Operating expenses are recognised as services are provided to the Group over the period in which an asset is consumed or once a liability is created.

SALARIES AND RELATED COSTS - ANNUAL LEAVE, LONG SERVICE LEAVE AND OTHER EMPLOYEE BENEFITS

Wages and salaries, annual leave and other employee entitlements expected to be paid or settled within twelve months of employees rendering service are measured at their nominal amounts using remuneration rates that the Group expects to pay when the liabilities are settled.

We accrue employee entitlements relating to long service leave using an actuarial calculation. It includes assumptions regarding staff departures, leave utilisation and future salary increases. The result is then discounted using market yields at the reporting date. The market yields are determined from a blended rate of high quality corporate bonds with terms to maturity that closely match the estimated future cash outflows.

If we expect to pay short term cash bonuses, then a liability is recognised when the Group has a present legal or constructive obligation to pay this amount (as a result of past service provided by the employee) and the obligation can be reliably measured.

3. OPERATING EXPENSES (continued)

RECOGNITION AND MEASUREMENT

Personnel expenses also include share-based payments which may be cash or equity settled. We calculate the fair value of equity settled remuneration at grant date, which is then amortised over the vesting period, with a corresponding increase in share capital or the share option reserve as applicable. When we estimate the fair value, we take into account market vesting conditions, such as share price performance conditions. We take non-market vesting conditions, such as service conditions, into account by adjusting the number of equity instruments included in the expense.

After the grant of an equity-based award, the amount we recognise as an expense is reversed when non-market vesting conditions are not met, for example an employee fails to satisfy the minimum service period specified in the award on resignation, termination or notice of dismissal for serious misconduct. However, we do not reverse the expense if the award does not vest due to the failure to meet a market-based performance condition.

Further information on share-based payment schemes operated by the Group during the current and prior year is included in Note 31 Employee Share and Option Plans.

4. INCOME TAX

INCOME TAX EXPENSE

Reconciliation of the prima facie income tax expense on pre-tax profit with the income tax expense recognised in profit or loss:

	2019 $m	2018 $m
Profit before income tax from continuing operations	8,920	9,895
Prima facie income tax expense at 30%	2,676	2,969
Tax effect of permanent differences:		
Sale of divestments	(25)	(141)
Share of associates' profit	(78)	(55)
Interest on convertible instruments	63	67
Overseas tax rate differential	(112)	(58)
Provision for foreign tax on dividend repatriation	39	32
Tax provisions no longer required	(14)	(41)
Other	77	8
Subtotal	2,626	2,781
Income tax (over)/under provided in previous years	(17)	3
Income tax expense	2,609	2,784
Current tax expense	2,779	3,004
Adjustments recognised in the current year in relation to the current tax of prior years	(17)	3
Deferred tax expense/(income) relating to the origination and reversal of temporary differences	(153)	(223)
Income tax expense	2,609	2,784
Australia	1,682	1,799
Overseas	927	985
Effective tax rate	29.2%	28.1%

4. INCOME TAX (continued)

TAX CONSOLIDATION

The Company and all its wholly owned Australian resident entities are part of a tax-consolidated group under Australian taxation law. The Company is the head entity in the tax-consolidated group. We recognise each of the following in the separate financial statements of members of the tax consolidated group on a 'group allocation' basis: tax expense/income, and deferred tax liabilities/assets, that arise from temporary differences of the members of the tax-consolidated group. The Company (as head entity in the tax-consolidated group) recognises current tax liabilities and assets of the tax-consolidated group.

Under a tax funding arrangement between the entities in the tax-consolidated group, amounts are recognised as payable to or receivable by the Company and each member of the tax-consolidated group in relation to the tax contribution amounts paid or payable between the Company and the other members of the tax-consolidated group.

Members of the tax-consolidated group have also entered into a tax sharing agreement that provides for the allocation of income tax liabilities between the entities were the head entity to default on its income tax payment obligations.

UNRECOGNISED DEFERRED TAX ASSETS AND LIABILITIES

Unrecognised deferred tax assets related to unused realised tax losses (on revenue account) total $10 million (2018: $4 million). Unrecognised deferred tax liabilities related to additional potential foreign tax costs (assuming all retained earnings in offshore branches and subsidiaries are repatriated) total $429 million (2018: $390 million).

RECOGNITION AND MEASUREMENT

INCOME TAX EXPENSE

Income tax expense comprises both current and deferred taxes and is based on the accounting profit adjusted for differences in the accounting and tax treatments of income and expenses (that is, taxable income). We recognise tax expense in profit or loss except to the extent to which it relates to items recognised directly in equity and other comprehensive income, in which case we recognise directly in equity or other comprehensive income respectively.

CURRENT TAX EXPENSE

Current tax is the tax we expect to pay on taxable income for the year, based on tax rates (and tax laws) which are enacted at the reporting date. We recognise current tax as a liability (or asset) to the extent that it is unpaid (or refundable).

DEFERRED TAX ASSETS AND LIABILITIES

We account for deferred tax using the balance sheet method. Deferred tax arises because the accounting income is not always the same as the taxable income. This creates temporary differences, which usually reverse over time. Until they reverse, we recognise a deferred tax asset, or liability, on the balance sheet. We measure deferred taxes at the tax rates that we expect will apply to the period(s) when the asset is realised, or the liability settled, based on tax rates (and tax laws) that have been enacted or substantially enacted at the reporting date.

We offset current and deferred tax assets and liabilities only to the extent that:

- they relate to income taxes imposed by the same taxation authority;
- there is a legal right and intention to settle on a net basis; and
- it is allowed under the tax law of the relevant jurisdiction.

KEY JUDGEMENTS AND ESTIMATES

Judgement is required in determining provisions held in respect of uncertain tax positions. The Group estimates its tax liabilities based on its understanding of the relevant law in each of the countries in which it operates and seeks independent advice where appropriate.

5. DIVIDENDS

ORDINARY SHARE DIVIDENDS

Dividends are provided for in the financial statements once determined, accordingly, the final dividend announced for the current financial year is provided for and paid in the following financial year.

Dividends	% of total	Amount per share	Total dividend $m
Financial Year 2018			
2017 final dividend paid		80 cents	2,350
2018 interim dividend paid		80 cents	2,317
Bonus option plan adjustment			(82)
Dividends paid during the year ended 30 September 2018			4,585
Cash	91.5%		4,193
Dividend reinvestment plan	8.5%		392
Dividends paid during the year ended 30 September 2018			4,585
Financial Year 2019			
2018 final dividend paid		80 cents	2,295
2019 interim dividend paid		80 cents	2,267
Bonus option plan adjustment			(81)
Dividends paid during the year ended 30 September 2019			4,481
Cash	90.4%		4,049
Dividend reinvestment plan	9.6%		432
Dividends paid during the year ended 30 September 2019			4,481

Dividends announced and to be paid after year-end	Payment date	Amount per share	Total dividend $m
2019 final dividend (70% franked for Australian tax, New Zealand imputation credit NZD 9 cents per share)	18 December 2019	80 cents	2,268

DIVIDEND REINVESTMENT PLAN AND BONUS OPTION PLAN

Eligible shareholders can elect to reinvest their dividend entitlement into ANZ ordinary shares under the Company's Dividend Reinvestment Plan (DRP). Eligible shareholders can elect to forgo their dividend entitlement and instead receive ANZ ordinary shares under the Company's Bonus Option Plan (BOP). For the 2019 final dividend, DRP participation will be satisfied by an on-market purchase of shares and BOP participation will be satisfied by an issue of ANZ ordinary shares. There will be no discount applied to the DRP and BOP price.

See Note 22 Shareholders' Equity for details of shares the Company issued or purchased in respect of the DRP and BOP.

DIVIDEND FRANKING ACCOUNT

	Currency	2019 $m	2018 $m
Australian franking credits available at 30% tax rate	AUD	35	97
New Zealand imputation credits available (which can be attached to our Australian dividends but may only be used by New Zealand resident shareholders)	NZD	4,068	3,868

The above amounts represent the balances of the franking accounts as at the end of the financial year, adjusted for:

- franking credits that will arise from the payment of income tax payable as at the end of the financial year; and
- franking credits/debits from the receipt/payment of dividends that have been recognised as tax receivables/payables as at the end of the financial year.

5. DIVIDENDS (continued)

The proposed final 2019 dividend will utilise the entire balance of $35 million franking credits available at 30 September 2019. Instalment tax payments on account of the 2020 financial year which will be made after 30 September 2019 will generate sufficient franking credits to enable the final 2019 dividend to be 70% franked. The extent to which future dividends will be franked will depend on a number of factors, including the level of profits generated by the Group that will be subject to tax in Australia.

RESTRICTIONS ON THE PAYMENT OF DIVIDENDS

APRA's written approval is required before paying dividends on ANZ ordinary shares:

- if the aggregate dividends exceed the Company's after tax earnings (in calculating those after tax earnings, we take into account any payments we made on senior capital instruments) in the financial year to which they relate; or
- if the Group's Common Equity Tier 1 capital ratio falls within capital range buffers specified by APRA.

If the Company fails to pay a dividend or distribution on its ANZ Capital Notes or ANZ Capital Securities on the scheduled payment date, it may (subject to a number of exceptions) be restricted from resolving to pay or paying any dividend on the ANZ ordinary shares.

6. EARNINGS PER ORDINARY SHARE

Earnings per ordinary share (EPS) - Basic	2019 cents	2018 cents
Earnings Per Share	210.0	221.6
Earnings Per Share from continuing operations[1]	222.1	245.6
Earnings Per Share from discontinued operations	(12.1)	(24.0)

Earnings per ordinary share (EPS) - Diluted	2019 cents	2018 cents
Earnings Per Share	201.9	212.1
Earnings Per Share from continuing operations[1]	213.0	234.2
Earnings Per Share from discontinued operations	(11.1)	(22.1)

Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period (after eliminating ANZ shares held within the Group known as treasury shares). Diluted EPS is calculated by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares used in the basic EPS calculation for the effect of dilutive potential ordinary shares.

Reconciliation of earnings used in earnings per share calculations	2019 $m	2018 $m
Basic:		
Profit for the year	5,968	6,416
Less: Profit attributable to non-controlling interests	15	16
Earnings used in calculating basic earnings per share	5,953	6,400
Less: Profit/(Loss) after tax from discontinued operations	(343)	(695)
Earnings used in calculating basic earnings per share from continuing operations	6,296	7,095
Diluted:		
Earnings used in calculating basic earnings per share	5,953	6,400
Add: Interest on convertible subordinated debt	268	279
Earnings used in calculating diluted earnings per share	6,221	6,679
Less: Profit/(Loss) after tax from discontinued operations	(343)	(695)
Earnings used in calculating diluted earnings per share from continuing operations	6,564	7,374

Reconciliation of weighted average number of ordinary shares (WANOS) used in earnings per share calculations[1,2]	2019 millions	2018 millions
WANOS used in calculating basic earnings per share	2,834.9	2,888.3
Add: Weighted average dilutive potential ordinary shares		
Convertible subordinated debt	237.9	249.0
Share based payments (options, rights and deferred shares)	8.8	11.4
WANOS used in calculating diluted earnings per share	3,081.6	3,148.7

1. The successor fund transfer performed in preparation for the sales of the Group's wealth businesses to Zurich and IOOF was completed on 13 April 2019. Post this date, treasury shares held in Wealth Australia discontinued operations ceased to be eliminated in the Group's consolidated financial statements and are included in the denominator used in calculating earnings per share. If the weighted average number of treasury shares held in Wealth Australia discontinued operations was included in the denominator used in calculating earnings per share from continuing operations, basic earnings per share from continuing operations for 2019 would have been 221.4 cents (2018: 244.4 cents) and diluted earnings per share from continuing operations for 2019 would have been 212.4 cents (2018: 233.1 cents).
2. Excludes the weighted average number of treasury shares held in ANZEST of 4.7 million (2018: 5.9 million) and Wealth Australia discontinued operations of 8.2 million (2018: 15.0 million).

7. SEGMENT REPORTING

DESCRIPTION OF SEGMENTS

The Group's five continuing operating segments are presented on a basis that is consistent with the information provided internally to the Chief Executive Officer, who is the chief operating decision maker. This reflects the way the Group's businesses are managed, rather than the legal structure of the Group.

We measure the performance of these segments on a cash profit basis. To calculate cash profit, we remove certain non-core items from statutory profit. Details of these items are included in the "Other Items" section of this note. Transactions between business units across segments within ANZ are conducted on an arm's-length basis and disclosed as part of the income and expenses of these segments.

The reportable segments are divisions engaged in providing either different products or services or similar products and services in different geographical areas. They are as follows:

Australia Retail and Commercial

The Australia Retail and Commercial division comprises:

- **Retail** provides products and services to consumer customers in Australia via the branch network, mortgage specialists, contact centres, a variety of self-service channels (internet banking, phone banking, ATMs, website, ANZ share investing and digital banking) and third party brokers in addition to financial planning services provided by salaried financial planners.
- **Commercial** provides a full range of banking products and financial services including asset financing across the following customer segments: medium to large commercial customers and agribusiness customers across regional Australia, small business owners and high net worth individuals and family groups.

Institutional

The Institutional division services governments, global institutional and corporate customers across three product sets: Transaction Banking, Loans & Specialised Finance and Markets.

- **Transaction Banking** provides working capital and liquidity solutions including documentary trade, supply chain financing, commodity financing as well as cash management solutions, deposits, payments and clearing.
- **Loans & Specialised Finance** provides loan products, loan syndication, specialised loan structuring and execution, project and export finance, debt structuring and acquisition finance and corporate advisory.
- **Markets** provide risk management services on foreign exchange, interest rates, credit, commodities, debt capital markets in addition to managing the Group's interest rate exposure and liquidity position.

New Zealand

The New Zealand division comprises:

- **Retail** provides a full range of banking and wealth management services to consumer, private banking and small business banking customers. We deliver our services via our internet and app-based digital solutions and network of branches, mortgage specialists, relationship managers and contact centres.
- **Commercial** provides a full range of banking services including traditional relationship banking and sophisticated financial solutions through dedicated managers focusing on privately owned medium to large enterprises, the agricultural business segment and governments.

Pacific

The Pacific division provides products and services to retail customers, small to medium-sized enterprises, institutional customers and governments located in the Pacific Islands. Products and services include retail products provided to consumers, traditional relationship banking and sophisticated financial solutions provided to business customers through dedicated managers.

Technology, Services & Operations (TSO) and Group Centre

TSO and Group Centre provide support to the operating divisions, including technology, group operations, shared services, property, risk management, financial management, strategy, marketing, human resources and corporate affairs. The Group Centre includes residual Asia Retail and Wealth, Group Treasury, Shareholder Functions and minority investments in Asia.

Refer to Note 29 Discontinued Operations and Assets and Liabilities Held for Sale for details on discontinued operations.

OPERATING SEGMENTS

The presentation of divisional results has been impacted by a number of methodology and structural changes during the period. Prior period comparatives have been restated as follows:

- The methodology for allocating earnings on capital at a business unit level has changed from Economic Capital to Regulatory Capital. While neutral at a Group level, this change has impacted net interest income at the divisional level;
- The residual Asia Retail and Wealth businesses have been transferred from the former Asia Retail and Pacific division to TSO and Group Centre division. The remaining segment has been renamed Pacific division; and

7. SEGMENT REPORTING (continued)

OPERATING SEGMENTS (continued)

- ANZ's lenders mortgage insurance, share investing, general insurance distribution and financial planning businesses which were previously part of the continuing operations of Wealth Australia now form part of the Australia Retail and Commercial division (previously named Australia division) and Wealth Australia division ceases to exist as a continuing division.

The divisional results were also impacted by the adoption of two new accounting standards:

- AASB 9 - the Group implemented an expected credit loss methodology for impairment of financial assets, and revised the classification and measurement of certain financial assets from 1 October 2018. Consequently, the Group increased its provision for credit impairment by $813 million through opening retained earnings. Comparative information has not been restated.
- AASB 15 - the main impact of adoption is that certain items previously netted are now presented gross in operating income and operating expenses. Comparative information has been restated which increased total operating income by $153 million and is offset by an increase in total operating expenses of the same amount.

Year ended 30 September 2019	Australia Retail and Commercial $m	Institutional $m	New Zealand $m	Pacific $m	TSO and Group Centre $m	Other items[1] $m	Group Total $m
Net interest income	8,092	3,080	2,736	128	303	-	14,339
Net fee and commission income							
- Lending fees	290	282	16	14	-	-	602
- Non-lending fees	1,499	847	691	42	(20)	-	3,059
- Commissions	75	-	61	-	(12)	-	124
- Funds management income	14	2	243	-	(5)	-	254
- Fee and commission expense	(657)	(338)	(459)	(9)	1	-	(1,462)
Net income from insurance business	100	-	18	-	1	7	126
Other income	27	1,399	6	57	243	(251)	1,481
Share of associates' profit	(1)	-	4	-	259	-	262
Other operating income	1,347	2,192	580	104	467	(244)	4,446
Operating income	9,439	5,272	3,316	232	770	(244)	18,785
Operating expenses	(4,074)	(2,667)	(1,286)	(150)	(894)	-	(9,071)
Profit before credit impairment and income tax	5,365	2,605	2,030	82	(124)	(244)	9,714
Credit impairment (charge)/release	(712)	2	(87)	1	1	1	(794)
Profit before income tax	4,653	2,607	1,943	83	(123)	(243)	8,920
Income tax expense and non-controlling interests	(1,458)	(779)	(544)	(24)	112	69	(2,624)
Profit after tax from continuing operations	3,195	1,828	1,399	59	(11)	(174)	6,296
Profit/(Loss) after tax from discontinued operations							(343)
Profit after tax attributable to shareholders							5,953
Non-cash items							
Share of associates' profit	(1)	-	4	-	259	-	262
Depreciation and amortisation	(176)	(112)	(41)	(7)	(535)	-	(871)
Equity-settled share based payment expenses	(13)	(69)	(4)	(1)	(33)	-	(120)
Credit impairment (charge)/release	(712)	2	(87)	1	1	1	(794)

Financial position	Australia Retail and Commercial $m	Institutional $m	New Zealand $m	Pacific $m	TSO and Group Centre $m	Discontinued operations $m	Group Total $m
Goodwill	410	1,070	1,937	50	-	42	3,509
Investments in associates	17	2	-	-	2,938	-	2,957

1. Cash profit represents ANZ's preferred measure of the result of the segments. We remove certain items from the segments as discussed on page 124 if we consider them not integral to the ongoing performance of the segment.

7. SEGMENT REPORTING (continued)

OPERATING SEGMENT (continued)

Year ended 30 September 2018	Australia Retail and Commercial $m	Institutional $m	New Zealand $m	Pacific $m	TSO and Group Centre $m	Other items[1] $m	Group Total $m
Net interest income	8,449	2,993	2,651	131	290	-	14,514
Net fee and commission income							
- Lending fees	353	269	15	14	1	-	652
- Non-lending fees	1,494	832	657	39	32	-	3,054
- Commissions	83	-	42	-	(33)	-	92
- Funds management income	22	5	230	-	(9)	-	248
- Fee and commission expense	(609)	(289)	(417)	(8)	(13)	-	(1,336)
Net income from insurance business	126	1	117	-	10	19	273
Other income	42	1,248	22	55	339	598	2,304
Share of associates' profit	(1)	-	5	-	179	-	183
Other operating income	1,510	2,066	671	100	506	617	5,470
Operating income	9,959	5,059	3,322	231	796	617	19,984
Operating expenses	(4,075)	(2,948)	(1,205)	(128)	(1,045)	-	(9,401)
Profit before credit impairment and income tax	5,884	2,111	2,117	103	(249)	617	10,583
Credit impairment (charge)/release	(698)	44	(6)	(3)	(25)	-	(688)
Profit before income tax	5,186	2,155	2,111	100	(274)	617	9,895
Income tax expense and non-controlling interests	(1,560)	(675)	(590)	(28)	62	(9)	(2,800)
Profit after tax from continuing operations	3,626	1,480	1,521	72	(212)	608	7,095
Profit/(Loss) after tax from discontinued operations							(695)
Profit after tax attributable to shareholders							6,400
Non-cash items							
Share of associates' profit	(1)	-	5	-	179	-	183
Depreciation and amortisation	(217)	(410)	(48)	(7)	(517)	-	(1,199)
Equity-settled share based payment expenses	(17)	(83)	(7)	(1)	(29)	(1)	(138)
Credit impairment (charge)/release	(698)	44	(6)	(3)	(25)	-	(688)

Financial position[2]	Australia Retail and Commercial $m	Institutional $m	New Zealand $m	Pacific $m	TSO and Group Centre $m	Discontinued operations $m	Group Total $m
Goodwill	270	1,067	1,979	48	-	767	4,131
Investments in associates	18	1	5	-	2,531	-	2,555

1. Cash profit represents ANZ's preferred measure of the result of the segments. We remove certain items from the segments as discussed on page 124 if we consider them not integral to the ongoing performance of the segment.
2. Includes goodwill of $691 million and investments in associates of $2 million presented as assets held for sale.

7. SEGMENT REPORTING (continued)

OTHER ITEMS

The table below sets out the profit after tax impact of other items which are removed from statutory profit to reflect the cash profit of each segment.

		Profit after tax	
Item	Related segment	2019 $m	2018 $m
Revaluation of policy liabilities	New Zealand	(77)	14
Economic hedges	Institutional, TSO and Group Centre	(118)	248
Revenue and expense hedges	TSO and Group Centre	19	9
Structured credit intermediation trades	Institutional	2	4
Reclassification of SRCB to held for sale	TSO and Group Centre	-	333
Total from continuing operations		(174)	608

SEGMENT INCOME BY PRODUCTS AND SERVICES

The primary sources of our external income across all divisions are interest income and other operating income. The Australia, New Zealand, and Pacific divisions derive income from products and services from retail and commercial banking. The Institutional division derives its income from institutional products and services. No single customer amounts to greater than 10% of the Group's income.

GEOGRAPHICAL INFORMATION

The following table sets out total operating income earned including discontinued operations and assets to be recovered in more than one year based on the geographical regions in which the Group operates. The assets consist of investment securities measured at fair value through other comprehensive income (applicable from 1 October 2018), available-for-sale assets (prior to 1 October 2018), net loans and advances and assets presented as held for sale.

	Australia		Asia Pacific, Europe & Americas		New Zealand		Total	
	2019 $m	2018 $m	2019 $m	2018 $m	2019 $m	2018 $m	2019 $m	2018 $m
Total operating income	12,394	13,286	2,613	2,823	3,947	3,956	18,954	20,065
Assets to be recovered in more than one year	386,062	389,119	48,545	46,801	105,642	98,312	540,249	534,232

FINANCIAL ASSETS

Outlined below is a description of how we classify and measure financial assets relevant to the subsequent note disclosures.

CLASSIFICATION AND MEASUREMENT

Financial assets - general

There are three measurement classifications for financial assets under AASB 9: amortised cost, fair value through profit or loss (FVTPL) and fair value through other comprehensive income (FVOCI). Financial assets are classified into these measurement classifications on the basis of two criteria:

- the business model within which the financial asset is managed; and
- the contractual cash flow characteristics of the financial asset (specifically whether the contractual cash flows represent solely payments of principal and interest).

The resultant financial asset classifications are as follows:

- Amortised cost: Financial assets with contractual cash flows that comprise solely payments of principal and interest only and which are held in a business model whose objective is to collect their cash flows;
- FVOCI: Financial assets with contractual cash flows that comprise solely payments of principal and interest only and which are held in a business model whose objective is to collect their cash flows or to sell the assets; and
- FVTPL: Any other financial assets not falling into the categories above are measured at FVTPL.

Fair value option for financial assets

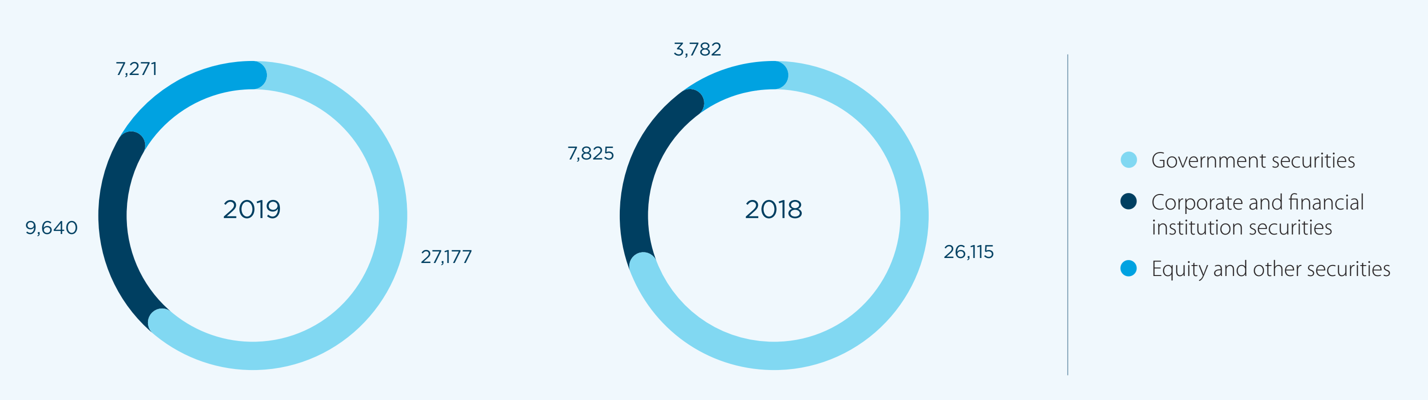
A financial asset may be irrevocably designated at FVTPL on initial recognition when the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

8. CASH AND CASH EQUIVALENTS

	2019 $m	2018 $m
Coins, notes and cash at bank	1,186	1,382
Money at call, bills receivable and remittances in transit	3	74
Securities purchased under agreements to resell in less than 3 months	25,277	28,302
Balances with central banks	25,681	33,724
Settlement balances owed to ANZ within 3 months	29,474	21,154
Cash and cash equivalents[1]	81,621	84,636

1. Excludes cash and cash equivalents held for sale of nil (2018: $328 million).

9. TRADING SECURITIES



	2019 $m	2018 $m
Government securities	27,177	26,115
Corporate and financial institution securities	9,640	7,825
Equity and other securities	7,271	3,782
Total	44,088	37,722
Less: Assets reclassified as held for sale (refer to Note 29)	(919)	-
Total	43,169	37,722

RECOGNITION AND MEASUREMENT

Trading securities are financial instruments we either:

- acquire principally for the purpose of selling in the short-term; or
- hold as part of a portfolio we manage for short-term profit making.

We recognise purchases and sales of trading securities on trade date:

- initially, we measure them at fair value; and
- subsequently, we measure them in the balance sheet at their fair value with any revaluation recognised in the profit or loss.

KEY JUDGEMENTS AND ESTIMATES

Judgement is required when applying the valuation techniques used to measure the fair value of trading securities not valued using quoted market prices. Refer to Note 17 Fair Value of Financial Assets and Financial Liabilities for further details.

10. DERIVATIVE FINANCIAL INSTRUMENTS

Fair Value	Assets 2019 $m	Liabilities 2019 $m	Assets 2018 $m	Liabilities 2018 $m
Derivative financial instruments - held for trading	116,622	(116,778)	66,457	(66,198)
Derivative financial instruments - designated in hedging relationships	4,045	(4,173)	1,966	(3,478)
Derivative financial instruments	120,667	(120,951)	68,423	(69,676)

FEATURES

Derivative financial instruments are contracts:

- whose value is derived from an underlying price index (or other variable) defined in the contract - sometimes the value is derived from more than one variable;
- that require little or no initial net investment; and
- that are settled at a future date.

Movements in the price of the underlying variables, which cause the value of the contract to fluctuate, are reflected in the fair value of the derivative.

PURPOSE

The Group's derivative financial instruments have been categorised as following:

Trading	Derivatives held in order to: • Meet customer needs for managing their own risks. • Manage risks in the Group that are not in a designated hedge accounting relationship (balance sheet management). • Undertake market making and positioning activities to generate profits from short-term fluctuations in prices or margins.
Designated in Hedging Relationships	Derivatives designated into hedge accounting relationships in order to minimise profit or loss volatility by matching movements to underlying positions relating to: • Hedges of the Group's exposures to interest rate risk and currency risk. • Hedges of other exposures relating to non-trading positions.

TYPES

The Group offers and uses four different types of derivative financial instruments:

Forwards	A contract documenting the rate of interest, or the currency exchange rate, to be paid or received on a notional principal amount at a future date.
Futures	An exchange traded contract in which the parties agree to buy or sell an asset in the future for a price agreed on the transaction date, with a net settlement in cash paid on the future date without physical delivery of the asset.
Swaps	A contract in which two parties exchange a series of cash flows for another.
Options	A contract in which the buyer of the contract has the right - but not the obligation - to buy (known as a "call option") or to sell (known as a "put option") an asset or instrument at a set price on a future date. The seller has the corresponding obligation to fulfil the transaction to sell or buy the asset or instrument if the buyer exercises the option.

RISKS MANAGED

The Group offers and uses the instruments described above to manage fluctuations in the following market factors:

Foreign Exchange	Currencies at current or determined rates of exchange.
Interest Rate	Fixed or variable interest rates applying to money lent, deposited or borrowed.
Commodity	Soft commodities (that is, agricultural products such as wheat, coffee, cocoa and sugar) and hard commodities (that is, mined products such as gold, oil and gas).
Credit	Counterparty risk in the event of default.

10. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

DERIVATIVE FINANCIAL INSTRUMENTS – HELD FOR TRADING

The majority of the Group's derivative financial instruments are held for trading. The fair value of derivative financial instruments held for trading are:

Fair Value	Assets 2019 $m	Liabilities 2019 $m	Assets 2018 $m	Liabilities 2018 $m
Interest rate contracts				
Forward rate agreements	74	(78)	2	(2)
Futures contracts	41	(109)	54	(41)
Swap agreements	82,996	(80,588)	35,079	(35,428)
Options purchased	1,454	-	782	-
Options sold	-	(2,317)	-	(1,408)
Total	84,565	(83,092)	35,917	(36,879)
Foreign exchange contracts				
Spot and forward contracts	15,987	(15,359)	15,200	(14,088)
Swap agreements	13,836	(16,235)	12,532	(11,821)
Options purchased	405	-	494	-
Options sold	-	(514)	-	(669)
Total	30,228	(32,108)	28,226	(26,578)
Commodity contracts	1,807	(1,553)	2,260	(2,683)
Credit default swaps				
Structured credit derivatives purchased	16	-	22	-
Other credit derivatives purchased	4	(3)	8	(29)
Credit derivatives purchased	20	(3)	30	(29)
Structured credit derivatives sold	-	(19)	-	(26)
Other credit derivatives sold	2	(3)	24	(3)
Credit derivatives sold	2	(22)	24	(29)
Total	22	(25)	54	(58)
Derivative financial instruments - held for trading	116,622	(116,778)	66,457	(66,198)

10. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

DERIVATIVE FINANCIAL INSTRUMENTS – DESIGNATED IN HEDGING RELATIONSHIPS

There are three types of hedge accounting relationships the Group utilises:

	Fair value hedge	Cash flow hedge	Net investment hedge
Objective of this hedging arrangement	To hedge our exposure to changes to the fair value of a recognised asset or liability or unrecognised firm commitment caused by interest rate or foreign currency movements.	To hedge our exposure to variability in cash flows of a recognised asset or liability, a firm commitment or a highly probable forecast transaction caused by interest rate, foreign currency and other price movements.	To hedge our exposure to exchange rate differences arising from the translation of our foreign operations from their functional currency to Australian dollars.
Recognition of effective hedge portion	The following are recognised in profit or loss at the same time: • all changes in the fair value of the underlying item relating to the hedged risk; and • the change in the fair value of the derivatives.	We recognise the effective portion of changes in the fair value of derivatives designated as a cash flow hedge in the cash flow hedge reserve.	We recognise the effective portion of changes in the fair value of the hedging instrument in the foreign currency translation reserve.
Recognition of ineffective hedge portion	Recognised immediately in Other operating income.		
If a hedging instrument expires, or is sold, terminated, or exercised; or no longer qualifies for hedge accounting	When we recognise the hedged item in profit or loss, we recognise the related unamortised fair value adjustment in profit or loss. This may occur over time if the hedged item is amortised to profit or loss as part of the effective yield over the period to maturity.	Only when we recognise the hedged item in profit or loss is the amount previously deferred in the cash flow hedge reserve transferred to profit or loss.	The amount we defer in the foreign currency translation reserve remains in equity and is transferred to profit or loss only when we dispose of, or partially dispose of, the foreign operation.
Hedged item sold or repaid	We recognise the unamortised fair value adjustment immediately in profit or loss.	Amounts accumulated in equity are transferred immediately to profit or loss.	The gain or loss, or applicable proportion, we recognise in equity is transferred to profit or loss on disposal or partial disposal of a foreign operation.

10. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

As outlined in Note 1, the Group has continued to apply the AASB 139 hedge accounting requirements until the International Accounting Standards Board's ongoing project on macro hedge accounting is completed. However, new hedge disclosures are required for 2019 and onwards under AASB 7 *Financial Instruments: Disclosures* (AASB 7) which are presented below. The presentation of derivatives information for 2018 has not been amended.

The fair value of derivative financial instruments designated in hedging relationships are:

	2019			2018	
	Nominal amount $m	Assets $m	Liabilities $m	Assets $m	Liabilities $m
Fair value hedges					
Foreign exchange swap agreements	21	1	-	1	-
Foreign exchange spot and forward contracts	581	-	(9)	1	-
Interest rate swap agreements	108,243	2,093	(3,155)	1,261	(3,001)
Interest rate futures contracts	3,139	-	(27)	47	(1)
Cash flow hedges					
Interest rate swap agreements	84,365	1,876	(832)	592	(379)
Foreign exchange swap agreements	2,934	75	(91)	44	(52)
Foreign exchange spot and forward contracts	159	-	(1)	2	-
Net investment hedges					
Foreign exchange spot and forward contracts	1,484	-	(58)	18	(45)
Derivative financial instruments - designated in hedging relationships	200,926	4,045	(4,173)	1,966	(3,478)

The maturity profile of the nominal amounts of our hedging instruments held at 30 September 2019 is:

Nominal Amount		Average Rate	Less than 3 months $m	3 to 12 months $m	1 to 5 years $m	After 5 years $m	Total $m
Fair value hedges							
Interest rate	Interest Rate	1.95%	3,195	18,407	63,873	25,907	111,382
Foreign exchange	HKD/AUD FX Rate	5.38	602	-	-	-	602
Cash flow hedges							
Interest rate	Interest Rate	2.15%	1,088	14,040	66,880	2,357	84,365
Foreign exchange[1]	AUD/USD FX Rate USD/EUR FX Rate	0.72 0.91	40	120	1,652	1,281	3,093
Net investment hedges							
Foreign exchange	TWD/AUD FX Rate THB/AUD FX Rate	21.41 21.77	474	1,010	-	-	1,484

1. Hedges of foreign exchange risk cover multiple currency pairs. The table reflects the larger currency pairs only.

10. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The impact of ineffectiveness from our designated hedge relationships by type of hedge relationship and type of risk being hedged are:

	Ineffectiveness			
2019	Change in value of hedging instrument $m	Change in value of hedged item $m	Hedge ineffectiveness recognised in profit and loss $m	Amount reclassified from the cash flow hedge reserve or FCTR to profit and loss $m
Fair value hedges[1]				
Interest rate	586	(582)	4	-
Foreign exchange	(36)	36	-	-
Cash flow hedges[1]				
Interest rate	836	(825)	11	14
Foreign exchange	20	(20)	-	2
Net investment hedges[1]				
Foreign exchange	(144)	144	-	-

1. All hedging instruments are held within Derivative Financial Instruments.

Hedge ineffectiveness recognised is classified within Other operating income. Reclassification adjustments to the Statement of Comprehensive Income are recognised within Net interest income.

Hedged items in relation to the Group's fair value hedges for 30 September 2019 are as follows:

			Carrying amount		Accumulated fair value hedge adjustments on the hedged item	
	Balance sheet presentation	Hedged risk	Assets $m	Liabilities $m	Assets $m	Liabilities $m
Fixed rate loans and advances	Net loans and advances	Interest rate	2,281	-	17	-
Fixed rate debt issuance	Debt issuances	Interest rate	-	(67,555)	-	(1,749)
Fixed rate investment securities (FVOCI)[1]	Investment securities	Interest rate	47,641	-	1,907	-
Equity securities at FVOCI[1]	Investment securities	Foreign exchange	581	-	52	-
Total			50,503	(67,555)	1,976	(1,749)

1. The carrying amount of debt and equity instruments at fair value through other comprehensive income does not include the fair value hedge adjustment as the hedge assets are measured at fair value. The accounting for the hedge relationship results in transfer of the hedge adjustment out of other comprehensive income into the Income Statement.

The cumulative amount of fair value hedge adjustments relating to ceased hedge relationships remaining on the Balance Sheet is $8 million.

10. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Hedged items in relation to the Group's cash flow and net investment hedges for 30 September 2019 are as follows:

	Hedged risk	Cash flow hedge reserve Continuing hedges $m	Cash flow hedge reserve Discontinued hedges $m	Foreign currency translation reserve Continuing hedges $m	Foreign currency translation reserve Discontinued hedges $m
Cash flow hedges					
Floating rate loans and advances	Interest rate	1,587	41	-	-
Floating rate customer deposits	Interest rate	(577)	(32)	-	-
Foreign currency debt issuance	Foreign exchange	14	-	-	-
Foreign currency investment securities	Foreign exchange	6	-	-	-
Highly probable forecast transactions	Foreign exchange	3	-	-	-
Net investment hedges					
Foreign operations	Foreign exchange	-	-	(159)	(149)

The table below details the reconciliation of the cash flow hedge reserve by risk type:

	Interest rate $m	Foreign currency $m	Total $m
Balance at 1 October 2018	128	(1)	127
Fair value gains	825	20	845
Transferred to income statement	14	2	16
Income taxes and others	(251)	(6)	(257)
Balance at 30 September 2019	716	15	731

Hedges from net investments in a foreign operation resulted in a $144 million decrease in FCTR during the year. There were no reclassifications from FCTR to the income statement during the year.

2018 Disclosure

The impact recognised in profit or loss arising from derivative financial instruments designated in hedge accounting relationships, are as follows:

	Hedge accounting type	2018 $m
Gain/(Loss) recognised in Other operating income		
Hedged item	Fair value	1,190
Hedging instrument	Fair value	(1,210)
Ineffective portion of hedging instrument	Cash flow	13

10. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

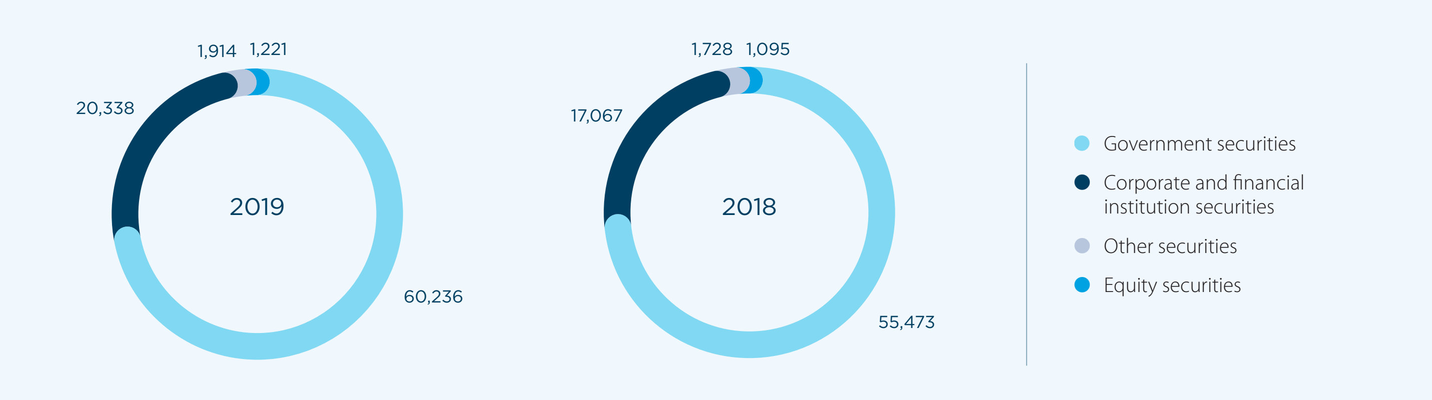
RECOGNITION AND MEASUREMENT

Recognition	Initially and at each reporting date, we recognise all derivatives at fair value. If the fair value of a derivative is positive, then we carry it as an asset, but if its value is negative, then we carry it as a liability. Valuation adjustments are integral in determining the fair value of derivatives. This includes: • a credit valuation adjustment (CVA) to reflect the counterparty risk and/or event of default; and • a funding valuation adjustment (FVA) to account for funding costs and benefits in the derivatives portfolio.
Derecognition of assets and liabilities	We remove derivative assets from our balance sheet when the contracts expire or we have transferred substantially all the risks and rewards of ownership. We remove derivative liabilities from our balance sheet when the Group's contractual obligations are discharged, cancelled or expired.
Impact on the Income Statement	How we recognise gains or losses on derivative financial instruments depends on whether the derivative is held for trading or is designated into a hedging relationship. For derivative financial instruments held for trading, gains or losses from changes in the fair value are recognised in profit or loss. For an instrument designated into a hedging relationship, the recognition of gains or losses depends on the nature of the item being hedged. Refer to the previous table on page 129 for profit or loss treatment depending on the hedge type. Sources of hedge ineffectiveness may arise from basis risk and differences in discounting between the hedged items and the hedging instruments. The hedging instruments are discounted using Overnight Index Swaps discount curves which are not applied to the hedged items.
Hedge effectiveness	To qualify for hedge accounting a hedge is expected to be highly effective. A hedge is highly effective only if the following conditions are met: • the hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated (prospective effectiveness); and • the actual results of the hedge are within the range of 80-125% (retrospective effectiveness). The Group monitors hedge effectiveness on a regular basis but at a minimum at least at each reporting date.

KEY JUDGEMENTS AND ESTIMATES

Judgement is required when we select the valuation techniques used to measure the fair value of derivatives, particularly the selection of valuation inputs that are not readily observable, and the application of valuation adjustments to certain derivatives. Refer to Note 17 Fair Value of Financial Assets and Financial Liabilities for further details.

11. INVESTMENT SECURITIES



	2019 $m	2018 $m
Investment securities measured at fair value through other comprehensive income		
Debt securities	76,489	-
Equity securities	1,221	-
Investment securities measured at amortised cost		
Debt securities[1]	5,999	-
Available-for-sale assets		
Debt securities	-	74,268
Equity securities	-	1,095
Total	83,709	75,363
Less: Assets reclassified as held for sale (refer to Note 29)	-	(1,079)
Total	83,709	74,284

1. Includes allowance for expected credit losses of $13 million.

2019 Investment securities	Less than 3 months $m	3 to 12 months $m	1 to 5 years $m	After 5 years $m	No maturity $m	Total $m
Government securities	6,768	14,665	26,200	12,603	-	60,236
Corporate and financial institution securities	1,280	2,719	15,965	374	-	20,338
Other securities	-	-	183	1,731	-	1,914
Equity securities	-	-	-	-	1,221	1,221
Total	8,048	17,384	42,348	14,708	1,221	83,709
2018 Available-for-sale assets						
Government securities	6,715	8,159	28,144	12,455	-	55,473
Corporate and financial institution securities	948	2,549	13,283	287	-	17,067
Other securities	-	-	159	1,569	-	1,728
Equity securities	-	-	-	-	1,095	1,095
Total	7,663	10,708	41,586	14,311	1,095	75,363
Less: Assets reclassified as held for sale (refer to Note 29)						(1,079)
Total						74,284

11. INVESTMENT SECURITIES (continued)

During the year, the Group recognised a net gain (before tax) in other operating income from the recycling of gains/losses previously deferred in equity of $240 million (2018: $48 million) in respect of investment securities (applicable from 1 October 2018) and available-for-sale assets (prior to 1 October 2018).

The carrying value of equity securities at FVOCI / AFS equity securities is $1,221 million (2018: $1,095 million). This includes the Group's $1,106 million (2018: $1,025 million) investment in the Bank of Tianjin (BoT).

RECOGNITION AND MEASUREMENT

Policy applicable from 1 October 2018

Investment securities are those financial assets in security form (i.e. transferable debt or equity instruments) that are not held for trading purposes. By way of exception, bills of exchange (a form of security/transferable instrument) which are used to facilitate the Group's customer lending activities are classified as Loans and advances (rather than Investment securities) to better reflect the substance of the arrangement.

Non-traded equity investments may be designated at FVOCI on an instrument by instrument basis. If this election is made, gains or losses are not reclassified from other comprehensive income to profit or loss on disposal of the investment. However, gains or losses may be reclassified within equity.

Assets disclosed as Investment securities are subject to the general classification and measurement policy for Financial Assets outlined at the commencement of the Group's financial asset disclosures on page 125. Additionally, expected credit losses associated with "Investment securities - debt securities at amortised cost" and "Investment securities - debt securities at fair value through other comprehensive income" are recognised and measured in accordance with the accounting policy outlined in Note 13. For "Investment securities – debt securities at fair value through other comprehensive income" the allowance for ECL is recognised in the FVOCI reserve in equity with a corresponding charge to profit or loss.

Policy applicable prior to 1 October 2018

AFS assets comprise non-derivative financial assets which we designate as AFS since we do not hold them principally for trading purposes. They include both equity and debt securities. AFS assets are initially recognised at fair value plus transaction costs and are revalued at least bi-annually. On revaluation, we include movements in fair value within the available-for-sale revaluation reserve in equity, except for certain items which are recognised directly in profit or loss, being interest on debt securities, dividends received, foreign exchange on debt securities and impairment charges.

When we sell the asset, any cumulative gain or loss from the available-for-sale revaluation reserve is recognised in profit or loss.

At each reporting date, we assess whether any AFS assets are impaired. We assess the impairment of any debt securities if an event has occurred which will have a negative impact on the asset's estimated cash flows. For equity securities, we assess if there is a significant or prolonged decline in their fair value below cost.

If an AFS asset is impaired, then we remove the cumulative loss related to that asset from the available-for-sale revaluation reserve. We then recognise it in profit or loss for:

- debt instruments, as a credit impairment expense; and
- equity instruments, as a negative impact in other operating income.

We recognise any later reversals of impairment on debt securities in the profit or loss through the credit impairment charge line. However, we do not make any reversals of impairment for equity securities. To the extent previously impaired equity securities recover in value, gains are recognised directly in equity.

KEY JUDGEMENTS AND ESTIMATES

Judgement is required when we select valuation techniques used to measure the fair value of assets not valued using quoted market prices, particularly the selection of valuation inputs that are not readily observable. Refer to Note 17 Fair Value of Financial Assets and Financial Liabilities for further details.

12. NET LOANS AND ADVANCES

The following table provides details of net loans and advances for the Group:

	2019 $m	2018 $m
Overdrafts	7,267	7,061
Credit cards	9,241	9,890
Commercial bills	6,159	6,861
Term loans – housing	343,808	346,154
Term loans – non-housing	248,337	234,405
Other	3,483	3,442
Subtotal	618,295	607,813
Unearned income	(398)	(430)
Capitalised brokerage/mortgage origination fees	870	997
Gross loans and advances (including assets reclassified as held for sale)	618,767	608,380
Allowance for expected credit losses (refer to Note 13)[1,2]	(3,509)	(2,917)
Net loans and advances (including assets reclassified as held for sale)	615,258	605,463
Less: Net loans and advances reclassified as held for sale (refer to Note 29)	-	(999)
Net loans and advances	615,258	604,464
Residual contractual maturity:		
Within one year	133,273	126,811
More than one year	481,985	477,653
Net loans and advances	615,258	604,464
Carried on Balance Sheet at:		
Amortised cost	614,336	604,331
Fair value through profit or loss	922	133
Net loans and advances	615,258	604,464

1. On adoption of AASB 9 on 1 October 2018, the Group increased the collectively assessed provision by $647 million. Comparative information has not been restated. Refer to Note 35 for further details.
2. $500 million of collectively assessed provisions and $26 million of individually assessed provision for credit impairment attributable to off-balance sheet credit related commitments at 2018 were reclassified from Net loans and advances at amortised cost to Other provisions to enhance comparability with current period presentation.

RECOGNITION AND MEASUREMENT

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are facilities the Group provides directly to customers or through third party channels.

Loans and advances are initially recognised at fair value plus transaction costs directly attributable to the issue of the loan or advance, which are primarily brokerage/mortgage origination fees which we amortise over the estimated life of the loan. Subsequently, we then measure loans and advances at amortised cost using the effective interest rate method, net of any provision for credit impairment, or at fair value when they are specifically designated on initial recognition as fair value through profit or loss or when held for trading.

We classify contracts to lease assets and hire purchase agreements as finance leases if they transfer substantially all the risks and rewards of ownership of the asset to the customer or an unrelated third party. We include these facilities in 'Other' in the table above.

The Group enters into transactions in which it transfers financial assets that are recognised on its balance sheet. When the Group retains substantially all of the risks and rewards of the transferred assets, the transferred assets remain on the Group's balance sheet, however if substantially all the risks and rewards are transferred, the Group derecognises the asset.

If the risks and rewards are partially retained and control over the asset is lost, the Group derecognises the asset. If control over the asset is not lost, the Group continues to recognise the asset to the extent of its continuing involvement.

We separately recognise the rights and obligations retained, or created, in the transfer of assets and liabilities as appropriate.

From 1 October 2018, assets disclosed as net loans and advances are subject to the general classification and measurement policy for Financial Assets outlined at the commencement of the Group's Financial Asset disclosures on page 125. Additionally, expected credit losses associated with loans and advances at amortised cost are recognised and measured in accordance with the accounting policy outlined in Note 13.

13. ALLOWANCE FOR EXPECTED CREDIT LOSSES

ALLOWANCE FOR EXPECTED CREDIT LOSSES

As described in Note 1 and 35, the Group adopted AASB 9 effective from 1 October 2018 which resulted in the application of an expected credit loss (ECL) model for measuring impairment of financial assets and amendments to the presentation of credit impairment information for the current year. Comparative information has not been restated.

The following tables present the movement in the allowance for ECL (including allowance for ECL reclassified as held for sale) for the year.

Net loans and advances - at amortised cost

Allowance for ECL is included in Net loans and advances.

			Stage 3		
	Stage 1 $m	Stage 2 $m	Collectively assessed $m	Individually assessed $m	Total $m
As at 1 October 2018	920	1,391	359	894	3,564
Transfer between stages	166	(308)	(91)	233	-
New and increased provisions (net of releases)	(168)	291	147	1,139	1,409
Write-backs	-	-	-	(382)	(382)
Bad debts written off (excluding recoveries)	-	-	-	(1,076)	(1,076)
Foreign currency translation and other movements[1]	9	4	(2)	(17)	(6)
As at 30 September 2019	927	1,378	413	791	3,509

1. Includes the impacts of divestments completed in 2019 and the impact of discount unwind on individually assessed allowance for ECL.

The movement in expected credit losses is consistent with the movement in corresponding gross balances.

Investment securities - debt securities at amortised cost

Allowance for ECL is included in Investment securities.

			Stage 3		
	Stage 1 $m	Stage 2 $m	Collectively assessed $m	Individually assessed $m	Total $m
As at 1 October 2018	9	2	-	-	11
Transfer between stages	-	-	-	-	-
New and increased provisions (net of releases)	2	(1)	-	-	1
Write-backs	-	-	-	-	-
Bad debts written off (excluding recoveries)	-	-	-	-	-
Foreign currency translation and other movements	1	-	-	-	1
As at 30 September 2019	12	1	-	-	13

Investment securities - debt securities at FVOCI

Allowance for ECL does not change the carrying amount which remains at fair value. Instead, the allowance for ECL is recognised in the FVOCI reserve in equity, with a corresponding charge to profit or loss.

			Stage 3		
	Stage 1 $m	Stage 2 $m	Collectively assessed $m	Individually assessed $m	Total $m
As at 1 October 2018	14	-	-	-	14
Transfer between stages	-	-	-	-	-
New and increased provisions (net of releases)	(2)	-	-	-	(2)
Write-backs	-	-	-	-	-
Bad debts written off (excluding recoveries)	-	-	-	-	-
Foreign currency translation and other movements[1]	(4)	-	-	-	(4)
As at 30 September 2019	8	-	-	-	8

1. Includes the impacts of divestments completed in 2019.

13. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)

ALLOWANCE FOR EXPECTED CREDIT LOSSES

Off-balance sheet commitments - undrawn and contingent facilities

Allowance for ECL is included in Other provisions.

			Stage 3		
	Stage 1 $m	Stage 2 $m	Collectively assessed $m	Individually assessed $m	Total $m
As at 1 October 2018	474	166	15	26	681
Transfer between stages	27	(29)	-	2	-
New and increased provisions (net of releases)	(36)	12	6	-	(18)
Write-backs	-	-	-	(3)	(3)
Bad debts written off (excluding recoveries)	-	-	-	-	-
Foreign currency translation and other movements	8	2	-	(2)	8
As at 30 September 2019	473	151	21	23	668

2018 Provision for credit impairment disclosures under AASB 139

The below disclosure does not reflect the adoption of AASB 9 and is prepared under the requirements of the previous AASB 139.

Provision for credit impairment	Net loans and advances 2018 $m	Off-balance sheet credit related commitments 2018 $m	Total 2018 $m
Individual provision			
Balance at start of year	1,118	18	1,136
New and increased provisions	1,426	18	1,444
Write-backs	(425)	-	(425)
Bad debts written off (excluding recoveries)	(1,224)	-	(1,224)
Other[1]	(1)	(10)	(11)
Total individual provision	894	26	920
Collective provision			
Balance at start of year	2,118	544	2,662
Charge/(release) to profit or loss	(34)	(51)	(85)
Other[2]	(61)	7	(54)
Total collective provision	2,023	500	2,523
Total provision for credit impairment	2,917	526	3,443

1. Other individual provision includes the impact of the sale completion of the Asia Retail and Wealth business divestment in 2018. It includes an adjustment for exchange rate fluctuations and the impact of discount unwind on individual provisions.
2. Other collective provision includes the impact of the sale completion of the Asia Retail and Wealth business divestment, and an adjustment for exchange rate fluctuations.

13. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)

CREDIT IMPAIRMENT CHARGE - INCOME STATEMENT

Credit impairment charge/(release) analysis under AASB 9

	2019 $m
New and increased provisions (net of releases)[1]	
- Collectively assessed	16
- Individually assessed	1,374
Write-backs	(385)
Recoveries of amounts previously written-off	(212)
Total credit impairment charge	793
Less: credit impairment charge/(release) from discontinued operations	(1)
Total credit impairment charge from continuing operations	794

1. Includes the impact of transfers between collectively assessed and individually assessed.

The contractual amount outstanding on financial assets that were written off during the period ended 30 September 2019 and that are still subject to enforcement activity is $212 million.

2018 Credit impairment charge/(release) analysis under AASB 139

The below disclosures do not reflect the adoption of AASB 9 and are prepared under the requirements of the previous AASB 139.

	2018 $m
New and increased individual provisions	1,444
Write-backs	(425)
Recoveries of amounts previously written-off	(246)
Individually assessed credit impairment charge	773
Collectively assessed credit impairment charge/(release)	(85)
Credit impairment charge	688

13. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)

RECOGNITION AND MEASUREMENT

Policy applicable from 1 October 2018

EXPECTED CREDIT LOSS IMPAIRMENT MODEL

The measurement of expected credit losses reflects an unbiased, probability weighted prediction which evaluates a range of scenarios and takes into account the time value of money, past events, current conditions and forecasts of future economic conditions.

Expected credit losses are either measured over 12 months or the expected lifetime of the financial asset, depending on credit deterioration since origination, according to the following three-stage approach:

- Stage 1: At the origination of a financial asset, and where there has not been a significant increase in credit risk (SICR) since origination, an allowance equivalent to 12 months ECL is recognised reflecting the expected credit losses resulting from default events that are possible within the next 12 months from the reporting date. For instruments with a remaining maturity of less than 12 months, expected credit losses are estimated based on default events that are possible over the remaining time to maturity.
- Stage 2: Where there has been a significant increase in credit risk since origination, an allowance equivalent to lifetime ECL is recognised reflecting expected credit losses resulting from all possible default events over the expected life of a financial instrument. If credit risk were to improve in a subsequent period such that the increase in credit risk since origination is no longer considered significant, the exposure returns to a Stage 1 classification and a 12 month ECL applies.
- Stage 3: Where there is objective evidence of impairment, an allowance equivalent to lifetime ECL is recognised.

Expected credit losses are estimated on a collective basis for exposures in Stage 1 and Stage 2, and on either a collective or individual basis when transferred to Stage 3.

MEASUREMENT OF EXPECTED CREDIT LOSS

ECL is calculated as the product of the following credit risk factors at a facility level, discounted to incorporate the time value of money:

- Probability of default (PD) - the estimate of the likelihood that a borrower will default over a given period;
- Exposure at default (EAD) - the expected balance sheet exposure at default taking into account repayments of principal and interest, expected additional drawdowns and accrued interest; and
- Loss given default (LGD) - the expected loss in the event of the borrower defaulting, expressed as a percentage of the facility's EAD, taking into account direct and indirect recovery costs.

These credit risk factors are adjusted for current and forward looking information through the use of macro-economic variables.

EXPECTED LIFE

When estimating ECL for exposures in Stage 2 and 3, the Group considers the expected lifetime over which it is exposed to credit risk.

For non-retail portfolios, the Group uses the maximum contractual period as the expected lifetime for non-revolving credit facilities. For non-retail revolving credit facilities, such as corporate lines of credit, the expected life reflects the Group's contractual right to withdraw a facility as part of a contractually agreed annual review, after taking into account the applicable notice period.

For retail portfolios, the expected lifetime is determined using behavioural term, taking into account expected prepayment behaviour and substantial modifications.

DEFINITION OF DEFAULT, CREDIT IMPAIRED AND WRITE-OFFS

The definition of default used in measuring expected credit losses is aligned to the definition used for internal credit risk management purposes across all portfolios. This definition is also in line with the regulatory definition of default. Default occurs when there are indicators that a debtor is unlikely to fully satisfy contractual credit obligations to the Group, or the exposure is 90 days past due.

Financial assets, including those that are well secured, are considered credit impaired for financial reporting purposes when they default.

When there is no realistic probability of recovery, loans are written off against the related impairment allowance on completion of the Group's internal processes and when all reasonably expected recoveries have been collected. In subsequent periods, any recoveries of amounts previously written-off are credited to credit impairment charge in the income statement.

13. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)

RECOGNITION AND MEASUREMENT

MODIFIED FINANCIAL ASSETS

If the terms of a financial asset are modified or an existing financial asset is replaced with a new one for either credit or commercial reasons, an assessment is made to determine if the changes to the terms of the existing financial asset are considered substantial. This assessment considers both changes in cash flows arising from the modified terms as well as changes in the overall instrument risk profile; for example, changes in the principal (credit limit), term, or type of underlying collateral. Where a modification is considered non-substantial, the existing financial asset is not derecognised and its date of origination continues to be used to determine SICR. Where a modification is considered substantial, the existing financial asset is derecognised and a new financial asset is recognised at its fair value on the modification date, which also becomes the date of origination used to determine SICR for this new asset.

SIGNIFICANT INCREASE IN CREDIT RISK (SICR)

Stage 2 assets are those that have experienced a significant increase in credit risk (SICR) since origination. In determining what constitutes a SICR, the Group considers both qualitative and quantitative information:

i. Internal credit rating grade

For the majority of portfolios, the primary indicator of a SICR is a significant deterioration in the internal credit rating grade of a facility since origination and is measured by application of thresholds.

For non-retail portfolios, a SICR is determined by comparing the Customer Credit Rating (CCR) applicable to a facility at reporting date to the CCR at origination of that facility. A CCR is assigned to each borrower which reflects the probability of default of the borrower and incorporates both borrower and non-borrower specific information, including forward looking information. CCRs are subject to review at least annually or more frequently when an event occurs which could affect the credit risk of the customer.

For retail portfolios, a SICR is determined by comparing each facility's scenario weighted lifetime probability of default at the reporting date to the scenario weighted lifetime probability of default at origination. The scenario weighted lifetime probability of default may increase significantly if:

- there has been a deterioration in the economic outlook, or an increase in economic uncertainty; or
- there has been a deterioration in the customer's overall credit position, or ability to manage their credit obligations.

ii. Backstop criteria

The Group uses 30 days past due arrears as a backstop criteria for both non-retail and retail portfolios. For retail portfolios only, facilities are required to demonstrate three to six months of good payment behaviour prior to being allocated back to Stage 1.

FORWARD LOOKING INFORMATION

Forward-looking information is incorporated into both our assessment of whether a financial asset has experienced a significant increase in credit risk since its initial recognition and in our estimate of ECL. In applying forward looking information for estimating ECL, the Group considers four probability-weighted forecast economic scenarios as follows:

i. Base case scenario

The base case scenario is ANZ's view of the most likely future macro-economic conditions. It reflects management's assumptions used for strategic planning and budgeting, and also informs the Group Internal Capital Adequacy Assessment Process (ICAAP) which is the process the Group applies in strategic and capital planning over a 3 year time horizon;

ii. Upside and iii. Downside scenarios

The upside and downside scenarios are fixed by reference to average economic cycle conditions (that is, they are not based on the economic conditions prevailing at balance date) and are based on a combination of more optimistic (in the case of the upside) and pessimistic (in the case of the downside) economic events and uncertainty over long term horizons; and

iv. Severe downside scenario

The severe downside scenario is fixed by reference to average economic cycle conditions and accounts for the potentially severe impact of less likely extremely adverse economic conditions. It reflects macro-economic conditions of a downturn economic event with a probability of occurrence once every 25 years.

The four scenarios are described in terms of macro-economic variables used in the PD, LGD and EAD models (collectively the ECL models) depending on the portfolio and country of the borrower. Examples of the variables include unemployment rates, GDP growth rates, house price indices, commercial property price indices and consumer price indices.

13. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)

RECOGNITION AND MEASUREMENT

Probability weighting of each scenario is determined by management considering the risks and uncertainties surrounding the base case scenario, as well as specific portfolio considerations where required. The Group Asset and Liability Committee (GALCO) is responsible for reviewing and approving the base case forecast scenario and the Credit and Market Risk Committee (CMRC) approves the probability weights applied to each scenario.

Where applicable, temporary adjustments may be made to account for situations where known or expected risks have not been adequately addressed in the modelling process. CMRC is responsible for approving such adjustments.

ECL Sensitivity

The table below illustrates the impact on the Group's ECL allowance under scenarios where a 100% weighting is applied to both upside and downside scenarios with all other modelling assumptions remaining constant.

	Total ECL $m	Impact $m
100% upside scenario	2,384	(993)
100% downside scenario	5,334	1,956

Policy applicable prior to 1 October 2018

The Group recognises two types of impairment provisions for its loans and advances:

- Individual provisions for significant assets that are assessed to be impaired; and
- Collective provisions for portfolios of similar assets that are assessed collectively for impairment.

The accounting treatment for each of them is detailed below:

	Individually	Collectively
Assessment	If any impaired loans and advances exceed specified thresholds and an impairment event has been identified, then we assess the need for a provision individually.	To allow for any small value loans and advances where losses may have been incurred but not yet identified, and individually significant loans and advances that we do not assess as impaired, we assess them collectively in pools of assets with similar credit risk characteristics.
Impairment	Loans and advances are assessed as impaired if we have objective evidence that we may not recover principal or interest payments (that is, a loss event has been incurred).	We estimate the provision on the basis of historical loss experience for assets with similar credit risk characteristics to others in the respective collective pool. We adjust the historical loss experience based on current observable data – such as: changing economic conditions, the impact of the inherent risk of large concentrated losses within the portfolio and an assessment of the economic cycle.
Measurement	We measure impairment loss as the difference between the asset's carrying amount and estimated future cash flows discounted to their present value at the asset's original effective interest rate. We record the result as an expense in profit or loss in the period we identify the impairment and recognise a corresponding reduction in the carrying amount of loans and advances through an offsetting provision.	
Uncollectable amounts	If a loan or advance is uncollectable (whether partially or in full), then we write off the balance (and also any related provision for credit impairment). We write off unsecured retail facilities at the earlier of the facility becoming 180 days past due, or the customer's bankruptcy or similar legal release from the obligation to repay the loan or advance. For secured facilities, write offs occur net of the proceeds determined to be recoverable from the realisation of collateral.	
Recoveries	If we recover any cash flows from loans and advances we have previously written off, then we recognise the recovery in profit or loss in the period the cash flows are received.	
Off-balance sheet amounts	Any off-balance sheet items, such as loan commitments, are considered for impairment both on an individual and collective basis.	

13. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)

KEY JUDGEMENTS AND ESTIMATES

Applicable from 1 October 2018

When estimating the allowance for expected credit losses for loans and advances, we used management's judgement in respect of the matters outlined below.

	Key Judgements
Determining when a significant increase in credit risk has occurred	In the measurement of ECL, judgement is involved in setting the rules to determine whether there has been a significant increase in credit risk (SICR) since initial recognition of a loan, resulting in the financial asset moving from 'stage 1' to 'stage 2'. This is a key area of judgement as transition from stage 1 to stage 2 increases the ECL calculation from an allowance based on the probability of default in the next 12 months, to an allowance for lifetime expected credit losses. Subsequent decreases in credit risk combined with transition from stage 2 to stage 1 may similarly result in significant changes in the ECL allowance. The setting of precise trigger points requires judgement which may have a material impact upon the size of the ECL allowance. The Group monitors the effectiveness of SICR criteria on an ongoing basis.
Measuring both 12-month and lifetime credit losses	The PD, LGD, and EAD credit risk parameters used in determining ECL are point-in-time measures reflecting the relevant forward looking information determined by management. Judgement is involved in determining which forward-looking information variables are relevant for particular lending portfolios and for determining each portfolio's point-in-time sensitivity. In addition, judgement is required where behavioural characteristics are applied in estimating the lifetime of a facility to be used in measuring ECL. All other things being equal, an increase in the expected behavioural life will increase the amount of ECL.
Forecasting forward-looking scenarios	Our forecast of forward looking information variables is established from a "base case" or most likely scenario that is used internally by management for planning and forecasting purposes. The expected outcomes of key economic drivers for the base case scenario as at 30 September 2019 are as follows: **Australia** The unemployment rate is expected to remain essentially flat and GDP growth to improve modestly over the forecast period, with residential property values expected to improve after a period of decline. Commercial property prices are expected to decline slightly through the forecast period. Consumer price index growth is expected to rise from current levels. **New Zealand** GDP growth is forecast to improve modestly over the forecast period, with the unemployment rate remaining stable. Residential property values are expected to achieve modest levels of growth. Commercial property prices are expected to grow, however, the growth rate is expected to be modest through the forecast period. The consumer price index is expected to rise modestly. **Rest of world** GDP growth is forecast to taper lower in the near term due to uncertainty in the global outlook. Inflation is also expected to remain soft over the forecast period to 2020.
Probability weighting of each scenario	Probability weighting of each scenario is determined by management considering the risks and uncertainties surrounding the base case scenario, as well as specific portfolio considerations where required.
Management temporary adjustments	Management temporary adjustments to the ECL allowance are adjustments we use in circumstances where we judge that our existing inputs, assumptions and model techniques do not capture all the risk factors relevant to our lending portfolios. Emerging local or global macroeconomic, microeconomic or political events, and natural disasters that are not incorporated into our current parameters, risk ratings, or forward-looking information are examples of such circumstances. The use of management temporary adjustments may impact the amount of ECL recognised.

13. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)

KEY JUDGEMENTS AND ESTIMATES

Applicable prior to 1 October 2018

When we measured impairment of loans and advances, we used management's judgement of the extent of losses at reporting date.

	Individually	Collectively
Key Judgements	• Estimated future cash flows • Business prospects for the customer • Realisable value of any collateral • Group's position relative to other claimants • Reliability of customer information • Likely cost and duration of recovering loans	• Estimated future cash flows • Historical loss experience of assets with similar risk characteristics • Impact of large concentrated losses inherent in the portfolio • Assessment of the economic cycle

We regularly reviewed our key judgements and updated them to reflect actual loss experience.

FINANCIAL LIABILITIES

Outlined below is a description of how we classify and measure financial liabilities relevant to the subsequent note disclosures.

CLASSIFICATION AND MEASUREMENT

Financial liabilities

Financial liabilities are measured at amortised cost, or fair value through profit or loss when they are held for trading. Additionally, financial liabilities can be designated at FVTPL where:

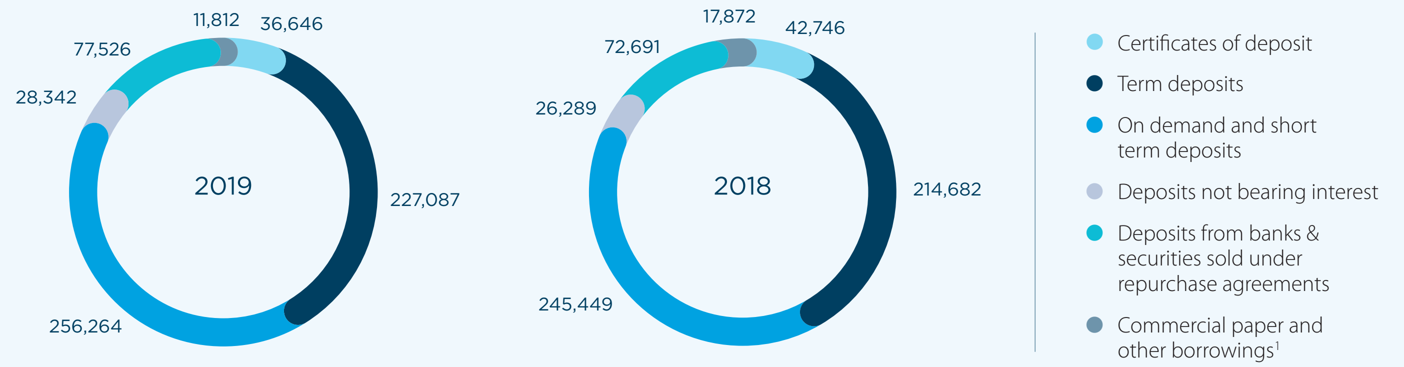
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise;
- a group of financial liabilities are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management strategy; or
- the financial liability contains one or more embedded derivatives unless:

  a) the embedded derivative does not significantly modify the cash flows that otherwise would be required by the contract, or

  b) the embedded derivative is closely related to the host financial liability.

Where financial liabilities are designated as measured at fair value, gains or losses relating to changes in the entity's own credit risk are included in other comprehensive income, except where doing so would create or enlarge an accounting mismatch in profit or loss. This section of AASB 9 was early adopted by the Group on 1 October 2013.

14. DEPOSITS AND OTHER BORROWINGS



	2019 $m	2018 $m
Certificates of deposit	36,646	42,746
Term deposits	227,087	214,682
On demand and short term deposits	256,264	245,449
Deposits not bearing interest	28,342	26,289
Deposits from banks & securities sold under repurchase agreements	77,526	72,691
Commercial paper and other borrowings[1]	11,812	17,872
Deposits and other borrowings (including liabilities reclassified as held for sale)	637,677	619,729
Less: Deposits and other borrowings reclassified as held for sale (refer to Note 29)	-	(1,579)
Deposits and other borrowings	637,677	618,150
Residual contractual maturity:		
Within one year	630,373	606,175
More than one year	7,304	11,975
Deposits and other borrowings	637,677	618,150
Carried on Balance Sheet at:		
Amortised cost	635,376	615,818
Fair value through profit or loss (designated on initial recognition)	2,301	2,332
Deposits and other borrowings	637,677	618,150

1. Other borrowings related to secured investments of the consolidated subsidiary UDC Finance Limited (UDC) of NZD 0.1 billion (2018: NZD 0.9 billion) which are secured by a security interest over all the assets of UDC of NZD 3.5 billion (2018: NZD 3.3 billion).

RECOGNITION AND MEASUREMENT

For deposits and other borrowings that:

- are not designated at fair value through profit or loss on initial recognition, we measure them at amortised cost and recognise their interest expense using the effective interest rate method; and
- are managed on a fair value basis, reduce or eliminate an accounting mismatch or contain an embedded derivative, we designated them as fair value through profit or loss.

Refer to Note 17 Fair Value of Financial Assets and Financial Liabilities for details of the split between amortised cost and fair value.

For deposits and other borrowings designated at fair value we recognise the amount of fair value gain or loss attributable to changes in the Group's own credit risk in other comprehensive income in retained earnings. Any remaining amount of fair value gain or loss we recognise directly in profit or loss. Once we have recognised an amount in other comprehensive income, we do not later reclassify it to profit or loss.

Securities sold under repurchase agreements represent a liability to repurchase the financial assets that remain on our balance sheet since the risks and rewards of ownership remain with the Group. Over the life of the repurchase agreement, we recognise the difference between the sale price and the repurchase price and charge it to interest expense in the Income Statement.

15. DEBT ISSUANCES

The Group uses a variety of funding programmes to issue senior debt (including covered bonds and securitisations) and subordinated debt. The difference between senior debt and subordinated debt is that holders of senior debt take priority over holders of subordinated debt owed by the relevant issuer. In the winding up of the relevant issuer, the subordinated debt will be repaid by the relevant issuer only after the repayment of claims of depositors, other creditors and the senior debt holders.

	2019 $m	2018 $m
Senior debt	89,737	86,193
Covered bonds	20,957	17,846
Securitisation	2,411	1,232
Total unsubordinated debt	113,105	105,271
Subordinated debt		
- Additional Tier 1 capital	8,171	7,917
- Tier 2 capital	8,415	7,991
Total subordinated debt	16,586	15,908
Total debt issued	129,691	121,179

TOTAL DEBT ISSUED BY CURRENCY

The table below shows the Group's issued debt by currency of issue, which broadly represents the debt holders' base location.

		2019 $m	2018 $m
USD	United States dollars	45,841	49,610
EUR	Euro	26,200	23,239
AUD	Australian dollars	39,273	29,477
NZD	New Zealand dollars	5,130	5,673
JPY	Japanese yen	3,312	3,471
CHF	Swiss francs	1,501	2,067
GBP	Pounds sterling	4,720	3,776
HKD	Hong Kong dollars	1,446	1,157
Other	Chinese yuan, Norwegian krone, Singapore dollars, Indonesian rupiah and Canadian dollars	2,268	2,709
Total debt issued		129,691	121,179
Residual contractual maturity[1]*:*			
Within one year		20,803	21,585
More than one year		106,963	97,938
No maturity date (instruments in perpetuity)		1,925	1,656
Total debt issued		129,691	121,179

1. Based on the final maturity date or, in the case of Additional Tier 1 capital securities, the mandatory conversion date (if any).

15. DEBT ISSUANCES (continued)

SUBORDINATED DEBT

Subordinated debt qualifies as regulatory capital for the Group and is classified as either Additional Tier 1 (AT1) capital or Tier 2 capital for APRA's capital adequacy purposes depending on their terms and conditions:

- AT1 capital: perpetual capital instruments such as:
  - ANZ Capital Notes (ANZ CN);
  - ANZ Capital Securities (ANZ CS); and
  - ANZ NZ Capital Notes (ANZ NZ CN).
- Tier 2 capital: perpetual or term subordinated notes.

Tier 2 capital instruments rank ahead of AT1 capital instruments and AT1 capital instruments only rank ahead of ordinary shares, in a liquidation of the issuer.

AT1 CAPITAL

All outstanding AT1 capital instruments are Basel III fully compliant instruments (refer to Note 23 Capital Management for further information about Basel III). Each of the ANZ CN and ANZ CS rank equally with each other.

Distributions on the AT1 capital instruments are non-cumulative and subject to the issuer's absolute discretion and certain payment conditions (including regulatory requirements). Distributions on ANZ CNs are franked in line with the franking applied to ANZ ordinary shares.

Where specified, the AT1 capital instruments provide the issuer with an early redemption or conversion option on a specified date and in certain other circumstances (such as a tax or regulatory event). This option is subject to APRA's and, in respect of the ANZ NZ CN, the Reserve Bank of New Zealand's (RBNZ) prior written approval.

Each of the AT1 capital instruments will immediately convert into a variable number of ANZ ordinary shares (based on the average market price of the shares immediately prior to conversion less a 1% discount, subject to a maximum conversion number of ANZ ordinary shares) if:

- ANZ's or, in the case of the ANZ NZ CN, ANZ Bank New Zealand Limited's (ANZ NZ) Common Equity Tier 1 capital ratio is equal to or less than 5.125% - known as a Common Equity Capital Trigger Event; or
- APRA notifies the Company that, without the conversion or write-off of certain securities or a public sector injection of capital (or equivalent support), it considers that the Company would become non-viable or, in the case of the ANZ NZ CN, the RBNZ directs ANZ NZ to convert or write-off the notes or a statutory manager is appointed to ANZ NZ and decides that ANZ NZ must convert or write-off the notes – known as a Non-Viability Trigger Event.

Where specified, AT1 capital instruments mandatorily convert into a variable number of ANZ ordinary shares (based on the average market price of the shares immediately prior to conversion less a 1% discount):

- on a specified mandatory conversion date; or
- on an earlier date under certain circumstances as set out in the terms.

However the mandatory conversion is deferred for a specified period if certain conversion tests are not met.

The tables below show the key details of the Group's AT1 capital instruments on issue at 30 September in both the current and prior year:

			2019 $m	2018 $m
Additional Tier 1 capital (perpetual subordinated securities)[1]				
ANZ Capital Notes (ANZ CN)				
AUD	1,120m	ANZ CN1	1,118	1,117
AUD	1,610m	ANZ CN2	1,607	1,605
AUD	970m	ANZ CN3	966	965
AUD	1,622m	ANZ CN4	1,612	1,610
AUD	931m	ANZ CN5	925	924
ANZ Capital Securities (ANZ CS)				
USD	1,000m	ANZ Capital Securities	1,481	1,240
ANZ NZ Capital Notes (ANZ NZ CN)				
NZD	500m	ANZ NZ Capital Notes	462	456
Total Additional Tier 1 capital			8,171	7,917

1. Carrying values net of issue costs.

15. DEBT ISSUANCES (continued)

ANZ Capital Notes (ANZ CN)

	CN1	CN2	CN3
Issuer	ANZ	ANZ	ANZ, acting through its New Zealand branch
Issue date	7 August 2013	31 March 2014	5 March 2015
Issue amount	$1,120 million	$1,610 million	$970 million
Face value	$100	$100	$100
Distribution frequency	Semi-annually in arrears	Semi-annually in arrears	Semi-annually in arrears
Distribution rate	Floating rate: (180 day Bank Bill rate +3.4%)x(1-Australian corporate tax rate)	Floating rate: (180 day Bank Bill rate +3.25%)x(1-Australian corporate tax rate)	Floating rate: (180 day Bank Bill rate +3.6%)x(1-Australian corporate tax rate)
Issuer's early redemption or conversion option	1 September 2021	24 March 2022	24 March 2023
Mandatory conversion date	1 September 2023	24 March 2024	24 March 2025
Common equity capital trigger event	Yes	Yes	Yes
Non-viability trigger event	Yes	Yes	Yes
Carrying value 2019 (net of issue costs)	$1,118 million (2018: $1,117 million)	$1,607 million (2018: $1,605 million)	$966 million (2018: $965 million)

	CN4	CN5
Issuer	ANZ	ANZ
Issue date	27 September 2016	28 September 2017
Issue amount	$1,622 million	$931 million
Face value	$100	$100
Distribution frequency	Quarterly in arrears	Quarterly in arrears
Distribution rate	Floating rate: (90 day Bank Bill rate +4.7%)x(1-Australian corporate tax rate)	Floating rate: (90 day Bank Bill rate +3.8%)x(1-Australian corporate tax rate)
Issuer's early redemption or conversion option	20 March 2024	20 March 2025
Mandatory conversion date	20 March 2026	20 March 2027
Common equity capital trigger event	Yes	Yes
Non-viability trigger event	Yes	Yes
Carrying value 2019 (net of issue costs)	$1,612 million (2018: $1,610 million)	$925 million (2018: $924 million)

15. DEBT ISSUANCES (continued)

ANZ Capital Securities (ANZ CS)

Issuer	ANZ, acting through its London branch
Issue date	15 June 2016
Issue amount	USD 1,000 million
Face value	Minimum denomination of USD 200,000 and an integral multiple of USD 1,000 above that
Interest frequency	Semi-annually in arrears
Interest rate	Fixed at 6.75% p.a. until 15 June 2026. Reset on 15 June 2026 and each 5 year anniversary to a floating rate: 5 year USD mid-market swap rate + 5.168%
Issuer's early redemption option	15 June 2026 and each 5 year anniversary
Common equity capital trigger event	Yes
Non-viability trigger event	Yes
Carrying value 2019 (net of issue costs)	$1,481 million (2018: $1,240 million)

ANZ NZ Capital Notes (ANZ NZ CN)

Issuer	ANZ Bank New Zealand Limited (ANZ NZ)
Issue date	31 March 2015
Issue amount	NZD 500 million
Face value	NZD 1
Interest frequency	Quarterly in arrears
Interest rate	Fixed at 7.2% p.a. until 25 May 2020. Resets in May 2020 to a floating rate: New Zealand 3 month bank bill rate + 3.5% Interest payments are subject to ANZ NZ's absolute discretion and certain payment conditions (including APRA and RBNZ requirements)
Issuer's early redemption option	25 May 2020
Mandatory conversion date	25 May 2022
Common equity capital trigger event	Yes
Non-viability trigger event	Yes
Carrying value 2019 (net of issue costs)	$462 million (2018: $456 million)

15. DEBT ISSUANCES (continued)

TIER 2 CAPITAL

The convertible term subordinated notes are Basel III fully compliant instruments. If a Non-Viability Trigger Event occurs, the convertible term subordinated notes will immediately convert into ANZ ordinary shares (based on the average market price of the shares immediately prior to conversion less a 1% discount, subject to a maximum conversion number).

APRA has granted transitional Basel III capital treatment for the USD 300 million perpetual subordinated notes until the end of the transitional period (December 2021).

The table below shows the Tier 2 capital subordinated notes the Group holds at 30 September in both the current and prior year:

Currency	Face value	Maturity	Next optional call date – subject to APRA's prior approval	Interest rate	Non-Viability Trigger Event	2019 $m	2018 $m
Basel III transitional subordinated notes (perpetual)							
USD	300m	Perpetual	Each semi-annual interest payment date	Floating	No	444	416
Basel III transitional subordinated notes (term)							
EUR	750m	2019	N/A	Fixed	No	-	1,249
Total Basel III transitional subordinated notes						444	1,665
Basel III fully compliant convertible subordinated notes (term)							
AUD	750m	2024	2019	Floating	Yes	-	750
USD	800m	2024	N/A	Fixed	Yes	1,250	1,091
CNY	2,500m	2025	2020	Fixed	Yes	519	503
SGD	500m	2027	2022	Fixed	Yes	544	507
AUD	200m	2027	2022	Fixed	Yes	200	199
JPY	20,000m	2026	N/A	Fixed	Yes	281	243
AUD	700m	2026	2021	Floating	Yes	700	698
USD	1,500m	2026	N/A	Fixed	Yes	2,229	1,869
JPY	10,000m	2026	2021	Fixed	Yes	137	121
JPY	10,000m	2028	2023	Fixed	Yes	137	120
AUD	1,750m	2029	2024	Floating	Yes	1,750	-
AUD	225m	2032	2027	Fixed	Yes	224	225
Total Basel III fully compliant subordinated notes						7,971	6,326
Total Tier 2 capital						8,415	7,991

RECOGNITION AND MEASUREMENT

Debt issuances are measured at amortised cost, except where designated at fair value through profit or loss. Where the Group enters into a fair value hedge accounting relationship, the fair value attributable to the hedge risk is reflected in adjustments to the carrying value of the debt. Interest expense is recognised using the effective interest rate method.

Subordinated debt with capital-based conversion features (i.e. Common Equity Capital Trigger Events or Non-Viability Trigger Events) are considered to contain embedded derivatives that we account for separately at fair value through profit and loss. The embedded derivatives arise because the amount of shares issued on conversion following any of those trigger events is subject to the maximum conversion number, however they have no significant value as of the reporting date given the remote nature of those trigger events.

16. FINANCIAL RISK MANAGEMENT

RISK MANAGEMENT FRAMEWORK AND MODEL

INTRODUCTION

The use of financial instruments is fundamental to the Group's businesses of providing banking and other financial services to our customers. The associated financial risks (primarily credit, market, and liquidity risks) are a significant portion of the Group's key material risks.

We disclose details of all key material risks impacting the Group, and further information on the Group's risk management activities, in the Governance and Risk Management section.

This note details the Group's financial risk management policies, processes and quantitative disclosures in relation to the key financial risks.

Key material financial risks	Key sections applicable to this risk
Overview	• An overview of our Risk Management Framework
Credit risk The risk of financial loss resulting from: • a counterparty failing to fulfil its obligations; or • a decrease in credit quality of a counterparty resulting in a financial loss. Credit Risk incorporates the risks associated with us lending to customers who could be impacted by climate change or by changes to laws, regulations, or other policies adopted by governments or regulatory authorities, including carbon pricing and climate change adaptation or mitigation policies.	• Credit risk overview, management and control responsibilities • Maximum exposure to credit risk • Credit quality • Concentrations of credit risk • Collateral management
Market risk The risk to the Group's earnings arising from: • changes in any interest rates, foreign exchange rates, credit spreads, volatility and correlations; or • from fluctuations in bond, commodity or equity prices.	• Market risk overview, management and control responsibilities • Measurement of market risk • Traded and non-traded market risk • Equity securities designated at FVOCI (from 1 October 2018) and available-for-sale (prior to 1 October 2018) • Foreign currency risk – structural exposure
Liquidity and funding risk The risk that the Group is unable to meet payment obligations as they fall due, including: • repaying depositors or maturing wholesale debt; or • the Group having insufficient capacity to fund increases in assets.	• Liquidity risk overview, management and control responsibilities • Key areas of measurement for liquidity risk • Liquidity risk outcomes • Residual contractual maturity analysis of the Group's liabilities
Life insurance risk Insurance risk is the risk of loss due to unexpected changes in current and future insurance claims rates. The changes primarily arise due to claims payments, mortality (death) or morbidity (illness or injury) rates being greater than expected.	We control and minimise life insurance risk in the following ways: • We use underwriting procedures including strategic decisions, limits to delegated authorities and signing powers. • We analyse reinsurance arrangements using analytical modelling tools to achieve the desired type of reinsurance and retention levels. No further detail is provided in this section.

16. FINANCIAL RISK MANAGEMENT (continued)

OVERVIEW

AN OVERVIEW OF OUR RISK MANAGEMENT FRAMEWORK

This overview is provided to aid the users of the financial statements to understand the context of the financial disclosures required under AASB 7. It should be read in conjunction with the Governance and Risk Management section.

The Board is responsible for establishing and overseeing the Group's Risk Management Framework (RMF). The Board has delegated authority to the Board Risk Committee (BRC) to develop and monitor compliance with the Group's risk management policies. The BRC reports regularly to the Board on its activities.

The Board approves the strategic objectives of the Group including:

- the Risk Appetite Statement (RAS), which 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; and
- the Risk Management Strategy (RMS), which describes ANZ's strategy for managing risks and the key elements of the RMF that gives effect to this strategy. This includes a description of each material risk, and an overview of how the RMF addresses each risk, with reference to the relevant policies, standards and procedures. It also includes information on how ANZ identifies measures, evaluates, monitors, reports and controls or mitigates material risks.

The Group, through its training and management standards and procedures, aims to maintain a disciplined and robust control environment in which all employees understand their roles and obligations. At ANZ, risk is everyone's responsibility.

The Group has an independent risk management function, headed by the Chief Risk Officer who:

- is responsible for overseeing the risk profile and the risk management framework;
- can effectively challenge activities and decisions that materially affect ANZ's risk profile; and
- has an independent reporting line to the BRC to enable the appropriate escalation of issues of concern.

The Internal Audit Function reports directly to the Board Audit Committee (BAC). Internal Audit provides:

- an independent evaluation of the Group's RMF annually that seeks to ensure compliance with, and the effectiveness of, the risk management framework;
- facilitation of a comprehensive review every three years that seeks to ensure that the appropriateness, effectiveness and adequacy of the risk management framework; and
- recommendations to improve the framework and/or work practices to strengthen the effectiveness of day to day operations.

16. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK

CREDIT RISK OVERVIEW, MANAGEMENT AND CONTROL RESPONSIBILITIES

Granting credit facilities to customers is one of the Group's major sources of income. As this activity is also a principal risk, the Group dedicates considerable resources to its management. The Group assumes credit risk in a wide range of lending and other activities in diverse markets and in many jurisdictions. Credit risks arise from traditional lending to customers as well as from interbank, treasury, trade finance and capital markets activities around the world.

Our credit risk management framework ensures we apply a consistent approach across the Group when we measure, monitor and manage the credit risk appetite set by the Board. The Board is assisted and advised by the BRC in discharging its duty to oversee credit risk. The BRC:

- sets the credit risk appetite and credit strategies; and
- approves credit transactions beyond the discretion of executive management.

We quantify credit risk through an internal credit rating system (masterscales) to ensure consistency across exposure types and to provide a consistent framework for reporting and analysis. The system uses models and other tools to measure the following for customer exposures:

Probability of Default (PD)	Expressed by a Customer Credit Rating (CCR), reflecting the Group's assessment of a customer's ability to service and repay debt.
Exposure at Default (EAD)	The expected balance sheet exposure at default taking into account repayments of principal and interest, expected additional draw downs and accrued interest at the time of default.
Loss Given Default (LGD)	Expressed by a Security Indicator (SI) ranging from A to G. The SI is calculated by reference to the percentage of loan covered by security which the Group can realise if a customer defaults. The A-G scale is supplemented by a range of other SIs which cover factors such as cash cover and sovereign backing. For retail and some small business lending, we group exposures into large homogenous pools – and the LGD is assigned at the pool level.
Our specialist credit risk teams develop and validate the Group's PD and LGD rating models. The outputs from these models drive our day-to-day credit risk management decisions including origination, pricing, approval levels, regulatory capital adequacy, economic capital allocation, and credit provisioning.	

All customers with whom ANZ has a credit relationship are assigned a CCR at origination via either of the following assessment approaches:

Large and more complex lending	Retail and some small business lending
Rating models provide a consistent and structured assessment, with judgement required around the use of out-of-model factors. We handle credit approval on a dual approval basis, jointly with the business writer and an independent credit officer.	Automated assessment of credit applications using a combination of scoring (application and behavioural), policy rules and external credit reporting information. If the application does not meet the automated assessment criteria, then it is referred out for manual assessment.

We use the Group's internal CCRs to manage the credit quality of financial assets. To enable wider comparisons, the Group's CCRs are mapped to external rating agency scales as follows:

Credit Quality Description	Internal CCR	ANZ Customer Requirements	Moody's Rating	Standard & Poors Rating
Strong	CCR 0+ to 4-	Demonstrated superior stability in their operating and financial performance over the long-term, and whose earnings capacity is not significantly vulnerable to foreseeable events.	Aaa – Baa3	AAA – BBB-
Satisfactory	CCR 5+ to 6-	Demonstrated sound operational and financial stability over the medium to long-term, even though some may be susceptible to cyclical trends or variability in earnings.	Ba1 – B1	BB+ – B+
Weak	CCR 7+ to 8=	Demonstrated some operational and financial instability, with variability and uncertainty in profitability and liquidity projected to continue over the short and possibly medium term.	B2 - Caa	B - CCC
Defaulted	CCR 8- to 10	When doubt arises as to the collectability of a credit facility, the financial instrument (or "the facility") is classified as defaulted.	N/A	N/A

16. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK (continued)

The Group has adopted AASB 9 effective from 1 October 2018 which has resulted in changes to the classification and measurement of financial assets, including the impairment of financial assets. The presentation of credit risk information for 2019 has been amended. Refer to Note 1 and 35 for further details on key requirements and impacts of the changes due to the adoption of AASB 9.

MAXIMUM EXPOSURE TO CREDIT RISK

For financial assets recognised on the balance sheet, the maximum exposure to credit risk is the carrying amount. In certain circumstances there may be differences between the carrying amounts reported on the balance sheet and the amounts reported in the tables below. Principally, these differences arise in respect of financial assets that are subject to risks other than credit risk, such as equity instruments which are primarily subject to market risk, or bank notes and coins.

For undrawn facilities, this maximum exposure to credit risk is the full amount of the committed facilities. For contingent exposures, the maximum exposure to credit risk is the maximum amount the Group would have to pay if the instrument is called upon.

For the purpose of this note, assets presented as assets held for sale in the Balance Sheet have been reallocated to their respective Balance Sheet categories.

The table below shows our maximum exposure to credit risk of on-balance sheet and off-balance sheet positions before taking account of any collateral held or other credit enhancements.

	Reported		Excluded[1]		Maximum exposure to credit risk	
	2019 $m	2018 $m	2019 $m	2018 $m	2019 $m	2018 $m
On-balance sheet positions						
Net loans and advances	615,258	605,463	-	-	615,258	605,463
Other financial assets:						
Cash and cash equivalents	81,621	84,964	1,186	1,466	80,435	83,498
Settlement balances owed to ANZ	3,739	2,319	3,739	2,319	-	-
Collateral paid	15,006	11,043	-	-	15,006	11,043
Trading securities	44,088	37,722	6,199	3,595	37,889	34,127
Derivative financial instruments	120,667	68,426	-	-	120,667	68,426
Investment securities[2]						
- debt securities at amortised costs	5,999	-	-	-	5,999	-
- debt securities at FVOCI	76,489	-	-	-	76,489	-
- equity securities at FVOCI	1,221	-	1,221	-	-	-
Available-for-sale assets[2]	-	75,363	-	1,095	-	74,268
Regulatory deposits	879	1,028	-	-	879	1,028
Investments backing policy liabilities	-	40,054	-	40,054	-	-
Other financial assets[3]	3,619	3,850	-	-	3,619	3,850
Total other financial assets	353,328	324,769	12,345	48,529	340,983	276,240
Subtotal	968,586	930,232	12,345	48,529	956,241	881,703
Off-balance sheet positions						
Undrawn and contingent facilities[4]	253,123	244,582	-	-	253,123	244,582
Total	1,221,709	1,174,814	12,345	48,529	1,209,364	1,126,285

1. Bank notes and coins and cash at bank within Cash and cash equivalents; Trade dated assets within Settlement balances owed to ANZ; Equity securities and precious metal exposures within Trading securities; Equity securities within Investment securities (classified as Available-for-sale assets in 2018) were excluded as they do not have credit risk exposure.
2. On adoption of AASB 9 on 1 October 2018, the classification and measurement of financial assets were revised. Available-for-sale classification used in comparative periods ceases to exist under AASB 9 and a new classification of investment securities was introduced. Refer to Note 1 for further details. Comparative information has not been restated.
3. Other financial assets mainly comprise accrued interest, insurance receivables and acceptances.
4. Undrawn facilities and contingent facilities includes guarantees, letters of credit and performance related contingencies, net of collectively assessed allowance for expected credit losses.

16. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK (continued)

CREDIT QUALITY

An analysis of the Group's credit risk exposure is presented in the following tables based on the Group's internal rating by stage without taking account of the effects of any collateral or other credit enhancements:

Net loans and advances

	2019				
			Stage 3		
	Stage 1 $m	Stage 2 $m	Collectively assessed $m	Individually assessed $m	Total $m
Strong	425,113	18,597	-	-	443,710
Satisfactory	121,030	28,445	-	-	149,475
Weak	7,138	10,373	-	-	17,511
Defaulted	-	-	4,699	1,978	6,677
Gross loans and advances at amortised cost	553,281	57,415	4,699	1,978	617,373
Allowance for ECL	(927)	(1,378)	(413)	(791)	(3,509)
Net loans and advances at amortised cost	552,354	56,037	4,286	1,187	613,864
Coverage ratio	0.17%	2.40%	8.79%	39.99%	0.57%
Loans and advances at fair value through profit or loss					922
Unearned income					(398)
Capitalised brokerage/mortgage origination fees					870
Net carrying amount					615,258

Investment securities - debt securities at amortised cost

	2019				
			Stage 3		
	Stage 1 $m	Stage 2 $m	Collectively assessed $m	Individually assessed $m	Total $m
Strong	4,798	-	-	-	4,798
Satisfactory	707	507	-	-	1,214
Weak	-	-	-	-	-
Defaulted	-	-	-	-	-
Gross investment securities - debt securities at amortised cost	5,505	507	-	-	6,012
Allowance for ECL	(12)	(1)	-	-	(13)
Net investment securities - debt securities at amortised cost	5,493	506	-	-	5,999
Coverage ratio	0.22%	0.20%	0.00%	0.00%	0.22%

16. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK (continued)

Investment securities - debt securities at FVOCI

	2019				
			Stage 3		
	Stage 1 $m	Stage 2 $m	Collectively assessed $m	Individually assessed $m	Total $m
Strong	76,218	-	-	-	76,218
Satisfactory	271	-	-	-	271
Weak	-	-	-	-	-
Defaulted	-	-	-	-	-
Investment securities - debt securities at FVOCI	76,489	-	-	-	76,489
Allowance for ECL recognised in other comprehensive income	(8)	-	-	-	(8)
Coverage ratio	0.01%	-	-	-	0.01%

Other financial assets

	2019 $m
Strong	248,020
Satisfactory	10,060
Weak	415
Defaulted	-
Total carrying amount	258,495

Off-balance sheet commitments - undrawn and contingent

	2019				
			Stage 3		
	Stage 1 $m	Stage 2 $m	Collectively assessed $m	Individually assessed $m	Total $m
Strong	162,891	1,972	-	-	164,863
Satisfactory	23,655	3,634	-	-	27,289
Weak	294	976	-	-	1,270
Defaulted	-	-	140	51	191
Gross undrawn and contingent facilities subject to ECL	186,840	6,582	140	51	193,613
Allowance for ECL included in Other provisions (refer to Note 21)	(473)	(151)	(21)	(23)	(668)
Net undrawn and contingent facilities subject to ECL	186,367	6,431	119	28	192,945
Coverage ratio	0.25%	2.29%	15.00%	45.10%	0.35%
Undrawn and contingent facilities not subject to ECL[1]					60,178
Net undrawn and contingent facilities					253,123

1. Commitments that can be unconditionally cancelled at any time without notice.

16. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK (continued)

2018 Credit Risk Disclosures

The below disclosures do not reflect the adoption of AASB 9 and have been prepared under the requirements of the previous AASB 139.

The table below provides an analysis of the credit quality of the maximum exposure to credit risk split by:

- neither past due nor impaired financial assets by credit quality;
- past due but not impaired assets by ageing; and
- restructured and impaired assets presented as gross amounts and net of individual provisions.

	Loans and advances $m	Other financial assets $m	Off-balance sheet credit related commitments $m	Total $m
Neither past due nor impaired				
Strong credit profile	445,997	272,110	206,859	924,966
Satisfactory risk	127,384	4,014	36,037	167,435
Sub-standard but not past due or impaired	15,540	116	1,644	17,300
Sub-total	588,921	276,240	244,540	1,109,701
Past due but not impaired				
≥ 1 < 30 days	8,956	-	-	8,956
≥ 30 < 60 days	2,235	-	-	2,235
≥ 60 < 90 days	1,263	-	-	1,263
≥ 90 days	2,911	-	-	2,911
Sub-total	15,365	-	-	15,365
Restructured and impaired				
Impaired loans	1,802	-	-	1,802
Restructured items[1]	269	-	-	269
Non-performing commitments and contingencies	-	-	68	68
Gross impaired financial assets	2,071	-	68	2,139
Individual provisions	(894)	-	(26)	(920)
Sub-total restructured and net impaired	1,177	-	42	1,219
Total	605,463	276,240	244,582	1,126,285

1. Restructured items are 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 for new facilities with similar risk.

In 2019, ANZ implemented a more market responsive collateral valuation methodology for the home loan portfolio in Australia which increased the number of home loans being classified as impaired rather than past due. Comparative information has not been restated for the change in methodology. Additionally, refinement to underlying processes and associated data resulted in the transfer of loans from past due and sub-standard categories into impaired assets. Comparative information has been restated with a transfer from past due of $99 million and from sub-standard of $27 million.

16. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK (continued)

CONCENTRATIONS OF CREDIT RISK

Credit risk becomes concentrated when a number of customers are engaged in similar activities, have similar economic characteristics, or have similar activities within the same geographic region – therefore, they may be similarly affected by changes in economic or other conditions. The Group monitors its credit portfolio to manage risk concentration and rebalance the portfolio. The Group also applies single customer counterparty limits to protect against unacceptably large exposures to one single customer.

Composition of financial instruments that give rise to credit risk by industry group are presented below:

	Loans and advances		Other financial assets		Off-balance sheet credit related commitments		Total	
	2019 $m	2018 $m	2019 $m	2018 $m	2019 $m	2018 $m	2019 $m	2018 $m
Agriculture, forestry, fishing and mining	38,562	38,124	1,070	705	18,424	17,583	58,056	56,412
Business services	8,449	8,439	168	122	6,976	7,016	15,593	15,577
Construction	6,711	6,849	65	61	6,697	6,950	13,473	13,860
Electricity, gas and water supply	6,599	6,390	2,008	920	7,087	6,152	15,694	13,462
Entertainment, leisure and tourism	12,780	12,360	699	355	3,446	3,666	16,925	16,381
Financial, investment and insurance	55,344	48,059	247,351	187,194	41,874	37,821	344,569	273,074
Government and official institutions	3,388	922	75,066	75,763	2,524	2,854	80,978	79,539
Manufacturing	23,796	23,538	2,932	2,612	44,091	41,927	70,819	68,077
Personal lending	351,894	352,155	1,754	1,379	54,429	55,159	408,077	408,693
Property services	46,721	45,473	1,905	708	17,216	15,837	65,842	62,018
Retail trade	13,078	13,530	242	209	7,086	6,947	20,406	20,686
Transport and storage	13,583	12,075	1,194	650	8,269	7,980	23,046	20,705
Wholesale trade	15,177	15,220	3,141	3,148	20,283	21,834	38,601	40,202
Other	22,213	24,679	3,401	2,414	15,389	13,382	41,003	40,475
Gross total	618,295	607,813	340,996	276,240	253,791	245,108	1,213,082	1,129,161
Allowance for ECL	(3,509)	(2,917)	(13)	-	(668)	(526)	(4,190)	(3,443)
Subtotal	614,786	604,896	340,983	276,240	253,123	244,582	1,208,892	1,125,718
Unearned income	(398)	(430)	-	-	-	-	(398)	(430)
Capitalised brokerage/mortgage origination fees	870	997	-	-	-	-	870	997
Maximum exposure to credit risk	615,258	605,463	340,983	276,240	253,123	244,582	1,209,364	1,126,285

16. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK (continued)

COLLATERAL MANAGEMENT

We use collateral for on and off-balance sheet exposures to mitigate credit risk if a counterparty cannot meet its repayment obligations. Where there is sufficient collateral, an expected credit loss is not recognised. This is largely the case for certain lending products that are secured by corresponding investment for which the margin loans are utilised and for reverse repurchase agreements. For some products, the collateral provided by customers is fundamental to the product's structuring, so it is not strictly the secondary source of repayment - for example, lending secured by trade receivables is typically repaid by the collection of those receivables. During the period there was no change in our collateral policies.

The nature of collateral or security held for the relevant classes of financial assets is as follows:

Net loans and advances	
Loans - housing and personal	Housing loans are secured by mortgage(s) over property and additional security may take the form of guarantees and deposits. Personal lending (including credit cards and overdrafts) is predominantly unsecured. If we take security, then it is restricted to eligible vehicles, motor homes and other assets.
Loans - business	Business loans may be secured, partially secured or unsecured. Typically, we take security by way of a mortgage over property and/or a charge over the business or other assets. If appropriate, we may take other security to mitigate the credit risk, for example: guarantees, standby letters of credit or derivative protection.
Other financial assets	
Trading securities, Investment securities (from 1 October 2018), Available-for-sale assets (prior to 1 October 2018), Derivatives and Other financial assets	For trading securities, we do not seek collateral directly from the issuer or counterparty. However, the collateral may be implicit in the terms of the instrument (for example, with an asset-backed security). The terms of debt securities may include collateralisation. For derivatives, we typically terminate all contracts with the counterparty and settle on a net basis at market levels current at the time of a counterparty default under International Swaps and Derivatives Association (ISDA) Master Agreements. Our preferred practice is to use a Credit Support Annex (CSA) to the ISDA so that open derivative positions with the counterparty are aggregated and cash collateral (or other forms of eligible collateral) is exchanged daily. The collateral is provided by the counterparty when their position is out of the money (or provided to the counterparty by ANZ when our position is out of the money).
Off-balance sheet positions	
Undrawn and contingent facilities	Collateral for off balance sheet positions is mainly held against undrawn facilities, and they are typically performance bonds or guarantees. Undrawn facilities that are secured include housing loans secured by mortgages over residential property and business lending secured by commercial real estate and/or charges over business assets.

The table below shows the estimated value of collateral we hold and the net unsecured portion of credit exposures:

	Credit exposure		Total value of collateral		Unsecured portion of credit exposure	
	2019 $m	2018 $m	2019 $m	2018 $m	2019 $m	2018 $m
Net loans and advances	615,258	605,463	490,188	482,097	125,070	123,366
Other financial assets	340,983	276,240	31,898	33,215	309,085	243,025
Off-balance sheet positions	253,123	244,582	48,225	49,141	204,898	195,441
Total	1,209,364	1,126,285	570,311	564,453	639,053	561,832

16. FINANCIAL RISK MANAGEMENT (continued)

MARKET RISK

MARKET RISK OVERVIEW, MANAGEMENT AND CONTROL RESPONSIBILITIES

Market risk stems from the Group's trading and balance sheet management activities and the impact of changes and correlation between interest rates, foreign exchange rates, credit spreads and volatility in bond, commodity or equity prices.

The BRC delegates responsibility for day-to-day management of both market risks and compliance with market risk policies to the Credit & Market Risk Committee (CMRC) and the Group Asset & Liability Committee (GALCO).

Within overall strategies and policies established by the BRC, business units and risk management have joint responsibility for the control of market risk at the Group level. The Market Risk team (a specialist risk management unit independent of the business) allocates market risk limits at various levels and monitors and reports on them daily. This detailed framework allocates individual limits to manage and control exposures using risk factors and profit and loss limits.

Management, measurement and reporting of market risk is undertaken in two broad categories:

Traded Market Risk	Non-Traded Market Risk
Risk of loss from changes in the value of financial instruments due to movements in price factors for both physical and derivative trading positions. Principal risk categories monitored are: 1. Currency risk – potential loss arising from changes in foreign exchange rates or their implied volatilities. 2. Interest rate risk – potential loss from changes in market interest rates or their implied volatilities. 3. Credit spread risk – potential loss arising from a movement in margin or spread relative to a benchmark. 4. Commodity risk – potential loss arising from changes in commodity prices or their implied volatilities. 5. Equity risk – potential loss arising from changes in equity prices.	Risk of loss associated with the management of non-traded interest rate risk, liquidity risk and foreign exchange exposures. This includes interest rate risk in the banking book. This risk of loss arises from adverse changes in the overall and relative level of interest rates for different tenors, differences in the actual versus expected net interest margin, and the potential valuation risk associated with embedded options in financial instruments and bank products.

MEASUREMENT OF MARKET RISK

We primarily manage and control market risk using Value at Risk (VaR), sensitivity analysis and stress testing.

VaR gauges the Group's possible daily loss based on historical market movements.

The Group's VaR approach for both traded and non-traded risk is historical simulation. We use historical changes in market rates, prices and volatilities over:

- the previous 500 business days, to calculate standard VaR, and
- a 1-year stressed period, to calculate stressed VaR.

We calculate traded and non-traded VaR using one-day and ten-day holding periods. For stressed VaR, we use a ten-day period. Back testing is used to ensure our VaR models remain accurate.

ANZ measures VaR at a 99% confidence interval which means there is a 99% chance that a loss will not exceed the VaR for the relevant holding period.

16. FINANCIAL RISK MANAGEMENT (continued)

MARKET RISK (continued)

TRADED AND NON-TRADED MARKET RISK

Traded market risk

The table below shows the traded market risk VaR on a diversified basis by risk categories:

	2019				2018			
	As at $m	High for year $m	Low for year $m	Average for year $m	As at $m	High for year $m	Low for year $m	Average for year $m
Traded value at risk 99% confidence								
Foreign exchange	1.4	9.5	1.2	4.1	3.7	10.3	1.7	4.2
Interest rate	3.6	10.4	3.6	5.8	8.4	16.0	4.9	7.9
Credit	5.1	5.4	1.2	3.1	2.5	6.5	2.3	4.0
Commodity	1.6	3.9	1.4	2.2	3.7	4.5	1.4	3.1
Equity	-	-	-	-	-	-	-	-
Diversification benefit[1]	(5.5)	n/a	n/a	(7.2)	(10.5)	n/a	n/a	(8.1)
Total VaR	6.2	13.4	5.1	8.0	7.8	19.9	6.9	11.1

1. The diversification benefit reflects risks that offset across categories. The high and low VaR figures reported for each factor did not necessarily occur on the same day as the high and low VaR reported for the Group as a whole. Consequently, a diversification benefit for high and low would not be meaningful and is therefore omitted from the table.

Non-traded market risk

Balance sheet risk management

The principal objectives of balance sheet risk management are to maintain acceptable levels of interest rate and liquidity risk to mitigate the negative impact of movements in interest rates on the earnings and market value of the Group's banking book, while ensuring the Group maintains sufficient liquidity to meet its obligations as they fall due.

Interest rate risk management

Non-traded interest rate risk relates to the potential adverse impact of changes in market interest rates on the Group's future net interest income. This risk arises from two principal sources, namely mismatches between the repricing dates of interest bearing assets and liabilities; and the investment of capital and other non-interest bearing liabilities in interest bearing assets. Interest rate risk is reported using VaR and scenario analysis (based on the impact of a 1% rate shock). The table below shows VaR figures for non-traded interest rate risk for the combined Group as well as Australia, New Zealand and Asia Pacific, Europe and Americas (APEA) geographies which are calculated separately.

	2019				2018			
	As at $m	High for year $m	Low for year $m	Average for year $m	As at $m	High for year $m	Low for year $m	Average for year $m
Non-traded value at risk 99% confidence								
Australia	22.7	22.7	16.4	18.9	21.9	32.7	20.3	23.6
New Zealand	9.6	9.6	7.1	8.0	6.8	7.1	5.6	6.6
Asia Pacific, Europe & America	17.6	17.7	12.9	16.1	15.1	15.1	12.5	13.7
Diversification benefit[1]	(17.8)	n/a	n/a	(14.8)	(16.1)	n/a	n/a	(14.4)
Total VaR	32.1	32.1	25.2	28.2	27.7	36.4	26.0	29.5

1. The diversification benefit reflects the historical correlation between the regions. The high and low VaR figures reported for the region did not necessarily occur on the same day as the high and low VaR reported for the Group as a whole. Consequently, a diversification benefit for high and low would not be meaningful and is therefore omitted from the table.

16. FINANCIAL RISK MANAGEMENT (continued)

MARKET RISK (continued)

We undertake scenario analysis to stress test the impact of extreme events on the Group's market risk exposures. We model a 1% overnight parallel positive shift in the yield curve to determine the potential impact on our net interest income over the next 12 months. This is a standard risk measure which assumes the parallel shift is reflected in all wholesale and customer rates.

The table below shows the outcome of this risk measure for the current and previous financial years, expressed as a percentage of reported net interest income. A positive number signifies that a rate increase is positive for net interest income over the next 12 months.

	2019	2018[1]
Impact of 1% rate shock		
As at period end	1.19%	1.21%
Maximum exposure	1.19%	1.79%
Minimum exposure	0.33%	0.77%
Average exposure (in absolute terms)	0.69%	1.11%

1. Prior period numbers have been restated to reflect IRR model enhancements

EQUITY SECURITIES DESIGNATED AT FVOCI (FROM 1 OCTOBER 2018) AND AVAILABLE-FOR-SALE (PRIOR TO 1 OCTOBER 2018)

Our investment securities (from 1 October 2018) and available-for-sale financial assets (prior to 1 October 2018) contain equity investment holdings which predominantly comprise investments we hold for longer-term strategic reasons. The market risk impact on these equity investments is not captured by the Group's VaR processes for traded and non-traded market risks. Therefore, the Group regularly reviews the valuations of the investments within the portfolio and assesses whether the investments are appropriately measured based on the recognition and measurement policies set out in Note 11 Investment securities.

FOREIGN CURRENCY RISK – STRUCTURAL EXPOSURES

Our investment of capital in foreign operations - for example, branches, subsidiaries or associates with functional currencies other than the Australian Dollar - exposes the Group to the risk of changes in foreign exchange rates. Variations in the value of these foreign operations arising as a result of exchange differences are reflected in the foreign currency translation reserve in equity.

Where it is considered appropriate, the Group takes out economic hedges against larger foreign exchange denominated revenue streams (primarily New Zealand Dollar, US Dollar and US Dollar correlated). The primary objective of hedging is to ensure that, if practical, the consolidated capital ratios are neutral to the effect of changes in exchange rates.

16. FINANCIAL RISK MANAGEMENT (continued)

LIQUIDITY AND FUNDING RISK

LIQUIDITY RISK OVERVIEW, MANAGEMENT AND CONTROL RESPONSIBILITIES

Liquidity risk is the risk that the Group is either:

- unable to meet its payment obligations (including repaying depositors or maturing wholesale debt) when they fall due; or
- does not have the appropriate amount, tenor and composition of funding and liquidity to fund increases in its assets.

Management of liquidity and funding risks are overseen by GALCO. The Group's liquidity and funding risks are governed by a set of principles approved by the BRC and include:

- maintaining the ability to meet all payment obligations in the immediate term;
- ensuring that the Group has the ability to meet 'survival horizons' under a range of ANZ specific, and general market, liquidity stress scenarios, at the site and Group-wide level, to meet cash flow obligations over the short to medium term;
- maintaining strength in the Group's balance sheet structure to ensure long term resilience in the liquidity and funding risk profile;
- ensuring the liquidity management framework is compatible with local regulatory requirements;
- preparing daily liquidity reports and scenario analysis to quantify the Group's positions;
- targeting a diversified funding base to avoid undue concentrations by investor type, maturity, market source and currency;
- holding a portfolio of high quality liquid assets to protect against adverse funding conditions and to support day-to-day operations; and
- establishing detailed contingency plans to cover different liquidity crisis events.

KEY AREAS OF MEASUREMENT FOR LIQUIDITY RISK

Scenario modelling of funding sources

ANZ's liquidity risk appetite is defined by a range of regulatory and internal liquidity metrics mandated by the Board. The metrics cover a range of scenarios of varying duration and level of severity.

A key component of this framework is the Liquidity Coverage Ratio (LCR), which is a severe short term liquidity stress scenario mandated by banking regulators including APRA. As part of meeting LCR requirements, the Group has a Committed Liquidity Facility (CLF) with the Reserve Bank of Australia. The CLF has been established to offset the shortage of available High Quality Liquid Assets (HQLA) in Australia and provides an alternative form of contingent liquidity. The total amount of the CLF available to a qualifying Australian Deposit-taking Institution is set annually by APRA. From 1 January 2019, ANZ's CLF is $48.0 billion (2018 calendar year end: $46.9 billion).

Liquid assets

The Group holds a portfolio of high quality (unencumbered) liquid assets to protect the Group's liquidity position in a severely stressed environment, to meet regulatory requirements. HQLA comprise three categories consistent with Basel III LCR requirements:

- HQLA1- Cash and highest credit quality government, central bank or public sector securities eligible for repurchase with central banks to provide same-day liquidity.
- HQLA2 - High credit quality government, central bank or public sector securities, high quality corporate debt securities and high quality covered bonds eligible for repurchase with central banks to provide same-day liquidity.
- Alternative liquid assets (ALA) - Assets qualifying as collateral for the CLF and eligible securities that the Reserve Bank of New Zealand (RBNZ) will accept in its domestic market operations.

LIQUIDITY RISK OUTCOMES[1]

Liquidity Coverage Ratio

ANZ's Liquidity Coverage Ratio (LCR) averaged 140% for 2019, an increase from the 2018 average of 138%, and above the regulatory minimum of 100%.

Net Stable Funding Ratio

ANZ's Net Stable Funding Ratio (NSFR) as at 30 September 2019 was 116% (2018: 115%), above the regulatory minimum of 100%.

1. This information is not within the scope of the external audit of the Group Financial Report by the Group's external auditor, KPMG. The Liquidity Coverage Ratio and Net Stable Funding Ratio are non-IFRS disclosures and are disclosed as part of the Group's *APS 330 Public Disclosure* which is subject to specific review procedures in accordance with the *Australian Standard on Related Services (ASRS) 4400 Agreed upon Procedures Engagements to Report Factual Findings.*

16. FINANCIAL RISK MANAGEMENT (continued)

LIQUIDITY AND FUNDING RISK (continued)

Liquidity crisis contingency planning

The Group maintains APRA-endorsed liquidity crisis contingency plans for analysing and responding to a liquidity threatening event at a country and Group-wide level. Key liquidity contingency crisis planning requirements and guidelines include:

Ongoing business management	Early signs/ mild stress	Severe Stress
• Establish crisis/severity levels • Liquidity limits • Early warning indicators	• Monitoring and review • Management actions not requiring business rationalisation	• Activate contingency funding plans • Management actions for altering asset and liability behaviour
Assigned responsibility for internal and external communications and the appropriate timing to communicate		

Since the precise nature of any stress event cannot be known in advance, we design the plans to be flexible to the nature and severity of the stress event with multiple variables able to be accommodated in any plan.

Group funding

The Group monitors the composition and stability of its funding so that it remains within the Group's funding risk appetite. This approach ensures that an appropriate proportion of the Group's assets are funded by stable funding sources, including customer deposits; longer-dated wholesale funding (with a remaining term exceeding one year); and equity.

Funding plans prepared	Considerations in preparing funding plans
• 3 year strategic plan prepared annually • Annual funding plan as part of budgeting process • Forecasting in light of actual results as a calibration to the annual plan	• Customer balance sheet growth • Changes in wholesale funding including: targeted funding volumes; markets; investors; tenors; and currencies for senior, secured, subordinated, hybrid transactions and market conditions

16. FINANCIAL RISK MANAGEMENT (continued)

LIQUIDITY AND FUNDING RISK (continued)

RESIDUAL CONTRACTUAL MATURITY ANALYSIS OF GROUP'S LIABILITIES

The tables below provide residual contractual maturity analysis of financial liabilities, including financial liablities reclassified to held for sale, at 30 September within relevant maturity groupings. All outstanding debt issuance and subordinated debt is profiled on the earliest date on which the Group may be required to pay. All at-call liabilities are reported in the "Less than 3 months" category. Any other items without a specified maturity date are included in the "After 5 years" category. The amounts represent principal and interest cash flows - so they may differ from equivalent amounts reported on balance sheet. For the purpose of this note, liabilities presented as liabilities held for sale in the Balance Sheet have been reallocated to their respective Balance Sheet categories.

It should be noted that this is not how the Group manages its liquidity risk. The management of this risk is detailed on page 163.

2019	Less than 3 months $m	3 to 12 months $m	1 to 5 years $m	After 5 years $m	Total $m
Settlement balances owed by ANZ	10,838	29	-	-	10,867
Collateral received	7,929	-	-	-	7,929
Deposits and other borrowings	530,392	102,731	7,657	100	640,880
Policy liabilities	-	-	-	-	-
External unit holder liabilities	-	-	-	-	-
Liability for acceptances	760	-	-	-	760
Debt issuances[1]	7,948	18,985	95,632	17,886	140,451
Derivative liabilities (excluding those held for balance sheet management)[2]	108,501	-	-	-	108,501
Derivative assets and liabilities (balance sheet management)					
- Funding					
Receive leg	(27,588)	(29,128)	(82,588)	(22,238)	(161,542)
Pay leg	26,778	26,594	77,686	21,190	152,248
- Other balance sheet management					
Receive leg	(85,489)	(26,218)	(11,632)	(1,893)	(125,232)
Pay leg	85,887	26,980	13,071	2,311	128,249

2018	Less than 3 months $m	3 to 12 months $m	1 to 5 years $m	After 5 years $m	Total $m
Settlement balances owed by ANZ	11,810	-	-	-	11,810
Collateral received	6,542	-	-	-	6,542
Deposits and other borrowings	518,650	92,213	12,444	117	623,424
Policy liabilities	38,325	2	9	1,271	39,607
External unit holder liabilities	4,712	-	-	-	4,712
Liability for acceptances	803	-	-	-	803
Debt issuances[1]	5,575	21,538	83,685	23,399	134,197
Derivative liabilities (excluding those held for balance sheet management)[2]	60,499	-	-	-	60,499
Derivative assets and liabilities (balance sheet management)					
- Funding					
Receive leg	(17,972)	(30,894)	(85,054)	(35,580)	(169,500)
Pay leg	17,936	29,757	82,344	35,431	165,468
- Other balance sheet management					
Receive leg	(52,708)	(16,646)	(14,401)	(2,089)	(85,844)
Pay leg	53,022	16,879	15,283	2,256	87,440

1. Any callable wholesale debt instruments have been included at their next call date. Balance includes subordinated debt instruments that may be settled in cash or in equity, at the option of the Company, and perpetual debt instruments after 5 years.
2. The full mark-to-market of derivative liabilities (excluding those held for balance sheet management) is included in the 'less than 3 months' category.

At 30 September 2019, $209,341 million (2018: $202,531 million) of the Group's undrawn facilities and $44,451 million (2018: $42,577 million) of its issued guarantees mature in less than 1 year, based on the earliest date on which the Group may be required to pay.

17. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Group carries a significant number of financial instruments on the balance sheet at fair value. In addition the Group also holds assets classified as held for sale which are measured at fair value less costs to sell. The fair value is the best estimate of the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date.

VALUATION

The Group has an established control framework, including appropriate segregation of duties, to ensure that fair values are accurately determined, reported and controlled. The framework includes the following features:

- products are approved for transacting with external customers and counterparties only where fair values can be appropriately determined;
- quoted market prices used to value financial instruments are independently verified with information from external pricing providers;
- fair value methodologies and inputs are evaluated and approved by a function independent of the party that undertakes the transaction;
- movements in fair values are independently monitored and explained by reference to underlying factors relevant to the fair value; and
- valuation adjustments (such as funding valuation adjustments, credit valuation adjustments and bid-offer adjustments) are independently validated and monitored.

If the Group holds offsetting risk positions, then the Group uses the portfolio exception in AASB 13 *Fair Value Measurement* (AASB 13) to measure the fair value of such groups of financial assets and financial liabilities. We measure the portfolio based on the price that would be received to sell a net long position (an asset) for a particular risk exposure, or to transfer a net short position (a liability) for a particular risk exposure.

Fair value designation

We designate certain loans and advances and certain deposits and other borrowings and debt issuances as fair value through profit or loss:

- where they contain a separable embedded derivative which significantly modifies the instruments' cash flow; or
- in order to eliminate an accounting mismatch which would arise if the asset or liabilities were otherwise carried at amortised cost. This mismatch arises as we measure the derivative financial instruments (which we acquired to mitigate interest rate risk of the assets or liabilities) at fair value through profit or loss.

Our approach ensures that we recognise the fair value movements on the assets or liabilities in profit or loss in the same period as the movement on the associated derivatives.

We may also designate certain loans and advances, certain deposits and other borrowings and debt issuances as fair value through profit or loss where they are managed on a fair value basis to align the measurement with how the instruments are managed.

FAIR VALUE APPROACH AND VALUATION TECHNIQUES

We use valuation techniques to estimate the fair value of assets and liabilities for recognition, measurement and disclosure purposes where no quoted price in an active market exists for that asset or liability. This includes the following:

Asset or Liability	Fair Value Approach
Financial instruments classified as: - Trading securities - Securities sold short - Derivative financial assets and financial liabilities - Investment securities (from 1 October 2018) - Available-for-sale assets (prior to 1 October 2018)	Valuation techniques are used that incorporate observable market inputs for financial instruments with similar credit risk, maturity and yield characteristics. Equity instruments that are not traded in active markets may be measured using comparable company valuation multiples.
Financial instruments classified as: - Net loans and advances - Deposits and other borrowings - Debt issuances	Discounted cash flow techniques are used whereby contractual future cash flows of the instrument are discounted using wholesale market interest rates, or market borrowing rates for debt with similar maturities or yield curve appropriate for the remaining term to maturity.
Assets and liabilities held for sale	Valuation based on the expected sale price before transaction costs.

17. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The following tables set out the classification of financial asset and liability categories according to measurement bases together with their carrying amounts as reported on the balance sheet.

		2019			2018		
	Note	At amortised cost $m	At fair value $m	Total $m	At amortised cost $m	At fair value $m	Total $m
Financial assets							
Cash and cash equivalents	8	81,621	-	81,621	84,636	-	84,636
Settlement balances owed to ANZ		3,739	-	3,739	2,319	-	2,319
Collateral paid		15,006	-	15,006	11,043	-	11,043
Trading securities	9	-	43,169	43,169	-	37,722	37,722
Derivative financial instruments	10	-	120,667	120,667	-	68,423	68,423
Investment securities	11	5,999	77,710	83,709	-	-	-
Available-for-sale assets	11	-	-	-	-	74,284	74,284
Net loans and advances	12	614,336	922	615,258	604,331	133	604,464
Regulatory deposits		879	-	879	882	-	882
Assets held for sale[1]		-	1,420	1,420	727	43,151	43,878
Other financial assets		3,118	-	3,118	2,899	-	2,899
Total		724,698	243,888	968,586	706,837	223,713	930,550
Financial liabilities							
Settlement balances owed by ANZ		10,867	-	10,867	11,810	-	11,810
Collateral received		7,929	-	7,929	6,542	-	6,542
Deposits and other borrowings	14	635,376	2,301	637,677	615,818	2,332	618,150
Derivative financial instruments	10	-	120,951	120,951	-	69,676	69,676
Liabilities held for sale[1]		-	1,914	1,914	130	46,641	46,771
Payables and other liabilities		5,377	2,591	7,968	5,723	1,171	6,894
Debt issuances	15	127,102	2,589	129,691	119,737	1,442	121,179
Total		786,651	130,346	916,997	759,760	121,262	881,022

1. Assets held for sale and liabilities held for sale include only the components of assets or liabilities held for sale which are financial instruments.

FAIR VALUE HIERARCHY

The Group categorises assets and liabilities carried at fair value into a fair value hierarchy as required by AASB 13 based on the observability of inputs used to measure the fair value:

- Level 1 - valuations based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - valuations using inputs other than quoted prices included within Level 1 that are observable for a similar asset or liability, either directly or indirectly; and
- Level 3 - valuations where significant unobservable inputs are used to measure the fair value of the asset or liability.

17. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

The following table presents assets and liabilities carried at fair value in accordance with the fair value hierarchy:

	Fair value measurements							
	Quoted market price (Level 1)		Using observable inputs (Level 2)		Using unobservable inputs (Level 3)		Total	
	2019 $m	2018 $m	2019 $m	2018 $m	2019 $m	2018 $m	2019 $m	2018 $m
Assets								
Trading securities[1]	37,768	30,855	5,401	6,867	-	-	43,169	37,722
Derivative financial instruments	365	647	120,241	67,717	61	59	120,667	68,423
Investment securities[2]	76,000	-	499	-	1,211	-	77,710	-
Available-for-sale assets[2]	-	69,508	-	3,695	-	1,081	-	74,284
Net loans and advances (measured at fair value)	-	-	922	133	-	-	922	133
Assets held for sale[3]	-	-	1,952	44,623	-	-	1,952	44,623
Total	114,133	101,010	129,015	123,035	1,272	1,140	244,420	225,185
Liabilities								
Deposits and other borrowings (designated at fair value)	-	-	2,301	2,332	-	-	2,301	2,332
Derivative financial instruments	881	1,680	120,018	67,952	52	44	120,951	69,676
Payables and other liabilities[4]	2,553	1,159	38	12	-	-	2,591	1,171
Debt issuances (designated at fair value)	-	-	2,589	1,442	-	-	2,589	1,442
Liabilities held for sale[3]	-	-	2,121	46,829	-	-	2,121	46,829
Total	3,434	2,839	127,067	118,567	52	44	130,553	121,450

1. During the year, there were no material transfers from Level 2 to Level1 (2018: $953 million) in Trading Securities. Transfers from Level 1 to Level 2 for the year and previous periods are immaterial. Transfers into and out of levels are measured at the beginning of the reporting period in which the transfer occurred.
2. On adoption of AASB 9 on 1 October 2018, the classification and measurement of financial assets was revised. The available-for-sale classification used in comparative periods no longer exists under AASB 9 and a new classification of investment securities was introduced. Comparative information has not been restated.
3. The amount classified as Assets and Liabilities held for sale relates to assets and liabilities measured at fair value less cost to sell in accordance with AASB *5 Non-current Assets Held for Sale and Discontinued Operations*. The amount presented reflects fair value excluding cost to sell but including intercompany eliminations.
4. Payables and other liabilities relates to securities sold short, which we classify as held for trading and measured at fair value through profit or loss.

FAIR VALUE MEASUREMENT INCORPORATING UNOBSERVABLE MARKET DATA

Level 3 fair value measurements

The net balance of Level 3 is an asset of $1,220 million (2018: $1,096 million). The assets and liabilities which incorporate significant unobservable inputs primarily include:

- equities for which there is no active market or traded prices cannot be observed;
- structured credit products for which credit spreads and default probabilities relating to the reference assets and derivative counterparties cannot be observed;
- other derivatives referencing market rates that cannot be observed primarily due to lack of market activity.

Movement in Level 3 balance is mainly due to the revaluation of the Group's investment in Bank of Tianjin.

There were no material transfers in or out of Level 3 during the period.

17. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

Bank of Tianjin (BoT)

The investment is valued based on comparative price-to-book (P/B) multiples (a P/B multiple is the ratio of the market value of equity to the book value of equity). The extent of judgement applied in determining the appropriate multiple and comparator group from which the multiple is derived are non-observable inputs which have resulted in the Level 3 classification.

Sensitivity to Level 3 data inputs

When we make assumptions due to significant inputs not being directly observable in the market place (Level 3 inputs), then changing these assumptions changes the Group's estimate of the instrument's fair value. Favourable and unfavourable changes are determined by changing the primary unobservable parameter used to derive the valuation.

Bank of Tianjin (BoT)

The valuation of the BoT investment is sensitive to the selected unobservable input, being the P/B multiple. If the P/B multiple was increased or decreased by 10% it would result in a $111 million (2018: $102 million) increase or decrease to the fair value of the investment, which would be recognised in shareholders' equity.

Other

The remaining Level 3 balance is immaterial and changes in the Level 3 inputs have a minimal impact on net profit and net assets of the Group.

Deferred fair value gains and losses

Where fair values are determined using unobservable inputs significant to the fair value of a financial instrument, the Group does not immediately recognise the difference between the transaction price and the amount we determine based on the valuation technique (day one gain or loss) in profit or loss. After initial recognition, we recognise the deferred amount in profit or loss on a straight line basis over the life of the transaction or until all inputs become observable.

The day one gains and losses deferred are not material.

FINANCIAL ASSETS AND FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE

The following table sets out the Group's basis of estimating fair values of financial instruments carried at amortised cost:

Financial Asset and Liability	Fair Value Approach
Investment securities - debt securities at amortised cost	Calculated based on quoted market prices or observable inputs as applicable. If quoted market prices are not available, we use a discounted cash flow model using a yield curve appropriate for the remaining term to maturity of the debt instrument. The fair value reflects adjustments to credit spreads applicable for that instrument.
Net loans and advances to banks	Discounted cash flows using prevailing market rates for loans with similar credit quality.
Net loans and advances to customers	Present value of future cash flows, discounted using a curve that incorporates changes in wholesale market rates, the Group's cost of wholesale funding and the customer margin, as appropriate.
Deposit liability without a specified maturity or at call	The amount payable on demand at the reporting date. We do not adjust the fair value for any value we expect the Group to derive from retaining the deposit for a future period.
Interest bearing fixed maturity deposits and other borrowings and acceptances with quoted market rates	Market borrowing rates of interest for debt with a similar maturity are used to discount contractual cash flows to derive the fair value.
Debt issuances	Calculated based on quoted market prices or observable inputs as applicable. If quoted market prices are not available, we use a discounted cash flow model using a yield curve appropriate for the remaining term to maturity of the debt instrument. The fair value reflects adjustments to credit spreads applicable to ANZ for that instrument.

17. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

The financial assets and financial liabilities listed in the table below are carried at amortised cost on the Group's Balance Sheet. While this is the value at which we expect the assets will be realised and the liabilities settled, the Group provides an estimate of the fair value of the financial assets and financial liabilities at balance date in the table below.

	At amortised cost		Categorised into fair value hierarchy: Quoted market price (Level 1)		Using observable inputs (Level 2)		With significant non-observable inputs (Level 3)		Fair value (total)	
	2019 $m	2018 $m	2019 $m	2018 $m	2019 $m	2018 $m	2019 $m	2018 $m	2019 $m	2018 $m
Financial assets										
Net loans and advances[1]	**614,336**	605,330	**-**	-	**22,629**	29,586	**592,704**	575,691	**615,333**	605,277
Investment securities[2]	**5,999**	-	**-**	-	**5,997**	-	**-**	-	**5,997**	-
Total	**620,335**	605,330	**-**	-	**28,626**	29,586	**592,704**	575,691	**621,330**	605,277
Financial liabilities										
Deposits and other borrowings[1]	**635,376**	617,397	**-**	-	**635,660**	617,563	**-**	-	**635,660**	617,563
Debt issuances	**127,102**	119,737	**43,304**	43,413	**85,484**	77,205	**-**	-	**128,788**	120,618
Total	**762,478**	737,134	**43,304**	43,413	**721,144**	694,768	**-**	-	**764,448**	738,181

1. Net loans and advances and deposits and other borrowings include amounts reclassified to assets and liabilities held for sale (refer Note 29 Discontinued Operations and Assets and Liabilities Held for Sale).
2. Investment securities under AASB 9 includes securities measured at amortised cost.

KEY JUDGEMENTS AND ESTIMATES

The Group evaluates the material accuracy of the valuations incorporated in the financial statements as they can involve a high degree of judgement and estimation in determining the carrying values of financial assets and financial liabilities at the balance sheet date.

The majority of valuation models the Group uses employ only observable market data as inputs. However, for certain financial instruments, we may use data that is not readily observable in current markets. If we use unobservable market data, then we need to exercise more judgement to determine fair value depending on the significance of the unobservable input to the overall valuation. Generally, we derive unobservable inputs from other relevant market data and compare them to observed transaction prices where available.

When establishing the fair value of a financial instrument using a valuation technique, the Group considers valuation adjustments in determining the fair value. We may apply adjustments (such as bid/offer spreads, credit valuation adjustments and funding valuation adjustments – refer Note 10 Derivative Financial Instruments) to the techniques used to reflect the Group's assessment of factors that market participants would consider in setting fair value.

18. ASSETS CHARGED AS SECURITY FOR LIABILITIES AND COLLATERAL ACCEPTED AS SECURITY FOR ASSETS

The following disclosure excludes the amounts presented as collateral paid and received in the Balance Sheet that relate to derivative liabilities and derivative assets respectively. The terms and conditions of those collateral agreements are included in the standard Credit Support Annex that forms part of the International Swaps and Derivatives Association Master Agreement.

ASSETS CHARGED AS SECURITY FOR LIABILITIES

Assets charged as security for liabilities include the following types of instruments:

- Securities provided as collateral for repurchase transactions. These transactions are governed by standard industry agreements;
- UDC Secured Investments are secured by a security interest granted under a trust deed over all of UDC's present and future assets and undertakings, to Trustees Executors Limited, as supervisor. The assets subject to the security interest comprise mainly loans to UDC's customers and certain plant and equipment. The security interest secures all amounts payable by UDC on the UDC Secured Investments and all other monies payable by UDC under the trust deed;
- Specified residential mortgages provided as security for notes and bonds issued to investors as part of ANZ's covered bond programs;
- Collateral provided to central banks; and
- Collateral provided to clearing houses.

The carrying amount of assets pledged as security are as follows:

	2019 $m	2018 $m
Securities sold under arrangements to repurchase[1]	43,213	40,164
Assets pledged as collateral for UDC Secured Investments	3,228	3,019
Residential mortgages provided as security for covered bonds	30,799	29,455
Other	4,927	2,794

1. The amounts disclosed as securities sold under arrangements to repurchase include both:
- assets pledged as security which continue to be recognised on the Group's balance sheet; and
- assets repledged, which are included in the disclosure below.

COLLATERAL ACCEPTED AS SECURITY FOR ASSETS

ANZ has received collateral associated with various financial instruments. Under certain transactions ANZ has the right to sell, or to repledge, the collateral received. These transactions are governed by standard industry agreements.

The fair value of collateral we have received and that which we have sold or repledged is as follows:

	2019 $m	2018 $m
Fair value of assets which can be sold or repledged	37,990	36,122
Fair value of assets sold or repledged	29,460	23,300

19. OFFSETTING

We offset financial assets and financial liabilities in the balance sheet (in accordance with AASB 132 *Financial Instruments: Presentation*) when there is:

- a current legally enforceable right to set off the recognised amounts in all circumstances; and
- an intention to settle the asset and liability on a net basis, or to realise the asset and settle the liability simultaneously.

If the above conditions are not met, the financial assets and financial liabilities are presented on a gross basis.

The Group does not have any arrangements that satisfy the conditions necessary to offset financial assets and financial liabilities within the balance sheet. The following table identifies financial assets and financial liabilities which have not been offset but are subject to enforceable master netting agreements (or similar arrangements) and the related amounts not offset in the balance sheet. We have not taken into account the effect of over-collateralisation.

			Amount subject to master netting agreement or similar			
2019	Total amounts recognised in the Balance Sheet $m	Amounts not subject to master netting agreement or similar $m	Total $m	Financial instruments $m	Financial collateral (received)/ pledged $m	Net amount $m
Derivative financial assets	120,667	(4,019)	116,648	(103,247)	(6,378)	7,023
Reverse repurchase, securities borrowing and similar agreements[1]	37,102	(5,299)	31,803	(1,414)	(30,389)	-
Total financial assets	157,769	(9,318)	148,451	(104,661)	(36,767)	7,023
Derivative financial liabilities	(120,951)	3,145	(117,806)	103,247	10,970	(3,589)
Repurchase, securities lending and similar agreements[2]	(41,367)	17,781	(23,586)	1,414	22,172	-
Total financial liabilities	(162,318)	20,926	(141,392)	104,661	33,142	(3,589)

			Amount subject to master netting agreement or similar			
2018	Total amounts recognised in the Balance Sheet $m	Amounts not subject to master netting agreement or similar $m	Total $m	Financial instruments $m	Financial collateral (received)/ pledged $m	Net amount $m
Derivative financial assets[3]	68,426	(3,292)	65,134	(54,251)	(5,507)	5,376
Reverse repurchase, securities borrowing and similar agreements[1]	35,310	(4,738)	30,572	(398)	(30,174)	-
Total financial assets	103,736	(8,030)	95,706	(54,649)	(35,681)	5,376
Derivative financial liabilities[3]	(69,677)	3,644	(66,033)	54,252	8,287	(3,494)
Repurchase, securities lending and similar agreements[2]	(38,378)	12,794	(25,584)	398	25,186	-
Total financial liabilities	(108,055)	16,438	(91,617)	54,650	33,473	(3,494)

1. Reverse repurchase agreements:
   - with less than 90 days to maturity are presented in the Balance Sheet within cash and cash equivalents; or
   - with 90 days or more to maturity are presented in the Balance Sheet within net loans and advances.
2. Repurchase agreements are presented in the Balance Sheet within deposits and other borrowings.
3. Includes derivative assets and liabilities reclassified as held for sale.

20. GOODWILL AND OTHER INTANGIBLE ASSETS

	Goodwill[1]		Software		Other Intangibles		Total	
	2019 $m	2018 $m	2019 $m	2018 $m	2019 $m	2018 $m	2019 $m	2018 $m
Balance at start of year	**3,440**	4,447	**1,421**	1,860	**69**	663	**4,930**	6,970
Additions	**-**	1	**421**	390	**-**	-	**421**	391
Amortisation expense[2]	**-**	-	**(517)**	(821)	**-**	(38)	**(517)**	(859)
Impairment expense	**-**	(12)	**(4)**	(17)	**-**	-	**(4)**	(29)
Impairment on reclassification to held for sale[3]	**-**	(421)	**-**	-	**-**	-	**-**	(421)
Transferred to held for sale	**-**	(571)	**-**	-	**-**	(555)	**-**	(1,126)
Foreign currency exchange difference	**27**	(4)	**2**	9	**2**	(1)	**31**	4
Balance at end of year	**3,467**	3,440	**1,323**	1,421	**71**	69	**4,861**	4,930
Cost	**3,467**	3,440	**7,068**	6,490	**75**	149	**10,610**	10,079
Accumulated amortisation/impairment	**n/a**	n/a	**(5,745)**	(5,069)	**(4)**	(80)	**(5,749)**	(5,149)
Carrying amount	**3,467**	3,440	**1,323**	1,421	**71**	69	**4,861**	4,930

1. Goodwill excludes notional goodwill in equity accounted investments.
2. 2018 includes an accelerated amortisation expense of $251 million.
3. Relates to discontinued operations in 2018 (refer to Note 29).

GOODWILL ALLOCATED TO CASH-GENERATING UNITS (CGUs)

An annual assessment is made as to whether the current carrying value of goodwill is impaired. For the purposes of impairment testing, goodwill is allocated at the date of acquisition to a CGU. Goodwill is considered to be impaired if the carrying amount of the relevant CGU exceeds its recoverable amount.

To estimate the recoverable amount of the CGU to which each goodwill component is allocated, we use a fair value less cost of disposal assessment approach for each segment.

FAIR VALUE LESS COST OF DISPOSAL

The Group has determined, using a market multiple approach, the fair value less costs of disposal of each CGU. This is primarily based on observable price earnings multiples reflecting the businesses and markets in which each CGU operates plus a control premium. The earnings are based on the current forecast earnings of the divisions. As at 30 September 2019, our impairment testing did not result in any material impairment being identified.

For each of ANZ's CGUs with goodwill, the price earnings multiples applied were as follows:

Division	2019	2018
Australia Retail and Commercial	**17.9**	16.9
Institutional	**14.7**	14.6
New Zealand	**17.8**	16.8
Pacific	**17.7**	18.5

20. GOODWILL AND OTHER INTANGIBLE ASSETS (continued)

RECOGNITION AND MEASUREMENT

The table below details how we recognise and measure different intangible assets:

	Goodwill	Software	Other Intangible Assets
Definition	Excess amount the Group has paid in acquiring a business over the fair value less costs of disposal of the identifiable assets and liabilities acquired.	Purchases of "off the shelf" software assets are capitalised as assets. Internal and external costs incurred in building software and computer systems costing greater than $20 million are capitalised as assets. Those less than $20 million are expensed in the year in which the costs are incurred.	Management fee rights
Carrying value	Cost less any accumulated impairment losses. Allocated to the cash generating unit to which the acquisition relates.	Initially, measured at cost. Subsequently, carried at cost less accumulated amortisation and impairment losses. Costs incurred in planning or evaluating software proposals or in maintaining systems after implementation are not capitalised.	Initially, measured at fair value at acquisition. Subsequently, carried at cost less impairment losses.
Useful life	Indefinite. Goodwill is reviewed for impairment at least annually or when there is an indication of impairment.	Except for major core infrastructure, amortised over periods between 3-5 years. Major core infrastructure amortised over periods between 7 or 10 years.	Management fee rights with an indefinite life are reviewed for impairment at least annually or where there is an indication of impairment.
Depreciation method	Not applicable.	Straight-line method.	Not applicable.

KEY JUDGEMENTS AND ESTIMATES

Management judgement is used to assess the recoverable value of goodwill, and other intangible assets, and the useful economic life of an asset, or if an asset has an indefinite life. We reassess the recoverability of the carrying value at each reporting date.

The carrying amount of goodwill is based on judgements including the basis of assumptions and forecasts used for determining earnings for CGUs, headroom availability, and sensitivities of the forecasts to reasonably possible changes in assumptions. The level at which goodwill is allocated, the estimation of future earnings and the selection of earnings multiples applied requires significant judgement.

At each balance date, software and other intangible assets, including those not yet ready for use, are assessed for indicators of impairment. In the event that an asset's carrying amount is determined to be greater than its recoverable amount, the carrying value of the asset is written down immediately.

In addition, the expected useful life of intangible assets, including software assets, are assessed at each reporting date. The assessment requires management judgement, and in relation to our software assets, a number of factors can influence the expected useful lives. These factors include changes to business strategy, significant divestments and the underlying pace of technological change.

21. OTHER PROVISIONS

	2019 $m	2018 $m
ECL allowance on undrawn facilities[1]	668	526
Customer remediation[2]	1,139	602
Restructuring costs	64	105
Non-lending losses, frauds and forgeries	94	100
Other	349	191
Total other provisions (including liabilities reclassified as held for sale)	2,314	1,524
Less: Other provisions reclassified as held for sale	(91)	(66)
Total other provisions	2,223	1,458

1. Refer to Note 13 Allowance for Expected Credit Losses for movement analysis.
2. Customer remediation provisions relating to discontinued operations amounting to $228 million (2018: $174 million) have not been reclassified to liabilities held for sale as the Group remains accountable for customer remediation post sale completion.

	Customer remediation $m	Restructuring costs $m	Non-lending losses, frauds and forgeries $m	Other $m
Balance at start of year	602	105	100	191
New and increased provisions made during the year	857	97	18	338
Provisions used during the year	(186)	(117)	(5)	(71)
Unused amounts reversed during the year[1]	(134)	(21)	(19)	(109)
Balance at end of year (including liabilities reclassified as held for sale)	1,139	64	94	349

1. Customer remediation includes a $63 million transfer to the purchaser on completion of divestment of part of Wealth Australia discontinued operations.

Customer remediation

Customer remediation includes provisions for expected refunds to customers, remediation project costs and related customer and regulatory claims, penalties and litigation outcomes.

Restructuring costs

Provisions for restructuring costs arise from activities related to material changes in the scope of business undertaken by the Group or the manner in which that business is undertaken and include employee termination benefits. Costs relating to on-going activities are not provided for and are expensed as incurred.

Non-lending losses, frauds and forgeries

Non-lending losses include losses arising from certain legal actions not directly related to amounts of principal outstanding for loans and advances and losses arising from forgeries, frauds and the correction of operational issues. The amounts recognised are the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties that surround the events and circumstances that affect the provision.

Other

Other provisions comprise various other provisions including workers compensation, make-good provisions associated with leased premises, warranties and indemnities provided in connection with various disposals of businesses and assets, and contingent liabilities recognised as part of a business combination.

21. OTHER PROVISIONS (continued)

RECOGNITION AND MEASUREMENT

The Group recognises provisions when there is a present obligation arising from a past event, an outflow of economic resources is probable, and the amount of the provision can be measured reliably.

The amount recognised is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the timing and amount of the obligation. Where a provision is measured using the estimated cash flows required to settle the present obligation, its carrying amount is the present value of those cash flows.

KEY JUDGEMENTS AND ESTIMATES

The Group holds provisions for various obligations including customer remediation, restructuring costs and surplus lease space, non-lending losses, fraud and forgeries and litigation related claims. These provisions involve judgements regarding the timing and outcome of future events, including estimates of expenditure required to satisfy such obligations. Where relevant, expert legal advice has been obtained and, in light of such advice, provisions and/or disclosures as deemed appropriate have been made.

In relation to customer remediation, determining the amount of the provisions, which represent management's best estimate of the cost of settling the identified matters, requires the exercise of significant judgement. It will often be necessary to form a view on a number of different assumptions, including, the number of impacted customers, the average refund per customer, the associated remediation project costs, and the implications of regulatory exposures and customer claims having regard to their specific facts and circumstances. Consequently, the appropriateness of the underlying assumptions is reviewed on a regular basis against actual experience and other relevant evidence including expert legal advices and adjustments are made to the provisions where appropriate.

22. SHAREHOLDERS' EQUITY

SHAREHOLDERS' EQUITY

	2019 $m	2018 $m
Ordinary share capital	26,490	27,205
Reserves		
Foreign currency translation reserve	705	12
Share option reserve	89	92
FVOCI reserve	126	-
Available-for-sale revaluation reserve	-	113
Cash flow hedge reserve	731	127
Transactions with non-controlling interests reserve	(22)	(21)
Total reserves	1,629	323
Retained earnings	32,664	31,737
Share capital and reserves attributable to shareholders of the Company	60,783	59,265
Non-controlling interests	11	140
Total shareholders' equity	60,794	59,405

ORDINARY SHARE CAPITAL

The table below details the movement in ordinary shares for the period.

	2019		2018	
	Number of shares	$m	Number of shares	$m
Balance at start of the year	2,873,618,118	27,205	2,937,415,327	29,088
Bonus option plan[1]	2,999,796	-	2,891,060	-
Group employee share acquisition scheme	-	-	-	(1)
Share buy-back[2]	(42,032,991)	(1,120)	(66,688,269)	(1,880)
Treasury shares in Wealth Australia discontinued operations[3]	-	405	-	(2)
Balance at end of year	2,834,584,923	26,490	2,873,618,118	27,205

1. The Company issued 1.4 million shares under the Bonus Option Plan (BOP) for the 2019 interim dividend and 1.6 million shares for the 2018 final dividend (1.4 million shares for the 2018 interim dividend and 1.5 million shares for the 2017 final dividend).
2. The Company completed a $3.0 billion on-market share buy-back of ANZ ordinary shares purchasing $1,120 million in the September 2019 full year (Sep 18 full year: $1,880 million) resulting in 42.0 million ANZ ordinary shares being cancelled in the September 2019 full year (Sep 18 full year: 66.7 million).
3. The successor fund transfer performed in preparation for the sale of the Group's wealth business to Zurich and IOOF completed on 13 April 2019. As a result the Group no longer eliminates the ANZ shares previously held in Wealth Australia discontinued operations.

22. SHAREHOLDERS' EQUITY (continued)

RECOGNITION AND MEASUREMENT

Ordinary shares	Ordinary shares have no par value. They entitle holders to receive dividends, or proceeds available on winding up of the Company, in proportion to the number of fully paid ordinary shares held. They are recognised at the amount paid per ordinary share net of directly attributable costs. Every holder of fully paid ordinary shares present at a meeting in person, or by proxy, is entitled to: • on a show of hands, one vote; and • on a poll, one vote, for each share held.
Treasury shares	Treasury shares are shares in the Company which: • the ANZ Employee Share Acquisition Plan purchases on market and have not yet distributed, or • the Company issues to the ANZ Employee Share Acquisition Plan and have not yet been distributed, or • the life insurance business purchased and held to back policy liabilities in the statutory funds prior to the successor fund transfer performed in preparation for the sale of the Group's wealth business to Zurich and IOOF which completed on 13 April 2019. Treasury shares are deducted from share capital and excluded from the weighted average number of ordinary shares used in the earnings per share calculations.
Reserves:	
Foreign currency translation reserve	Includes differences arising on translation of assets and liabilities into Australian dollars when the functional currency of a foreign operation (including subsidiaries and branches) is not Australian dollars. In this reserve, we reflect any offsetting gains or losses on hedging these exposures, together with any tax effect.
Cash flow hedge reserve	Includes fair value gains and losses associated with the effective portion of designated cash flow hedging instruments together with any tax effect.
Available-for-sale reserve (prior to 1 October 2018)	Includes the changes in fair value and exchange differences on our revaluation of available-for-sale financial assets together with any tax effect.
FVOCI reserve (from 1 October 2018)	Includes changes in the fair value of certain debt securities and equity securities included within Investment Securities together with any tax effect. In respect of debt securities classified as measured at FVOCI, the FVOCI reserve records accumulated changes in fair value arising subsequent to initial recognition, except for those relating to allowance for expected credit losses, interest income and foreign currency exchange gains and losses which are recognised in profit or loss. As debt securities at FVOCI are recorded at fair value, the balance of the FVOCI reserve is net of the ECL allowance associated with such assets. When a debt security measured at FVOCI is derecognised, the cumulative gain or loss recognised in the FVOCI reserve in respect of that security is reclassified to profit or loss and presented in Other Operating Income. In respect of the equity securities classified as measured at FVOCI, the FVOCI reserve records accumulated changes in fair value arising subsequent to initial recognition (including any related foreign exchange gains or losses). When an equity security measured at FVOCI is derecognised, the cumulative gain or loss recognised in the FVOCI reserve in respect of that security is not recycled to profit or loss.
Share option reserve	Includes amounts which arise on the recognition of share-based compensation expense.
Transactions with non-controlling interests reserve	Includes the impact of transactions with non-controlling shareholders in their capacity as shareholders.
Non-controlling interests	Share in the net assets of controlled entities attributable to equity interests which the Company does not own directly or indirectly.

23. CAPITAL MANAGEMENT

CAPITAL MANAGEMENT STRATEGY

ANZ's capital management strategy aims to protect the interests of depositors, creditors and shareholders. We achieve this through an Internal Capital Adequacy Assessment Process (ICAAP) whereby ANZ conducts detailed strategic and capital planning over a 3 year time horizon.
The process involves:

- forecasting economic variables, financial performance of ANZ's divisions and the financial impact of new strategic initiatives to be implemented during the planning period;
- performing stress tests under different economic scenarios to determine the level of additional capital ('stress capital buffer') needed to absorb losses that may be experienced under an economic downturn;
- reviewing capital ratios and targets across various classes of capital against ANZ's risk profile; and
- developing a capital plan, taking into account capital ratio targets, current and future capital issuances requirements and options around capital products, timing and markets to execute the capital plan under differing market and economic conditions.

The capital plan is approved by the Board and updated as required. The Board and senior management are provided with regular updates of ANZ's capital position. Any material actions required to ensure ongoing prudent capital management are submitted to the Board for approval. Throughout the year, the Group maintained compliance with all the regulatory requirements related to Capital Adequacy in the jurisdictions in which it operates.

REGULATORY ENVIRONMENT

Australia

As ANZ is an Authorised Deposit-taking Institution (ADI) in Australia, it is primarily regulated by APRA under the *Banking Act 1959 (Cth)*. ANZ must comply with the minimum regulatory capital requirements, prudential capital ratios and specific reporting levels that APRA sets and which are consistent with the global Basel III capital framework. This is the common framework for determining the appropriate level of bank regulatory capital as set by the Basel Committee on Banking Supervision ("BCBS"). APRA requirements are summarised below:

Regulatory Capital Definition			
Common Equity Tier 1 (CET1) Capital	**Tier 1 Capital**	**Tier 2 Capital**	**Total Capital**
Shareholders' equity adjusted for specific items.	CET1 Capital plus certain securities with complying loss absorbing characteristics known as Additional Tier 1 Capital.	Subordinated debt instruments which have a minimum term of 5 years at issue date.	Tier 1 plus Tier 2 Capital.
Minimum Prudential Capital Ratios (PCRs)			
CET1 Ratio	**Tier 1 Ratio**	**Total Capital Ratio**	
CET1 Capital divided by total risk weighted assets must be at least 4.5%.	Tier 1 Capital divided by total risk weighted assets must be at least 6.0%.	Total Capital divided by total risk weighted assets must be at least 8.0%.	
Reporting Levels			
Level 1	**Level 2**	**Level 3**	
The ADI on a stand-alone basis (that is the Company and specified subsidiaries which are consolidated to form the ADI's Extended Licensed Entity).	The consolidated Group less certain subsidiaries and associates that are excluded under prudential standards.	A conglomerate Group at the widest level.	

APRA also requires the ADI to hold additional CET1 buffers as follows:

- A capital conservation buffer (CCB) of 3.5% which is inclusive of the additional 1% surcharge for domestically systemically important banks (D-SIBs). APRA has determined that ANZ is a D-SIB.
- A countercyclical capital buffer which is set on a jurisdictional basis. The requirement is currently set to zero for Australia.

ANZ reports to APRA on a Level 1 and Level 2 basis, and measures capital adequacy monthly on a Level 1 and Level 2 basis, and is not yet required to maintain capital on a Level 3 basis (APRA have yet to conclude required timing for Level 3 reporting).

Life Insurance and Funds Management

As required by APRA's Prudential Standards, insurance and funds management activities are:

- de-consolidated for the purposes of calculating capital adequacy; and
- excluded from the risk based capital adequacy framework.

We deduct the investment in these controlled entities 100% from CET1 capital, and if we include any profits from these activities in the Group's results, then we exclude them from the determination of CET1 capital to the extent they have not been remitted to the Company.

23. CAPITAL MANAGEMENT (continued)

Outside Australia

In addition to APRA, the Company's branch operations and major banking subsidiary operations are also 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 and Insurance Regulatory Commission. They may impose minimum capital levels on operations in their individual jurisdictions.

CAPITAL ADEQUACY[1]

The following table provides details of the Group's capital adequacy ratios at 30 September:

	2019 $m	2018 $m
Qualifying capital		
Tier 1		
Shareholders' equity and non-controlling interests[2]	60,794	59,383
Prudential adjustments to shareholders' equity	120	(322)
Gross Common Equity Tier 1 capital	60,914	59,061
Deductions	(13,559)	(14,370)
Common Equity Tier 1 capital	47,355	44,691
Additional Tier 1 capital	7,866	7,527
Tier 1 capital	55,221	52,218
Tier 2 capital	8,549	7,291
Total qualifying capital	63,770	59,509
Capital adequacy ratios (Level 2)		
Common Equity Tier 1	11.4%	11.4%
Tier 1	13.2%	13.4%
Tier 2	2.1%	1.9%
Total capital ratio	15.3%	15.2%
Risk weighted assets	416,961	390,820

1. This information is not within the scope of the external audit of the Group Financial Report by the Group's external auditor, KPMG. The information presented in this table is a regulatory requirement disclosed in Part A of the *APRA Reporting Form (ARF) 110 Capital Adequacy* which will be subject to audit in accordance with *Prudential Standard APS 310 Audit and Related Matters*.

2. Prior period numbers have not been restated for the impact of AASB 15 to align with previously reported regulatory returns.

24. PARENT ENTITY FINANCIAL INFORMATION

Australia and New Zealand Banking Group Limited (the Company) has prepared a separate set of financial statements to satisfy the requirements of the Australian Financial Services License it holds with ASIC. These separate Company financial statements are available on the ANZ website at anz.com and have been lodged with ASIC.

Selected financial information of the Company is provided below:

SUMMARY FINANCIAL INFORMATION

	2019 $m	2018 $m
Income statement information for the financial year		
Profit after tax for the year	4,447	8,524
Total comprehensive income for the year	5,413	8,450
Balance sheet information as at the end of the financial year		
Cash and cash equivalents	77,949	80,227
Net loans and advances[1]	484,655	475,851
Total assets[1]	914,832	841,211
Deposits and other borrowings	524,241	511,992
Total liabilities[1]	861,618	787,335
Shareholders' equity		
Ordinary share capital	26,413	27,533
Reserves	840	(56)
Retained earnings[1]	25,961	26,399
Total shareholders' equity[1]	53,214	53,876

1. Comparative information has been restated for the adoption of AASB 15 and other reclassification adjustments to enhance comparability with current period presentation. Total assets increased by $464 million ($432 million related to Net loans and advances), Total liabilities increased by $442 million and Retained earnings increased by $22 million.

PARENT ENTITY'S CONTRACTUAL COMMITMENTS

PROPERTY RELATED COMMITMENTS

	2019 $m	2018 $m
Lease rentals		
Land and buildings	1,699	1,533
Furniture and equipment	58	112
Total lease rental commitments[1]	1,757	1,645
Due within 1 year	304	321
Due later than 1 year but not later than 5 years	868	769
Due later than 5 years	585	555
Total lease rental commitments[1]	1,757	1,645

1. Total future minimum sublease payments we expect to receive under non-cancellable subleases at 30 September 2019 is $67 million (2018: $81 million). During the year, we received sublease payments of $28 million (2018: $29 million) and netted them against rent expense.

CREDIT RELATED COMMITMENTS AND CONTINGENCIES

	2019 $m	2018 $m
Contract amount of:		
Undrawn facilities	171,881	164,944
Guarantees and letters of credit	20,375	16,363
Performance related contingencies	20,097	22,176
Total	212,353	203,483

The contingent liabilities of the Group described under Other contingent liabilities in Note 33 are contingent liabilities of the parent entity (some are also contingent liabilities of other group companies).

25. CONTROLLED ENTITIES

	Incorporated in	Nature of Business
The ultimate parent of the Group is Australia and New Zealand Banking Group Limited	Australia	Banking
All controlled entities are 100% owned, unless otherwise noted. The material controlled entities of the Group are:		
ANZ Bank (Vietnam) Limited[1]	Vietnam	Banking
ANZ Capel Court Limited	Australia	Securitisation Manager
ANZ Funds Pty. Ltd.	Australia	Holding Company
ANZ Bank (Kiribati) Limited[1] (75% ownership)	Kiribati	Banking
ANZ Bank (Samoa) Limited[1]	Samoa	Banking
ANZ Bank (Thai) Public Company Limited[1]	Thailand	Banking
ANZ Holdings (New Zealand) Limited[1]	New Zealand	Holding Company
ANZ Bank New Zealand Limited[1]	New Zealand	Banking
ANZ Investment Services (New Zealand) Limited[1]	New Zealand	Funds Management
ANZ New Zealand (Int'l) Limited[1]	New Zealand	Finance
ANZ Wealth New Zealand Limited[1]	New Zealand	Holding Company
ANZ New Zealand Investments Limited[1]	New Zealand	Funds Management
ANZNZ Covered Bond Trust[1,4]	New Zealand	Finance
UDC Finance Limited[1]	New Zealand	Finance
ANZ International Private Limited[1]	Singapore	Holding Company
ANZ Singapore Limited[1]	Singapore	Merchant Banking
ANZ International (Hong Kong) Limited[1]	Hong Kong	Holding Company
ANZ Asia Limited[1]	Hong Kong	Banking
ANZ Bank (Vanuatu) Limited[2]	Vanuatu	Banking
ANZcover Insurance Private Ltd[1]	Singapore	Captive-Insurance
ANZ Lenders Mortgage Insurance Pty. Limited	Australia	Mortgage Insurance
ANZ Residential Covered Bond Trust[4]	Australia	Finance
ANZ Wealth Australia Limited	Australia	Holding Company
OnePath Custodians Pty Limited	Australia	Trustee
OnePath Funds Management Limited	Australia	Funds Management
Australia and New Zealand Bank (China) Company Limited[1]	China	Banking
Australia and New Zealand Banking Group (PNG) Limited[1]	Papua New Guinea	Banking
Chongqing Liangping ANZ Rural Bank Company Limited[1]	China	Banking
Citizens Bancorp[3]	Guam	Holding Company
ANZ Guam Inc[3]	Guam	Banking
PT Bank ANZ Indonesia[1] (99% ownership)	Indonesia	Banking

1. Audited by overseas KPMG firms — either as part of the Group audit, or for standalone financial statements as required.
2. Audited by Law Partners.
3. Audited by Deloitte Guam.
4. Not owned by the Group. Control exists as the Group retains substantially all the risks and rewards of the operations.

25. CONTROLLED ENTITIES (continued)

CHANGES TO MATERIAL CONTROLLED ENTITIES

The following changes to our material entities have occurred during the year ended 30 September 2019.

- In September 2018, the business of Share Investing Limited was sold to CMC Markets Stockbroking Limited. Share Investing Limited and its immediate parent company, ACN 003 042 082 Limited, are no longer considered to be material entities.
- In November 2018, OnePath Life (NZ) Limited was sold to Cigna Corporation and the business of ANZ Europe Limited (formerly ANZ Bank (Europe) Limited) was wound up. ANZ Europe Limited is no longer considered to be a material entity.
- In March 2019, the business of ANZ (Lao) Sole Company Limited (formerly ANZ Bank (Lao) Limited) was transferred to a newly established Laos branch of the Company. ANZ (Lao) Sole Company Limited is no longer considered to be a material entity.
- In April 2019, ANZ Bank (Taiwan) Limited merged with the Taiwan branch of the Company.
- In May 2019, OnePath General Insurance Pty Limited, OnePath Life Australia Holdings Pty Limited and OnePath Life Limited were sold to Zurich Financial Services Australia (Zurich). See note 29 for further details.
- In August 2019, we completed the sale of our 55% share of ANZ Royal Bank (Cambodia) Limited to J-Trust.
- As ANZ Finance Guam, Inc and ANZ Commodity Trading Pty Ltd no longer have material business and Votraint No. 1103 Pty Limited's only business is to hold the Group's investment in PT Bank Pan Indonesia (see note 26), these companies are no longer considered to be material entities.

We did not acquire, or dispose of, any material entities during the year ended 30 September 2018.

RECOGNITION AND MEASUREMENT

The Group's subsidiaries are those entities it controls through:

- being exposed to, or having rights to, variable returns from the entity; and
- being able to affect those returns through its power over the entity.

The Group assesses whether it has power over those entities by examining the Group's existing rights to direct the relevant activities of the entity.

If the Group sells or acquires subsidiaries during the year, it includes their operating results in the Group results to the date of disposal or from the date of acquisition. When the Group's control ceases, it derecognises the assets and liabilities of the subsidiary, any related non-controlling interest and other components of equity.

When the Group ceases to control a subsidiary, it:

- measures any retained interest in the entity at fair value; and
- recognises any resulting gain or loss in profit or loss.

If the Group's ownership interest in a subsidiary changes in a way that does not result in a loss of control, then the Group accounts for that as a transaction with equity holders in their capacity as equity holders.

All transactions between Group entities are eliminated on consolidation.

26. INVESTMENTS IN ASSOCIATES

Significant associates of the Group are:

		Ordinary share interest		Carrying amount $m	
Name of entity	Principal activity	2019	2018	2019	2018
AMMB Holdings Berhad	Banking and insurance	24%	24%	1,586	1,427
PT Bank Pan Indonesia	Consumer and business bank	39%	39%	1,350	1,103
Aggregate other individually immaterial associates		n/a	n/a	21	23
Total carrying value of associates[1]				2,957	2,553

1. Includes the impact of foreign currency translation recognised in the foreign currency translation reserve.

FINANCIAL INFORMATION ON SIGNIFICANT ASSOCIATES

Set out below is the summarised financial information of each associate that is significant to the Group. The summarised financial information is based on the associates' IFRS financial information.

	AMMB Holdings Berhad		PT Bank Pan Indonesia	
Principal place of business and country of incorporation	Malaysia		Indonesia	
	2019 $m	2018 $m	2019 $m	2018 $m
Summarised results				
Operating income	3,298	3,016	1,109	1,000
Profit for the year	569	430	349	192
Other comprehensive income/(loss)	69	(37)	24	(10)
Total comprehensive income	638	393	373	182
Less: Total comprehensive (income)/loss attributable to non–controlling interests	(25)	(33)	(12)	39
Total comprehensive income attributable to owners of associate	613	360	361	221
Summarised financial position				
Total assets[1]	55,740	49,092	22,518	19,552
Total liabilities[1]	48,718	42,700	18,743	16,446
Total Net assets[1]	7,022	6,392	3,775	3,106
Less: Non–controlling interests of associate	(368)	(395)	(309)	(272)
Net assets attributable to owners of associate	6,654	5,997	3,466	2,834
Reconciliation to carrying amount of Group's interest in associate				
Carrying amount at the beginning of the year	1,427	1,185	1,103	1,033
Group's share of total comprehensive income	146	86	140	88
Dividends received from associate	(50)	(35)	-	-
Group's share of other reserve movements of associate and foreign currency translation reserve adjustments[2]	63	191	107	(18)
Carrying amount at the end of the year	1,586	1,427	1,350	1,103
Market value of Group's investment in associate[3]	1,050	992	1,303	853

1. Includes market value adjustments (including goodwill) the Group made at the time of acquisition (and adjustments for any differences in accounting policies).
2. The Group recognised a decrease of $32m and $33m to the carrying value of AMMB Holdings Berhad and PT Bank Pan Indonesia respectively with a corresponding decrease to retained earnings reflecting the Group's share of the estimated initial application impact of IFRS 9 (the international equivalent of AASB 9). Refer Note 35.
3. Applies to those investments in associates with published price quotations. Market Value is based on a price per share and does not include any adjustments for the size of our holding.

IMPAIRMENT ASSESSMENT

As at 30 September 2019, for AMMB Holdings Berhad (AmBank) and PT Bank Pan Indonesia (PT Panin), the market value (based on share price) was below the respective carrying values of these investments. The Group performed value-in-use (VIU) calculations to assess whether the carrying value of the investments was impaired. The VIU calculations supported the carrying value for both AmBank and PT Panin.

26. INVESTMENTS IN ASSOCIATES (continued)

RECOGNITION AND MEASUREMENT

An associate is an entity over which the Group has significant influence over its operating and financial policies but does not control. The Group accounts for associates using the equity method. Its investments in associates are carried at cost plus the post-acquisition share of changes in the associate's net assets less accumulated impairments. Dividends the Group receives from associates are recognised as a reduction in the carrying amount of the investment. The Group includes goodwill relating to the associate in the carrying amount of the investment. It does not individually test the goodwill incorporated in the associates carrying amount for impairment.

At least at each reporting date, the Group reviews investments in associates for any indication of impairment. If an indication of impairment exists, then the Group determines the recoverable amount of the associate using the higher of:

- the associate's fair value less cost of disposal; and
- its value-in use.

We use a discounted cash flow methodology, and other methodologies (such as capitalisation of earnings methodology), to determine the recoverable amount.

KEY JUDGEMENTS AND ESTIMATES

The value-in-use calculation is sensitive to a number of key assumptions requiring management judgement, including future profitability levels, capital levels, long term growth rates and discount rates. A change in any of the key assumptions below could have an adverse effect on the recoverable amount of the investments. The key assumptions used in the value-in-use calculation are outlined below:

As at 30 September 2019	AmBank	PT Panin
Post-tax discount rate	10.7%	13.3%
Terminal growth rate	4.8%	5.3%
Expected NPAT growth (compound annual growth rate – 5 years)	4.1%	6.5%
Core Equity Tier 1 rate	11.9% to 12.7%	11.6%

27. STRUCTURED ENTITIES

A Structured Entity (SE) is an entity that has been designed such that voting or similar rights are not the dominant factor in determining who controls the entity. SEs are generally established with restrictions on their ongoing activities in order to achieve narrow and well defined objectives.

SEs are classified as subsidiaries and consolidated when control exists. If the Group does not control a SE, then it is not consolidated. This note provides information on both consolidated and unconsolidated SEs.

The Group's involvement with SEs is as follows:

Type	Details
Securitisation	The Group controls SEs established to securitise customer loans and advances that it has originated, in order to diversify sources of funding for liquidity management. Such transactions involve transfers to an internal securitisation (bankruptcy remote) vehicle used to create assets that are eligible for repurchase under agreements with the applicable central bank (these are known as 'Repo eligible'). These internal securitisation SEs are consolidated. Refer to Note 28 Transfers of Financial Assets for further details. The Group also establishes SEs on behalf of customers to securitise their loans or receivables. The Group may manage these securitisation vehicles or provide liquidity or other support. Additionally, the Group may acquire interests in securitisation vehicles set up by third parties through holding securities issued by such entities. In limited circumstances where control exists, the Group consolidates the SE.
Covered bond issuances	Certain loans and advances have been assigned to bankruptcy remote SEs to provide security for issuances of debt securities by the Group. The Group retains control over these SEs and therefore they are consolidated. Refer to Note 28 Transfers of Financial Assets for further details.
Structured finance arrangements	The Group is involved with SEs established: • in connection with structured lending transactions to facilitate debt syndication and/or to ring-fence collateral; and • to own assets that are leased to customers in structured leasing transactions. The Group may manage the SE, hold minor amounts of the SE's capital, or provide risk management products (derivatives) to the SE. In most instances, the Group does not control these SEs. In limited circumstances where control exists, the Group consolidates the SE.
Funds management activities	The Group conducts investment management and other fiduciary activities as a responsible entity, trustee, custodian or manager for investment funds and trusts – including superannuation funds and wholesale and retail trusts (collectively 'Investment Funds'). The Investment Funds are financed through the issuance of puttable units to investors and the Group considers them to be SEs. The Group's exposure to Investment Funds is limited to receiving fees for services and derivatives entered into for risk management purposes. These interests do not create significant exposures to the funds that would allow the Group to control the funds. Therefore, the funds are not consolidated.

27. STRUCTURED ENTITIES (continued)

CONSOLIDATED STRUCTURED ENTITIES

FINANCIAL OR OTHER SUPPORT PROVIDED TO CONSOLIDATED STRUCTURED ENTITIES

The Group provides financial support to consolidated SEs as outlined below. As these are intra-group transactions, they are eliminated on consolidation:

Securitisation and covered bond issuances	The Group provides lending facilities, derivatives and commitments to these SEs and/or holds debt instruments that they have issued.
Structured finance arrangements	The assets held by these SEs are normally pledged as collateral for financing provided. Certain consolidated SEs are financed entirely by the Group while others are financed by syndicated loan facilities in which the Group is a participant. The financing provided by the Group includes lending facilities where the Group's exposure is limited to the amount of the loan and any undrawn amount. Additionally, the Group has provided Letters of Support to these consolidated SEs confirming that the Group will not demand repayment of the financing provided for the ensuing 12 month period.

The Group did not provide any non-contractual support to consolidated SEs during the year (2018: nil). Other than as disclosed above, the Group does not have any current intention to provide financial or other support to consolidated SEs.

UNCONSOLIDATED STRUCTURED ENTITIES

GROUP'S INTEREST IN UNCONSOLIDATED STRUCTURED ENTITIES

An 'interest' in an unconsolidated SE is any form of contractual or non-contractual involvement with a SE that exposes the Group to variability of returns from the performance of that SE. These interests include, but are not limited to: holdings of debt or equity securities; derivatives that pass-on risks specific to the performance of the SE; lending; loan commitments; financial guarantees; and fees from funds management activities.

For the purpose of disclosing interests in unconsolidated SEs:

- no disclosure is made if the Group's involvement is not more than a passive interest - for example: when the Group's involvement constitutes a typical customer-supplier relationship. On this basis, exposures to unconsolidated SEs that arise from lending, trading and investing activities are not considered disclosable interests - unless the design of the structured entity allows the Group to participate in decisions about the relevant activities (being those that significantly affect the entity's returns).
- 'interests' do not include derivatives intended to expose the Group to market-risk (rather than performance risk specific to the SE) or derivatives through which the Group creates, rather than absorbs, variability of the unconsolidated SE (such as purchase of credit protection under a credit default swap).

The table below sets out the Group's interests in unconsolidated SEs together with the maximum exposure to loss that could arise from those interests:

	Securitisation and structured finance		Investment funds		Total	
	2019 $m	2018 $m	2019 $m	2018 $m	2019 $m	2018 $m
On-balance sheet interests						
Investment securities[1]	1,923	-	-	-	1,923	-
Available-for-sale assets[1]	-	1,715	-	-	-	1,715
Investments backing policy liabilities	-	-	-	18	-	18
Gross loans and advances	7,789	7,018	-	-	7,789	7,018
Total on-balance sheet	9,712	8,733	-	18	9,712	8,751
Off-balance sheet interests						
Commitments (facilities undrawn)	1,540	1,381	-	-	1,540	1,381
Guarantees	67	10	-	-	67	10
Total off-balance sheet	1,607	1,391	-	-	1,607	1,391
Maximum exposure to loss	11,319	10,124	-	18	11,319	10,142

1. On adoption of AASB 9 on 1 October 2018, the classification and measurement of financial assets were revised. Available-for-sale classification used in comparative periods ceases to exist under AASB 9 and a new classification of investment securities was introduced. Refer Note 1 and 35 for further details. Comparative information has not been restated.

In addition to the interests above, the Group earned funds management fees from unconsolidated SEs of $509 million (2018: $505 million) during the year.

27. STRUCTURED ENTITIES (continued)

The Group's maximum exposure to loss represents the maximum amount of loss that the Group could incur as a result of its involvement with unconsolidated SEs if loss events were to take place — regardless of the probability of occurrence. This does not in any way represent the actual losses expected to be incurred. Furthermore, the maximum exposure to loss is stated gross of the effects of hedging and collateral arrangements entered into to mitigate ANZ's exposure to loss.

The maximum exposure to loss has been determined as:

- the carrying amount of Investment securities measured at amortised cost (from 1 October 2018), available-for-sale assets (prior to 1 October 2018) and investments backing policy liabilities; and
- the carrying amount plus the undrawn amount of any committed loans and advances.

Information about the size of the unconsolidated SEs that the Group is involved with is as follows:

- Securitisation and structured finance: size is indicated by total assets which vary by SE with a maximum value of approximately $1.1 billion (2018: $1.0 billion); and
- Investment funds: size is indicated by Funds Under Management which vary by SE with a maximum value of approximately $38.8 billion (2018: $36.9 billion).

The Group did not provide any non-contractual support to unconsolidated SEs during the year (2018: nil) nor does it have any current intention to provide financial or other support to unconsolidated SEs.

SPONSORED UNCONSOLIDATED STRUCTURED ENTITIES

The Group may also sponsor unconsolidated SEs in which it has no disclosable interest.

For the purposes of this disclosure, the Group considers itself the 'sponsor' of an unconsolidated SE if it is the primary party involved in the design and establishment of that SE and:

- the Group is the major user of that SE; or
- the Group's name appears in the name of that SE, or on its products; or
- the Group provides implicit or explicit guarantees of that SE's performance.

The Group has sponsored the ANZ PIE Fund in New Zealand, which invests only in deposits with ANZ Bank New Zealand Limited. The Group does not provide any implicit or explicit guarantees of the capital value or performance of investments in the ANZ PIE Fund. There was no income received from, nor assets transferred to, this entity during the year.

KEY JUDGEMENTS AND ESTIMATES

Significant judgement is required in assessing whether control exists over Structured Entities involved in securitisation activities and structured finance transactions, and investment funds. Judgement is required to determine the existence of:

- power over the relevant activities (being those that significantly affect the entity's returns); and
- exposure to variable returns of that entity.

28. TRANSFERS OF FINANCIAL ASSETS

In the normal course of business the Group enters into transactions where it transfers financial assets directly to third parties or to SEs. These transfers may give rise to the Group fully, or partially, derecognising those financial assets - depending on the Group's exposure to the risks and rewards or control over the transferred assets. If the Group retains substantially all of the risk and rewards of a transferred asset, the transfer does not qualify for derecognition and the asset remains on the Group's balance sheet in its entirety.

SECURITISATIONS

Net loans and advances include residential mortgages securitised under the Group's securitisation programs which are assigned to bankruptcy remote SEs to provide security for obligations payable on the notes issued by the SEs. The holders of the issued notes have full recourse to the pool of residential mortgages which have been securitised and the Group cannot otherwise pledge or dispose of the transferred assets.

In some instances the Group is also the holder of the securitised notes. In addition, the Group is entitled to any residual income of the SEs and sometimes enters into derivatives with the SEs. The Group retains the risks and rewards of the residential mortgages and continues to recognise the mortgages as financial assets. The obligation to pay this amount to the SE is recognised as a financial liability of the Group.

The Group is exposed to variable returns from its involvement with these securitisation SEs and has the ability to affect those returns through its power over the SEs activities. The SEs are therefore consolidated by the Group.

COVERED BONDS

The Group operates various global covered bond programs to raise funding in its primary markets. Net loans and advances include residential mortgages assigned to bankruptcy remote SEs associated with these covered bond programs. The mortgages provide security for the obligations payable on the issued covered bonds.

The covered bond holders have dual recourse to the issuer and the cover pool of assets. The issuer cannot otherwise pledge or dispose of the transferred assets, however, subject to legal arrangements it may repurchase and substitute assets as long as the required cover is maintained.

The Group is required to maintain the cover pool at a level sufficient to cover the bond obligations. In addition, the Group is entitled to any residual income of the covered bond SEs and enters into derivatives with the SEs. The Group retains the majority of the risks and rewards of the residential mortgages and continues to recognise the mortgages as financial assets. The obligation to pay this amount to the SEs is recognised as a financial liability of the Group.

The Group is exposed to variable returns from its involvement with the covered bond SEs and has the ability to affect those returns through its power over the SEs activities. The SEs are therefore consolidated by the Group. The covered bonds issued externally are included within debt issuances.

REPURCHASE AGREEMENTS

When the Group sells securities subject to repurchase agreements under which we retain substantially all the risks and rewards of ownership, then those assets do not qualify for derecognition. An associated liability is recognised for the consideration received from the counterparty.

STRUCTURED FINANCE ARRANGEMENTS

The Group arranges funding for certain customer transactions through structured leasing and commodity prepayment arrangements. These transactions are recognised on Group's balance sheet as lease receivables or loans. At times, other financial institutions participate in the funding of these arrangements. This participation involves a proportionate transfer of the rights to the assets recognised by the Group. The participating banks have limited recourse to the leased assets or financed commodity and related proceeds. Where the Group continues to be exposed to some of the risks of the transferred assets through a derivative or other continuing involvement, the Group does not derecognise the lease receivable or loan. Instead, the Group recognises an associated liability representing its obligations to the participating financial institutions.

The table below sets out the balance of assets transferred that do not qualify for derecognition, along with the associated liabilities:

	Securitisations[1,2]		Covered bonds		Repurchase agreements		Structured finance arrangements	
	2019 $m	2018 $m	2019 $m	2018 $m	2019 $m	2018 $m	2019 $m	2018 $m
Current carrying amount of assets transferred	**2,422**	1,239	**30,799**	29,455	**43,213**	40,164	**81**	96
Carrying amount of associated liabilities	**2,411**	1,232	**20,957**	17,846	**41,367**	38,378	**81**	88

1. Does not include transfers to internal structured entities where there are no external investors.
2. The securitisation noteholders have recourse only to the pool of residential mortgages which have been securitised. The carrying value of securitised assets and the associated liabilities approximates their fair value.

29. DISCONTINUED OPERATIONS AND ASSETS AND LIABILITIES HELD FOR SALE

DISCONTINUED OPERATIONS

On 17 October 2017, the Group announced it had agreed to sell its OnePath P&I and ADGs business to IOOF. The sale of the ADGs business completed on 1 October 2018. On 17 October 2019, the Group announced it had agreed a revised sale price for its OnePath P&I business and ADGs to IOOF of $850 million, being a $125 million reduction from the original sale price of $975 million announced in October 2017. The new price of $850 million includes approximately $25 million that ANZ has already received for the sale of the ADGs in October 2018. The revised terms reflect changing market conditions and include lower overall warranty caps as well as some changes to the strategic alliance arrangements. Subject to APRA approval, the Group expects the transaction to complete in the first quarter of calendar year 2020. The impact of the reduction in price has been reflected in the 2019 financial results.

On 12 December 2017, ANZ announced that it had agreed to the sale of its life insurance business to Zurich Financial Services Australia (Zurich) and regulatory approval was obtained on 10 October 2018. The transaction was completed on 31 May 2019.

As a result of the sale transactions outlined above, the financial results of the businesses to be divested and associated Group reclassification and consolidation impacts are treated as discontinued operations from a financial reporting perspective.

Details of the financial performance and cash flows of discontinued operations are shown below.

Income Statement

	2019 $m	2018 $m
Net interest income	(76)	-
Other operating income[1]	245	81
Operating income	169	81
Operating expenses[1]	(449)	(544)
Profit/(Loss) before credit impairment and income tax	(280)	(463)
Credit impairment (charge)/release	1	-
Profit/(Loss) before income tax	(279)	(463)
Income tax expense[1]	(64)	(232)
Profit/(Loss) for the period attributable to shareholders of the Company[1,2]	(343)	(695)

1. Includes customer remediation of $207 million post-tax recognised in the September 2019 financial year (2018: $127 million) comprising $161 million of customer remediation recognised in other operating income (2018: $106 million), $80 million of remediation costs recognised in Operating expenses (2018: $75 million), and a $34 million income tax benefit (2018: $54 million).
2. Includes the results of the life insurance business up to the sale completion in May 2019.

Cash Flow Statement

	2019 $m	2018 $m
Net cash provided by/(used in) operating activities	(552)	2,989
Net cash provided by/(used in) investing activities	837	(2,444)
Net cash provided by/(used in) financing activities	(290)	(575)
Net increase/(decrease) in cash and cash equivalents	(5)	(30)

ASSETS AND LIABILITIES HELD FOR SALE

At 30 September 2019, assets and liabilities held for sale are re-measured at the lower of their existing carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, financial assets and contractual rights under insurance contracts, which are specifically exempt from this requirement and continue to be recognised at their existing carrying value.

In addition to the assets and liabilities associated with the Group's discontinued operations, assets and liabilities held for sale in the prior period contain the assets and liabilities of other assets or disposal groups, subject to sale, which do not meet the criteria to classify as a discontinued operation under the accounting standards.

29. DISCONTINUED OPERATIONS AND ASSETS AND LIABILITIES HELD FOR SALE (continued)

	2019	2018				
As at 30 September 2019[1]	Discontinued Operations $m	Discontinued Operations $m	Cambodia JV $m	OPL NZ $m	PNG Retail, Commercial & SME $m	Total $m
Cash and cash equivalents	-	5	323	-	-	328
Trading securities[2]	919	-	-	-	-	-
Derivative financial instruments	-	-	3	-	-	3
Available-for-sale assets	-	1,079	-	-	-	1,079
Investment securities	-	-	-	-	-	-
Net loans and advances	-	46	806	-	147	999
Regulatory deposits	-	-	146	-	-	146
Investments in associates	-	1	1	-	-	2
Deferred tax assets	16	102	2	-	-	104
Goodwill and other intangible assets	394	1,155	-	93	-	1,248
Investments backing policy liabilities[2]	-	40,054	-	-	-	40,054
Premises and equipment	1	4	6	-	6	16
Other assets	501	450	92	727	-	1,269
Total assets held for sale	**1,831**	42,896	1,379	820	153	45,248
Deposits and other borrowings	-	-	1,067	-	512	1,579
Derivative financial instruments	-	-	1	-	-	1
Current tax liabilities	3	(33)	8	15	-	(10)
Deferred tax liabilities	105	160	1	160	-	321
Policy liabilities	-	39,607	-	-	-	39,607
External unit holder liabilities	-	4,712	-	-	-	4,712
Payables and other liabilities	1,914	644	98	130	-	872
Provisions	99	28	43	-	6	77
Total liabilities held for sale	**2,121**	45,118	1,218	305	518	47,159

1. Amounts in the table above are shown net of intercompany balances.
2. The successor fund transfer performed in preparation for the sale of our wealth business to Zurich and IOOF completed on 13 April 2019. As a result, OnePath P&I assets previously held as Investments backing policy liabilities are now shown as Trading securities.

Other strategic divestments not classified as discontinued operations have been presented as assets and liabilities held for sale in the prior period:

- **ANZ Royal Bank (Cambodia) Ltd (Cambodia JV) - Institutional division**
  On 17 May 2018, the Group announced it had reached an agreement to sell its 55% stake in Cambodia JV ANZ Royal Bank to J Trust, a Japanese diversified financial holding company listed on the Tokyo Stock Exchange. The transaction was completed on 19 August 2019.
- **OnePath Life NZ Ltd (OPL NZ) - New Zealand division**
  On 30 May 2018, the Group announced that it had agreed to sell OnePath Life NZ Limited to Cigna Corporation and the final regulatory approval was obtained on 29 October 2018. The transaction was completed on 30 November 2018.
- **Papua New Guinea Retail, Commercial and Small-Medium Sized Enterprise businesses (PNG Retail, Commercial and SME) - Institutional division**
  On 25 June 2018, the Group announced it had entered into an agreement to sell its Retail, Commercial and Small-Medium Sized Enterprise (SME) banking businesses in Papua New Guinea to Kina Bank. The transaction was completed on 23 September 2019.

29. DISCONTINUED OPERATIONS AND ASSETS AND LIABILITIES HELD FOR SALE (continued)

INCOME STATEMENT IMPACT RELATING TO ASSETS AND LIABILITIES HELD FOR SALE

During the 2019 financial year, the Group recognised the following impacts in relation to assets and liabilities held for sale:

- $65 million loss after tax on discontinued operations, comprising a net loss of $1 million from sale related adjustments and write-downs, partially offset by the recycling of gains previously deferred in equity reserves on sale completion, and a $64 million income tax expense. This loss was recognised in discontinued operations.
- $10 million gain after tax relating to the sale of Cambodia JV, comprising a $30 million release from the foreign currency translation reserve, a $17 million dividend withholding tax associated with the sale completion and $3 million of asset write-offs. The gain was recognised in continuing operations.
- $1 million gain after tax relating to the sale of PNG Retail, Commercial and SME, net of costs associated with the sale. The gain was recognised in continuing operations.
- $76 million gain after tax relating to the sale of the OPL NZ business, comprising a $56 million gain on sale, a $26 million release from the foreign currency translation reserve, a $7 million provision release and a $13 million income tax expense. The gain was recognised in continuing operations.
- $37 million gain after tax relating to the sale of the Paymark. The gain was recognised in continuing operations.

During the 2018 financial year, the Group recognised the following impacts in relation to assets and liabilities held for sale:

- $632 million loss after tax recognised on the reclassification of the Wealth Australia discontinued operations business to held for sale. This loss is recognised in discontinued operations.
- $85 million gain after tax comprising $99 million relating to the sale of the remaining Asia Retail and Wealth businesses, net of costs associated with the sale and a $14 million tax expense. This gain is recognised in continuing operations.
- $247 million gain after tax relating to SRCB comprising a $289 million gain on release of reserves, $56 million of foreign exchange losses and other costs, and a $14 million tax benefit. This gain is recognised in continuing operations.
- $18 million gain after tax relating to UDC comprising a cost recovery in respect of the terminated transaction process. This gain is recognised in continuing operations.
- $247 million gain after tax relating to MCC comprising a $259 million gain on sale of the 40% stake, $13 million of foreign exchange losses, $6 million loss on release of reserves, and a $7 million tax benefit. This gain is recognised in continuing operations
- $42 million loss after tax relating to the reclassification of the Cambodia JV to held for sale, comprising a $27 million impairment and $15 million of costs associated with the sale. The loss is recognised in continuing operations.
- $3 million loss after tax relating to OnePath Life NZ transaction costs. The loss is recognised in continuing operations.
- $21 million loss after tax relating to the reclassification of the PNG Retail, Commercial and SME businesses to held for sale, comprising a $12 million impairment of goodwill, $7 million costs associated with the sale and a $2 million tax expense. The loss is recognised in continuing operations.

RECOGNITION AND MEASUREMENT

LIFE INSURANCE CONTRACT LIABILITIES AND LIABILITIES CEDED UNDER REINSURANCE CONTRACTS

We calculate Life insurance contract Liabilities under the Margin on Service (MoS) model using a projection method based on actuarial principles and standards.

We discount the expected future cash flows of these contracts at the risk-free discount rate.

LIFE INVESTMENT CONTRACT LIABILITIES

A life investment contract liability is measured at fair value and is directly linked to the fair value of the assets that back it. For guaranteed policies, we determine the liability as the net present value of expected cash flows, subject to a minimum of current surrender value.

EXTERNAL UNIT HOLDER LIABILITIES

The life insurance business includes controlling interests in investment funds which we aggregate. When we aggregate a controlled investment fund, we recognise the external unit holder liabilities as a liability and include them on the balance sheet in external unit holder liabilities.

INVESTMENTS BACKING POLICY LIABILITIES

Our determination of fair value of investments backing policy liabilities involves the same judgement as other financial assets as described in Note 17 Fair Value of Financial Assets and Financial Liabilities.

29. DISCONTINUED OPERATIONS AND ASSETS AND LIABILITIES HELD FOR SALE (continued)

KEY JUDGEMENTS AND ESTIMATES

A significant level of judgement is used by the Group to determine:

- whether an asset or group of assets is classified and presented as held for sale or as a discontinued operation; and
- the fair value of the assets and liabilities classified as being held for sale.

Management is required to exercise significant judgement when assessing the fair value less costs to sell for assets and liabilities held for sale. The judgemental factors include determining: costs to sell, allocation of goodwill, indemnities provided under the sale contract and consideration received - particularly where elements of consideration are contingent in nature. Any impairment we record is based on the best available evidence of fair value compared to the carrying value before the impairment. The final sale price may be different to the fair value we estimate when recording the impairment. Management regularly assess the appropriateness of the underlying assumptions against actual outcomes and other relevant evidence and adjustments are made to fair value where appropriate. We expect that the sales will complete within 12 months after balance date, subject to the relevant regulatory approvals and customary terms of sale for such assets.

Life Insurance Liabilities continue to be measured in accordance with AASB 1038. The Group is largely insulated from significant changes to the carrying value of the liability due to the share sale agreements.

Our estimates of life insurance liabilities are affected by: regulation, competition, interest rates, inflation, taxes and general economic conditions.

We have performed sensitivity analysis on key variables influencing the insurance liabilities and assets - namely: interest, inflation, mortality, morbidity and discontinuance risk. We have determined that there would be no material impact to the Group for a reasonable change in any of these variables after taking into account of the share sale agreements.

30. SUPERANNUATION AND POST EMPLOYMENT BENEFIT OBLIGATIONS

Set out below is a summary of amounts recognised in the Balance Sheet in respect of the defined benefit superannuation schemes:

	2019 $m	2018 $m
Defined benefit obligation and scheme assets		
Present value of funded defined benefit obligation	(1,538)	(1,418)
Fair value of scheme assets	1,739	1,551
Net defined benefit asset	201	133
As represented in the Balance Sheet		
Net liabilities arising from defined benefit obligations included in payables and other liabilities	(54)	(21)
Net assets arising from defined benefit obligations included in other assets	255	154
Net defined benefit asset	201	133
Weighted average duration of the benefit payments reflected in the defined benefit obligation (years)	14.9	16.8

As at the most recent reporting dates of the schemes, the aggregate surplus of net market value of assets over the value of accrued benefits on a funding basis was $48 million (2018: surplus of $21 million). In 2019, the Group made defined benefit contributions totaling $3 million (2018: $5 million). It expects to make contributions of around $3 million next financial year.

GOVERNANCE OF THE SCHEMES AND FUNDING OF THE DEFINED BENEFIT SECTIONS

The main defined benefit superannuation schemes in which the Group participates operate under trust law and are managed and administered on behalf of the members in accordance with the terms of the relevant trust deed and rules and all relevant legislation. These schemes have corporate trustees, which are wholly owned subsidiaries of the Group. The trustees are the legal owners of the assets, which are held separately from the assets of the Group, and are responsible for setting investment policy and agreeing funding requirements with the employer through the triennial actuarial valuation process.

The Group has defined benefit arrangements in Australia, Japan, New Zealand, Philippines, Taiwan and United Kingdom. The defined benefit section of the ANZ Australian Staff Superannuation Scheme, the ANZ UK Staff Pension Scheme and the ANZ National Retirement Scheme in New Zealand are the three largest plans. They have been closed to new members since 1987, 2004 and 1991 respectively. None of the schemes had a material deficit, or surplus, at the last funding valuation. The Group has no present liability under any of the schemes' trust deeds to fund a deficit (measured on a funding basis). A contingent liability of the Group may arise if any of the schemes were wound up.

RECOGNITION AND MEASUREMENT

Defined benefit superannuation schemes

The Group operates a small number of defined benefit schemes. Independent actuaries calculate the liability and expenses related to providing benefits to employees under each defined benefit scheme. They use the Projected Unit Credit Method to value the liabilities. The balance sheet includes:

- a defined benefit liability if the obligation is greater than the fair value of the schemes assets; and
- an asset (capped to its recoverable amount) if the fair value of the assets is greater than the obligation.

In each reporting period, the movements in the net defined benefit liability are recognised as follows:

- the net movement relating to the current period's service cost, net interest on the defined benefit liability, past service costs and other costs (such as the effects of any curtailments and settlements) as operating expenses;
- remeasurements of the net defined benefit liability (which comprise actuarial gains and losses and return on scheme assets, excluding interest income included in net interest) directly in retained earnings through other comprehensive income; and
- contributions of the Group directly against the net defined benefit position.

Defined contribution superannuation schemes

The Group operates a number of defined contribution schemes. It also contributes (according to local law, in the various countries in which it operates) to Government and other plans that have the characteristics of defined contribution plans. The Group's contributions to these schemes are recognised as personnel expenses when they are incurred.

30. SUPERANNUATION AND POST EMPLOYMENT BENEFIT OBLIGATIONS (continued)

KEY JUDGEMENTS AND ESTIMATES

The main assumptions we use in valuing defined benefit obligations are listed in the table below. A change to any assumptions, or applying different assumptions, could have an effect on the Statement of Other Comprehensive Income and Balance Sheet.

Assumptions	2019	2018	Sensitivity analysis change in significant assumptions	Increase/(decrease) in defined benefit obligation 2019 $m	2018 $m
Discount rate (% p.a.)	1.1 - 2.0	2.5 - 3.7	0.5% increase	(107)	(139)
Future salary increases (% p.a.)	1.7 - 3.2	1.7 - 3.8			
Future pension indexation					
In payment (% p.a.)/In deferment (% p.a)	1.7 - 3.0/2.3	1.7 - 3.0/2.3	0.5% increase	80	118
Life expectancy at age 60 for current pensioners			1 year increase	70	61
– Males (years)	25.6 - 28.6	25.5 - 29.0			
– Females (years)	28.8 - 30.3	28.7 - 31.1			

31. EMPLOYEE SHARE AND OPTION PLANS

ANZ operates a number of employee share and option schemes under the ANZ Employee Share Acquisition Plan and the ANZ Share Option Plan.

ANZ EMPLOYEE SHARE ACQUISITION PLAN

ANZ Employee Share Acquisition Plan schemes that operated during the 2019 and 2018 years were the Employee Share Offer and the Deferred Share Plan.

Employee Share Offer

Eligibility	Most permanent employees employed in either Australia or New Zealand with three years continuous service for the most recent financial year.
Grant	Up to AUD 1,000 in Australia (and AUD 800 in New Zealand) ANZ shares each financial year, subject to Board approval.
Allocation value	One week Volume Weighted Average Price (VWAP) of ANZ shares traded on the ASX in the week leading up to and including the date of grant.
Australia	ANZ ordinary shares are granted to eligible employees for nil consideration. The shares vest on grant and are held in trust for three years from grant date, after which time they may remain in trust, be transferred to the employee's name or sold. Dividends are automatically reinvested in the Dividend Reinvestment Plan.
New Zealand	Shares are granted to eligible employees on payment of NZD one cent per share. Shares vest subject to satisfaction of a three year service period, after which they may remain in trust, be transferred to the employee's name or sold. Unvested shares are forfeited if the employee resigns or is dismissed for serious misconduct. Dividends are either paid in cash or reinvested into the Dividend Reinvestment Plan.
Expensing value (fair value)	In Australia, the fair value of the shares is expensed in the year shares are granted, as they are not subject to forfeiture. In New Zealand, the fair value is expensed on a straight-line basis over the three year vesting period. The expense is recognised as a share-based compensation expense with a corresponding increase in equity.
2019 and 2018 grants	656,738 shares were granted on 3 December 2018 at an issue price of $26.91. 541,982 shares were granted on 1 December 2017 at an issue price of $28.67.

31. EMPLOYEE SHARE AND OPTION PLANS (continued)

Deferred Share Plan

i) ANZ Incentive Plan (ANZIP) - Chief Executive Officer (CEO) and Group Executive Committee (ExCo)	
Eligibility	Group CEO and ExCo.
Grant	50% of the CEO's Annual Variable Remuneration (AVR) and 25% of ExCo's Variable Remuneration (VR) received as deferred shares.
Conditions	Deferred over four years from grant date.
ii) ANZIP (excluding the CEO and ExCo) and Business Unit Incentive Plans (BUIPs) - for grants from 1 October 2017	
Eligibility	All employees excluding the CEO and ExCo.
Grant	If VR is at or exceeds AUD 150,000, then 60% of incentive amounts exceeding AUD 80,000 (subject to a minimum deferral amount of AUD 42,000) is deferred as shares.
Conditions	Deferred over three years from grant date.
iii) Long Term Incentives (LTIs)	
Eligibility	Selected employees.
Grant	100% deferred shares.
Conditions	Vest three years from grant date.
iv) Exceptional circumstances	
Remuneration foregone	In exceptional circumstances, we grant deferred shares to certain employees when they start with ANZ to compensate them for remuneration they have foregone from their previous employer. The vesting period generally aligns with the remaining vesting period of the remuneration they have foregone, and therefore varies between grants.
Retention	We may grant deferred shares to high performing employees who are regarded as a significant retention risk to ANZ.
v) Further information	
Cessation	Unless the Board decides otherwise, employees forfeit their unvested deferred shares if they resign, are terminated on notice, or are dismissed for serious misconduct. The deferred shares may be held in trust beyond the deferral period.
Dividends	Dividends are paid in cash or reinvested in the Dividend Reinvestment Plan.
Instrument	Deferred share rights may be granted instead of deferred shares in some countries as locally appropriate (see deferred share rights section).
Allocation value	All deferred shares are issued based on the VWAP of ANZ shares traded on the ASX in the week leading up to and including the date of grant.
Expensing value (fair value)	We expense the fair value of deferred shares on a straight-line basis over the relevant vesting period and we recognise the expense as a share-based compensation expense with a corresponding increase in equity.
2019 and 2018 grants	During the 2019 year, we granted 1,945,668 deferred shares (2018: 2,232,563) with a weighted average grant price of $25.39 (2018: $29.31).
Downward adjustment	Deferred shares remain at risk and the Board has the discretion to adjust the number of deferred shares downwards, including to zero at any time before the vesting date. ANZ's downward adjustment provisions are detailed in section 6.3 of the 2019 Remuneration Report. Board discretion was exercised to adjust downward 9,810 deferred shares to zero in 2019 (2018: 2,632).

Expensing of the ANZ Employee Share Acquisition Plan

Expensing value (fair value)	The fair value of shares we granted during 2019 under the Employee Share Offer and the Deferred Share Plan, measured as at the date of grant of the shares, is $67.7 million (2018: $80.9 million) based on 2,602,406 shares (2018: 2,774,545) at VWAP of $26.01 (2018: $29.17).

31. EMPLOYEE SHARE AND OPTION PLANS (continued)

ANZ SHARE OPTION PLAN

Allocation	We may grant selected employees options/rights which entitle them to acquire fully paid ordinary ANZ shares at a fixed price at the time the options/rights vest. Voting and dividend rights will be attached to the ordinary shares allocated on exercise of the options/rights. Each option/right entitles the holder to one ordinary share subject to the terms and conditions imposed on grant. Exercise price of options, determined in accordance with the rules of the plan, is generally based on the VWAP of the shares traded on the ASX in the week leading up to and including the date of grant. For rights, the exercise price is nil.
Rules	Prior to the exercise of the option/right if ANZ changes its share capital due to a bonus share issue, pro-rata new share issue or reorganisation the following adjustments are required: • Issue of bonus shares - When the holder exercises their option, they are also entitled to be issued the number of bonus shares they would have been entitled to had they held the underlying shares at the time of the bonus issue; • Pro-rata share offer - We will adjust the exercise price of the option in the manner set out in the ASX Listing Rules; and • Reorganisation - In respect of rights, if there is a bonus issue or reorganisation of ANZ's share capital, then the Board may adjust the number of rights or the number of underlying shares so that there is no advantage or disadvantage to the holder. Holders otherwise have no other entitlements to participate: • in any new issue of ANZ securities before they exercise their options/rights; or • in a share issue of a body corporate other than ANZ (such as a subsidiary). For equity grants made after 1 November 2012, any portion of the award which vests may, at the Board's discretion, be satisfied by a cash equivalent payment rather than shares.
Expensing	We expense the fair value of options/rights on a straight-line basis over the relevant vesting period and we recognise the expense as a share-based compensation expense with a corresponding increase in equity.
Cessation	The provisions that apply if the employee's employment ends are in section 9.2.3 of the 2019 Remuneration Report.
Downward adjustment	ANZ's downward adjustment provisions are detailed in section 6.3 of the 2019 Remuneration Report.

Option Plans that operated during 2019 and 2018

i) Performance Rights

Allocation	We grant performance rights to selected employees as part of ANZ's incentive plans. Performance rights provide the holder with the right to acquire ANZ shares at nil cost, subject to a three-year vesting period[1] and Total Shareholder Return (TSR) performance hurdles. Further details on the performance hurdles are in section 6.2.3a of the 2019 Remuneration Report.
Satisfying vesting	Any portion of the award of performance rights (that have met the performance hurdles) may be satisfied by a cash equivalent payment rather than shares at the Board's discretion. All performance rights were satisfied through a share allocation, other than 47,195 performance rights (2018: none) for which Board discretion was exercised.
2019 and 2018 grants	During the 2019 year, we granted 885,810 performance rights (2018: 1,023,239).
Downward adjustment	Board discretion was exercised to adjust downward 59,012 performance rights to zero in 2019 (2018: none).

1. Four years for grants from 1 October 2019.

31. EMPLOYEE SHARE AND OPTION PLANS (continued)

ii) Deferred Share Rights (no performance hurdles)	
Allocation	Deferred share rights provide the holder with the right to acquire ANZ shares at nil cost after a specified vesting period. We adjust the fair value of rights for the absence of dividends during the restriction period.
Satisfying vesting	Any portion of the award of share rights may be satisfied by a cash equivalent payment rather than shares at the Board's discretion. All share rights were satisfied through a share allocation, other than 68,357 deferred share rights (2018: 108,783) for which Board discretion was exercised.
2019 and 2018 grants	During the 2019 year, 2,078,427 deferred share rights (no performance hurdles) were granted (2018: 2,546,333).
Downward adjustment	Board discretion was exercised to adjust downward 11,824 deferred share rights to zero in 2019 (2018: 1,638).

Options, Deferred Share Rights and Performance Rights on Issue

As at 30 October 2019, there were 615 holders of 4,173,045 deferred share rights on issue and 142 holders of 2,486,001 performance rights on issue.

Options/Rights Movements

This table shows the options/rights over unissued ANZ shares and their related weighted average (WA) exercise prices as at the beginning and end of 2019 and the movements during 2019:

	Opening balance 1 Oct 2018	Options/ rights granted	Options/ rights forfeited[1]	Options/ rights expired	Options/ rights exercised	Closing balance 30 Sep 2019
Number of options/rights	7,148,573	2,964,237	(1,589,109)	0	(1,835,163)	6,688,538
WA exercise price	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
WA closing share price						$26.66
WA remaining contractual life						1.9 years
WA exercise price of all exercisable options/rights outstanding						$0.00
Outstanding exercisable options/rights						181,581

This table shows the options/rights over unissued ANZ shares and their related weighted average exercise prices as at the beginning and end of 2018 and the movements during 2018:

	Opening balance 1 Oct 2017	Options/ rights granted	Options/ rights forfeited[1]	Options/ rights expired	Options/ rights exercised	Closing balance 30 Sep 2018
Number of options/rights	7,113,784	3,569,572	(2,043,209)	(1,558)	(1,490,016)	7,148,573
WA exercise price	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
WA closing share price						$28.43
WA remaining contractual life						2.1 years
WA exercise price of all exercisable options/rights outstanding						$0.00
Outstanding exercisable options/rights						67,666

1. Refers to any circumstance where equity can be forfeited (for example on cessation, downward adjustment or performance conditions not met).

All of the shares issued as a result of the exercise of options/rights during 2019 and 2018, were issued at a nil exercise price.

As at the date of the signing of the Directors' Report on 30 October 2019:

- no options/rights over ordinary shares have been granted since the end of 2019; and
- 14,464 shares issued as a result of the exercise of options/rights since the end of 2019, all with nil exercise prices.

31. EMPLOYEE SHARE AND OPTION PLANS (continued)

Fair Value Assumptions

When determining the fair value, we apply the standard market techniques for valuation, including Monte Carlo and/or Black Scholes pricing models. We do so in accordance with the requirements of AASB 2 *Share-based Payments*. The models take into account early exercise of vested equity, non-transferability and internal/external performance hurdles (if any).

The table below shows the significant assumptions we used as inputs into our fair value calculation of instruments granted during the period. We present the values as weighted averages, but the specific values we use for each allocation are the ones we use for the fair value calculation.

	2019		2018	
	Deferred share rights	Performance rights	Deferred share rights	Performance rights
Exercise price ($)	**0.00**	**0.00**	0.00	0.00
Share closing price at grant date ($)	**25.83**	**25.52**	29.24	29.21
Expected volatility of ANZ share price (%)[1]	**20.0**	**20.0**	20.0	20.0
Equity term (years)	**2.5**	**4.8**	2.4	5.0
Vesting period (years)	**2.1**	**3.0**	2.1	3.0
Expected life (years)	**2.1**	**3.0**	2.1	3.0
Expected dividend yield (%)	**6**	**6**	5.75	5.75
Risk free interest rate (%)	**1.96**	**2.05**	1.65	1.95
Fair value ($)	**22.87**	**9.40**	26.03	12.24

1. Expected volatility represents a measure of the amount by which ANZ's share price is expected to fluctuate over the life of the rights. The measure of volatility used in the model is the annualised standard deviation of the continuously compounded rates of return on the historical share price over a deferred period of time preceding the date of grant. This historical average annualised volatility is then used to estimate a reasonable expected volatility over the expected life of the rights.

SATISFYING EQUITY AWARDS

All shares underpinning equity awards may be purchased on market, reallocated or be newly issued shares, or a combination.

The equity we purchased on market during the 2019 financial year (either under the ANZ Employee Share Acquisition Plan and the ANZ Share Option Plan, or to satisfy options or rights) for all employees amounted to 4,317,094 shares at an average price of $25.99 per share (2018: 3,936,773 shares at an average price of $29.00 per share).

32. RELATED PARTY DISCLOSURES

KEY MANAGEMENT PERSONNEL COMPENSATION

Key Management Personnel (KMP) are defined as all directors and those executives who report directly to the CEO:

- with responsibility for the strategic direction and management of a major income generating division; or
- who control material income and expenses.

KMP compensation included within total personnel expenses in Note 3 Operating Expenses is as follows:

	2019 $000[1]	2018 $000[1]
Short-term benefits[2]	15,784	19,497
Post-employment benefits	415	333
Other long-term benefits	213	150
Termination benefits	2,112	454
Share-based payments	6,184	8,910
Total	24,708	29,344

1. Includes former disclosed KMPs until the end of their employment.
2. Includes restatement of prior year amount to include items previously characterised as business related expenses that would be more appropriately be characterised as non-business related. Similar items existed in the prior periods between 2010-2017 which would have increased the short-terms benefits by less than $0.1 million per annum.

KEY MANAGEMENT PERSONNEL LOAN TRANSACTIONS

Loans made to KMP are made in the ordinary course of business and on normal commercial terms and conditions that are no more favourable than those given to other employees or customers, including: the term of the loan, security required and the interest rate. No amounts have been written off during the period, or individual provision raised in respect of these balances. The aggregate of loans (including credit card balances) made, guaranteed or secured, and undrawn facilities to KMP including their related parties, were as follows:

	2019 $000	2018 $000
Loans advanced[1,2]	26,862	23,675
Undrawn facilities[1]	513	286
Interest charged[3]	739	932

1. Balances are as at the balance sheet date (for KMP in office at balance sheet date) or at the date of cessation of former KMP.
2. Prior period has been restated to include credit card balances and exclude an available for redraw component of loan balances previously included within loans advanced.
3. Interest charged is for all KMP's during the period.

KEY MANAGEMENT PERSONNEL HOLDINGS OF ANZ SECURITIES

KMP, including their related parties, held subordinated debt, shares, share rights and options over shares in the Company directly, indirectly or beneficially as shown below:

	2019 Number[1]	2018 Number[1]
Shares, options and rights	1,892,754	2,293,271
Subordinated debt	11,802	13,152

1. Balances are as at the balance sheet date (for KMP in office at balance sheet date) or at the date of cessation of former KMP.

32. RELATED PARTY DISCLOSURES (continued)

OTHER TRANSACTIONS OF KEY MANAGEMENT PERSONNEL AND THEIR RELATED PARTIES

The aggregate of deposits of KMP and their related parties with the Group were $60 million (2018: $56 million).

Other transactions with KMP and their related parties included amounts paid to the Group in respect of insurance premiums, investment management service fees, brokerage and bank fees and charges. The Group has reimbursed KMP for the costs incurred for secretarial services associated with the performance of their duties. These transactions are conducted on normal commercial terms and conditions no more favourable than those given to other employees or customers.

In November 2010, a subsidiary of ANZ Bank New Zealand Limited (ANZ NZ) purchased a residential property in New Zealand for NZ$7.55 million. The property was leased to the then ANZ NZ Chief Executive Officer (CEO), Mr David Hisco, as part of a relocation package arrangement.

On 31 March 2017, the property was sold to Mr David Hisco's wife for NZ$6.9 million. At that time, Mr Hisco was the CEO of ANZ NZ and a member of Key Management Personnel.

ANZ NZ obtained two independent valuations of the property, one of which was not considered for a number of reasons, including that it did not comply with valuation standards. ANZ NZ then obtained a further independent valuation and the sale price was determined as the midpoint of these two independent valuations, less an amount reflecting part of the estimated sale costs that would have otherwise been incurred.

Consistent with the Reserve Bank of New Zealand's requirements on ANZ NZ concerning independence, the sale of the property was overseen by ANZ NZ.

This transaction was not separately disclosed in the Group's or ANZ NZ's 2017 financial statements. ASIC made enquiries of ANZ concerning disclosure of this matter in the 2017 financial statements. ANZ also acknowledges the determination of the Financial Markets Authority (New Zealand) that ANZ NZ should have disclosed the March 2017 sale as a related party transaction in its 2017 financial statements.

ASSOCIATES

We disclose significant associates in Note 26 Investments in Associates. During the course of the financial year, transactions conducted with all associates were on terms equivalent to those made on an arm's length basis:

	2019 $000	2018 $000
Amounts receivable from associates	664	35,083
Amounts payable to associates	697	1,504
Interest income from associates	93	1,772
Other expenses paid to associates	11,561	15,296
Dividend income from associates	50,014	51,643

There have been no material guarantees given or received. No amounts have been written-off during the period, or individual provisions raised in respect of these balances.

33. COMMITMENTS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

CREDIT RELATED COMMITMENTS AND CONTINGENCIES

	2019 $m	2018 $m
Contract amount of:		
Undrawn facilities	209,340	202,531
Guarantees and letters of credit	22,339	18,441
Performance related contingencies	22,112	24,136
Total	253,791	245,108

UNDRAWN FACILITIES

The majority of undrawn facilities are subject to customers maintaining specific credit and other requirements or conditions. Many of these facilities are expected to be only partially used, and others may never be used at all. As such, the total of the nominal principal amounts is not necessarily representative of future liquidity risks or future cash requirements. Based on the earliest date on which the Group may be required to pay, the total undrawn facilities of 209,341 million (2018: $202,531 million) mature within 12 months.

GUARANTEES, LETTERS OF CREDIT AND PERFORMANCE RELATED CONTINGENCIES

Guarantees, letters of credit and performance related contingencies relate to transactions that the Group has entered into as principal – including: guarantees, standby letters of credit and documentary letters of credit.

Documentary letters of credit involve the Group issuing letters of credit guaranteeing payment in favour of an exporter. They are secured against an underlying shipment of goods or backed by a confirmatory letter of credit from another bank.

Performance related contingencies are liabilities that oblige the Group to make payments to a third party if the customer fails to fulfil its non-monetary obligations under the contract.

To reflect the risk associated with these transactions, we apply the same credit origination, portfolio management and collateral requirements that we apply to loans. The contract amount represents the maximum potential amount that we could lose if the counterparty fails to meet its financial obligations. As the facilities may expire without being drawn upon, the notional amounts do not necessarily reflect future cash requirements. Based on the earliest date on which the Group may be required to pay, the total guarantees and letters of credit of $22,339 million (2018: $18,441 million) and total performance related contingencies of $22,112 million (2018: $24,136 million) mature within 12 months.

PROPERTY RELATED COMMITMENTS

	2019 $m	2018 $m
Lease rentals		
Land and buildings	1,586	1,431
Furniture and equipment	70	205
Total lease rental commitments[1]	1,656	1,636
Due within 1 year	320	371
Due later than 1 year but not later than 5 years	847	832
Due later than 5 years	489	433
Total lease rental commitments[1]	1,656	1,636

1. Total future minimum sublease payments we expect to receive under non-cancellable subleases at 30 September 2019 is $67 million (2018: $81 million). During the year, sublease payments we received amounted to $29 million (2018: $32 million) and were netted against rent expense.

33. COMMITMENTS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS (continued)

OTHER CONTINGENT LIABILITIES

As at 30 September 2019, the Group had contingent liabilities in respect of the matters outlined below. Where relevant, expert legal advice has been obtained and, in the light of such advice, provisions (refer to note 21) and/or disclosures as deemed appropriate have been made. In some instances we have not disclosed the estimated financial impact of the individual items either because it is not practicable to do so or because such disclosure may prejudice the interests of the Group.

REGULATORY AND CUSTOMER EXPOSURES

In recent years there has been an increase in the number of matters on which the Group engages with its regulators. There have also been significant increases in the nature and scale of regulatory investigations and reviews, civil and criminal enforcement actions (whether by court action or otherwise), formal and informal inquiries, regulatory supervisory activities and the quantum of fines issued by regulators, particularly against financial institutions both in Australia and globally. The Group has received various notices and requests for information from its regulators as part of both industry-wide and Group-specific reviews and has also made disclosures to its regulators at its own instigation. The nature of these interactions can be wide ranging and, for example, currently include a range of matters including responsible lending practices, product suitability and distribution, interest and fees and the entitlement to charge them, customer remediation, wealth advice, insurance distribution, pricing, competition, conduct in financial markets and financial transactions, capital market transactions, anti-money laundering and counter-terrorism financing obligations, reporting and disclosure obligations and product disclosure documentation. There may be exposures to customers which are additional to any regulatory exposures. These could include class actions, individual claims or customer remediation or compensation activities. The outcomes and total costs associated with such reviews and possible exposures remain uncertain.

BANK FEES LITIGATION AND PERIODICAL PAYMENT REMEDIATION AND ASIC ACTION

A litigation funder commenced a class action against the Company in 2010, followed by a second similar class action in March 2013. The applicants contended that certain exception fees (honour, dishonour and non-payment fees on transaction accounts and late payment and over-limit fees on credit cards) were unenforceable penalties and that various of the fees were also unenforceable under statutory provisions governing unconscionable conduct, unfair contract terms and unjust transactions. The claims in the March 2013 class action failed and have been dismissed.

The original claims in the 2010 class action have been dismissed. In 2017, a new claim was added to the 2010 class action, in relation to the Company's entitlement to charge certain periodical payment non-payment fees. Part of the class of customers had already received remediation payments from the Company. An agreement to settle the claim was reached in December 2018. The settlement is subject to court approval.

In July 2019, ASIC commenced civil penalty proceedings against the Company in relation to the charging of fees for periodical payments in certain circumstances between August 2003 and February 2016. ASIC seeks civil penalties in respect of alleged false or misleading representations and unconscionable conduct. ASIC also alleges that the Company engaged in misleading or deceptive conduct and breached certain statutory obligations as a financial services licensee. The matter is at an early stage. The outcomes and total costs remain uncertain. The Company is defending the allegations.

BENCHMARK/RATE ACTIONS

In July and August 2016, class action complaints were brought in the United States District Court against local and international banks, including the Company – one action relating to the bank bill swap rate (BBSW), and one action relating to the Singapore Interbank Offered Rate (SIBOR) and the Singapore Swap Offer Rate (SOR). The class actions are expressed to apply to persons and entities that engaged in US-based transactions in financial instruments that were priced, benchmarked, and/or settled based on BBSW or SIBOR. The claimants seek damages or compensation in amounts not specified, and allege that the defendant banks, including the Company, violated US anti-trust laws and (in the BBSW case only) anti-racketeering laws, the *Commodity Exchange Act*, and unjust enrichment principles. The Company is defending the proceedings. The matters are at an early stage.

In February 2017, the South African Competition Commission commenced proceedings against local and international banks including the Company alleging breaches of the cartel provisions of the *South African Competition Act* in respect of trading in the South African rand. The potential civil penalty or other financial impact is uncertain. The matter is at an early stage.

CAPITAL RAISING ACTIONS

In June 2018, the Commonwealth Director of Public Prosecutions commenced criminal proceedings against the Company and a senior employee alleging that they were knowingly concerned in cartel conduct by the joint lead managers of the Company's August 2015 underwritten institutional equity placement of approximately 80.8 million ordinary shares. The matter is at an early stage. The Company and its senior employee are defending the allegations.

In September 2018, the Australian Securities and Investments Commission (ASIC) commenced civil penalty proceedings against the Company alleging failure to comply with continuous disclosure obligations in connection with the Company's August 2015 underwritten institutional equity placement. ASIC alleges the Company should have advised the market that the joint lead managers took up approximately 25.5 million ordinary shares of the placement. The matter is at an early stage. The Company is defending the allegations.

FRANCHISEE LITIGATION

In February 2018, two related class actions were brought against the Company alleging breaches of contract and unconscionable conduct in relation to lending to 7-Eleven franchisees. An agreement to settle the claims against the Company was reached in March 2019. The settlement is subject to court approval.

33. COMMITMENTS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS (continued)

ROYAL COMMISSION

The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry released its final report on 4 February 2019. The findings and recommendations of the Commission are resulting in additional costs and may lead to further exposures, including exposures associated with further regulator activity or potential customer exposures such as class actions, individual claims or customer remediation or compensation activities. The outcomes and total costs associated with these possible exposures remain uncertain.

SECURITY RECOVERY ACTIONS

Various claims have been made or are anticipated, arising from security recovery actions taken to resolve impaired assets. These claims will be defended.

WARRANTIES AND INDEMNITIES

The Group has provided warranties, indemnities and other commitments in favour of the purchaser and other persons in connection with various disposals of businesses and assets and other transactions, covering a range of matters and risks. It is exposed to potential claims under those warranties, indemnities and commitments.

CLEARING AND SETTLEMENT OBLIGATIONS

Certain group companies have a commitment to comply with rules governing various clearing and settlement arrangements which could result in a credit risk exposure and loss if another member institution fails to settle its payment clearing activities. The Group's potential exposure arising from these arrangements is unquantifiable in advance.

Certain group companies hold memberships of central clearing houses, including ASX Clear (Futures), London Clearing House (LCH) SwapClear and RepoClear, Korea Exchange (KRX), Hong Kong Exchange (HKEX), Clearing Corporation of India and the Shanghai Clearing House. These memberships allow the relevant group company to centrally clear derivative instruments in line with cross-border regulatory requirements. Common to all of these memberships is the requirement for the relevant group company to make default fund contributions. In the event of a default by another member, the relevant group company could potentially be required to commit additional default fund contributions which are unquantifiable in advance.

PARENT ENTITY GUARANTEES

The Company has issued letters of comfort and guarantees in respect of certain subsidiaries in the normal course of business. Under these letters and guarantees, the Company undertakes to ensure that those subsidiaries continue to meet their financial obligations, subject to certain conditions including that the entity remains a controlled entity of the Company.

SALE OF GRINDLAYS BUSINESSES

On 31 July 2000, the Company completed the sale to Standard Chartered Bank (SCB) of ANZ Grindlays Bank Limited and the private banking business of ANZ in the United Kingdom and Jersey, together with ANZ Grindlays (Jersey) Holdings Limited and its subsidiaries, for USD1.3 billion in cash. The Company provided warranties and certain indemnities relating to those businesses and, where it was anticipated that payments would be likely under the warranties or indemnities, made provisions to cover the anticipated liabilities. The issue below has not adversely impacted the reported results. All settlements and penalties to date have been covered within existing provisions.

In 1991 certain amounts were transferred from non-convertible Indian Rupee accounts maintained with Grindlays in India. These transactions may not have complied with the provisions of the Foreign Exchange Regulation Act, 1973. Grindlays, on its own initiative, brought these transactions to the attention of the Reserve Bank of India. The Indian authorities served notices on Grindlays and certain of its officers in India and civil penalties have been imposed which are the subject of appeals. Criminal prosecutions are pending and will be defended. The amounts in issue are not material.

CONTINGENT ASSETS

NATIONAL HOUSING BANK

The Company is pursuing recovery of the proceeds of certain disputed cheques which were credited to the account of a former Grindlays customer in the early 1990s.

The disputed cheques were drawn on the National Housing Bank (NHB) in India. Proceedings between Grindlays and NHB concerning the proceeds of the cheques were resolved in early 2002.

Recovery is now being pursued from the estate of the Grindlays customer who received the cheque proceeds. Any amounts recovered are to be shared between the Company and NHB.

34. COMPENSATION OF AUDITORS

	2019 $'000	2018 $'000
KPMG Australia		
Audit or review of financial reports	9,036	10,058
Audit-related services[1]	3,392	4,999
Non-audit services[2]	114	306
Total[3]	12,542	15,363
Overseas related practices of KPMG Australia		
Audit or review of financial reports	5,691	5,797
Audit-related services[1]	2,316	1,276
Non-audit services[2]	2	2
Total	8,009	7,075
Total compensation of auditors	20,551	22,438

1. Comprises prudential and regulatory services of $4.47 million (2018: $3.70 million), comfort letters $0.48 million (2018: $0.51 million) and other services $0.76 million (2018: $2.07 million).
2. The nature of the non-audit services includes general market and regulatory insights, training, controls related assessments, methodology and procedural reviews. Further details are provided in the Directors' Report.
3. Inclusive of goods and services tax.

The Group's Policy allows KPMG Australia or any of its related practices to provide assurance and other audit-related services that, while outside the scope of the statutory audit, are consistent with the role of an external auditor. These include regulatory and prudential reviews requested by regulators such as APRA. Any other services that are not audit or audit-related services are non-audit services. The Policy allows certain non-audit services to be provided where the service would not contravene auditor independence requirements. KPMG Australia or any of its related practices may not provide services that are perceived to be in conflict with the role of the external auditor or breach auditor independence. These include consulting advice and subcontracting of operational activities normally undertaken by management, and engagements where the external auditor may ultimately be required to express an opinion on its own work.

35. IMPACT OF ADOPTION OF NEW STANDARDS AND OTHER CHANGES

The following table summarises changes to the balance sheet in the comparative period resulting from the application of AASB 15, and other reclassification adjustments to enhance comparability with current period presentation.

	Reported as at 30 Sep 18 $m	Impact of application of AASB 15 $m	Other reclassification adjustment $m	Restated as at 30 Sep 18 $m
Net loans and advances[1]	603,938	-	526	**604,464**
Other assets[2]	3,645	32	-	**3,677**
Other non-impacted balance sheet line items	335,041	-	-	**335,041**
Total assets	**942,624**	**32**	**526**	**943,182**
Deferred tax liabilities[2]	59	10	-	**69**
Payables and other liabilities[3]	6,788	106	-	**6,894**
Other provisions[1,3]	1,038	(106)	526	**1,458**
Other non-impacted balance sheet line items	875,356	-	-	**875,356**
Total liabilities	**883,241**	**10**	**526**	**883,777**
Retained earnings[2]	31,715	22	-	**31,737**
Other non-impacted balance sheet line items	27,528	-	-	**27,528**
Share capital and reserves attributable to shareholders of the Company[2]	**59,243**	**22**	**-**	**59,265**
Non-controlling interests	140	-	-	**140**
Total shareholders' equity[2]	**59,383**	**22**	**-**	**59,405**

1. $500 million of collectively assessed and $26 million of individually assessed provisions for credit impairment attributable to off-balance sheet credit related commitments at 30 September 2018 were reclassified from Net loans and advances at amortised cost to Other provisions to enhance comparability with current period presentation.
2. The Group adopted AASB 15 in this reporting period with comparatives restated. The impact of this policy change on the reported 30 September 2018 balance sheet was an increase in Other assets of $32 million, an increase in Deferred tax liabilities of $10 million and an increase in Retained earnings of $22 million, reflecting revenue that qualifies for upfront recognition under AASB 15 but was not previously recognised under AASB 118.
3. Upon adoption of AASB 15, certain liabilities associated with credit card loyalty programs have been reclassified from Other provisions to Payables and other liabilities.

In addition to the balance sheet impact above, upon adoption of AASB 15 certain items previously netted are now presented gross in operating income and operating expenses. This increased total operating income and total operating expenses by $128 million for the 2019 financial year. Comparative information has been restated which increased total operating income and total operating expenses by $153 million for the 2018 financial year.

Impact of the transition to AASB 9 *Financial Instruments* (AASB 9)

ALLOWANCE FOR EXPECTED CREDIT LOSSES

The table below reconciles the closing provisions for credit impairment of financial assets determined in accordance with AASB 139 *Finanicial Instruments: Recognition and Measurement*, and provisions for credit impairment of loan commitments and financial guarantee contracts determined in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* as at 30 September 2018, and the opening allowance for expected credit losses determined in accordance with AASB 9 as at 1 October 2018.

	As at 30 Sep 18		As at 1 Oct 18
	Provision for credit impairment under AASB 139 or AASB 137 $m	Incremental allowance for ECL under AASB 9 $m	Allowance for ECL under AASB 9 $m
Loans and advances - at amortised cost	2,917	647	3,564
Investment securities - debt securities at amortised cost	-	11	**11**
Off-balance sheet commitments - undrawn and contingent facilities[1]	526	155	**681**
Total provisions for credit impairment	3,443	813	**4,256**
Loss allowances recognised in other comprehensive income			
Investment securities - debt securities at FVOCI[2]	-	14	**14**
Total loss allowance recognised in other comprehensive income	**-**	**14**	**14**

1. The individually and collectively assessed allowance for ECL is included in Other provisions.
2. Allowance for ECL does not change the carrying amount which remains at fair value. Instead, the allowance for ECL is recognised in OCI, with a corresponding charge to profit or loss.

35. IMPACT OF ADOPTION OF NEW STANDARDS AND OTHER CHANGES (continued)

The following table summarises the adjustments arising on adoption of AASB 9.

CONSOLIDATED BALANCE SHEET RECONCILIATION

	Reference	AASB 139 measurement category	AASB 9 measurement category	Restated as at 30 Sep 18 $m	AASB 9 reclassification impact $m	AASB 9 Remeasurement (excl. impairment) $m	AASB 9 credit impairment impact $m	Revised carrying amount as at 1 Oct 18 $m
Trading securities	1,2	FVTPL	FVTPL	37,722	(993)	-	-	**36,729**
Investment securities:								
- debt securities at amortised cost	2,6,7	N/A	Amortised cost	-	6,158	2	(11)	**6,149**
- debt securities at FVOCI	1,2	N/A	FVOCI	-	70,938	-	-	**70,938**
- equity securities at FVOCI	2	N/A	FVOCI	-	1,087	-	-	**1,087**
Available-for-sale assets (AFS)	2	AFS	N/A	74,284	(74,284)	-	-	**-**
Net loans and advances								
- at amortised cost	3,6,7,8	Loans and receivables	Amortised cost	604,331	(4,470)	15	(647)	**599,229**
- at FVTPL	3,8	FVTPL	FVTPL	133	1,564	(23)	-	**1,674**
Investments in associates	5	N/A	N/A	2,553	-	-	(65)	**2,488**
Deferred tax assets	1,2,4,6	N/A	N/A	900	-	15	234	**1,149**
Other non-impacted balance sheet line items		N/A	N/A	223,259	-	-	-	**223,259**
Total assets				**943,182**	**-**	**9**	**(489)**	**942,702**
Current tax liabilities	1,3,4	N/A	N/A	300	-	30	-	**330**
Other provisions	6	N/A	N/A	1,458	-	-	155	**1,613**
Debt issuances:								
- at amortised cost	4	Amortised cost	Amortised cost	119,737	(879)	-	-	**118,858**
- at FVTPL	4	FVTPL	FVTPL	1,442	879	(55)	-	**2,266**
Other non-impacted balance sheet line items		N/A	N/A	760,840	-	-	-	**760,840**
Total liabilities				**883,777**	**-**	**(25)**	**155**	**883,907**
Ordinary share capital				27,205	-	-	-	**27,205**
Reserves	1,2,6			323	1	3	10	**337**
Retained earnings	1,2,3,4,5,6			31,737	(1)	31	(654)	**31,113**
Share capital and reserves attributable to shareholders of the Company				**59,265**	**-**	**34**	**(644)**	**58,655**
Non-controlling interests				140	-	-	-	**140**
Total shareholders' equity				**59,405**	**-**	**34**	**(644)**	**58,795**

35. IMPACT OF ADOPTION OF NEW STANDARDS AND OTHER CHANGES (continued)

REFERENCE

1. On initial application of AASB 9, a portfolio of bonds with a fair value of $1,000 million was transferred from Trading securities to Investment securities - debt securities at FVOCI as the applicable business model was held to collect and sell. Cumulative fair value gains/(losses) on this portfolio of $2 million (after tax) were transferred from Retained earnings to the FVOCI reserve. Additionally, the reclassification resulted in a reduction in deferred tax assets and current tax liabilities of $1 million.
2. The Available-for-sale classification is no longer applicable under AASB 9. Accordingly, on transition:
   - $69,938 million of Available-for-sale debt instruments were reclassified to Investment securities – debt securities at FVOCI due to the business model being held to collect and sell. There was no re-measurement impact associated with this reclassification;
   - $3,252 million of Available-for-sale debt instruments were reclassified to Investment securities – debt securities at amortised cost due to the business model being held to collect at 1 October 2018. This reclassification resulted in re-measurement of a $2 million increase to the carrying amount arising from reversal of the previous available-for-sale revaluation reserve. Additionally, a deferred tax asset of $1 million associated with the previous available-for-sale revaluation was reversed;
   - the Group made irrevocable elections to designate $1,087 million of non-traded Available-for-sale equity securities as Investment securities - equity securities at FVOCI; and
   - $7 million of Available-for-sale equity securities were reclassified to Trading securities and the related reserve balance of $1 million was reclassified to Retained earnings.
3. Certain loans with contractual cash flow characteristics that are not solely payments of principal and interest were reclassified from Net loans and advances at amortised cost to Net Loans and advances at FVTPL. The loans had an amortised cost carrying amount of $224 million and a fair value of $201 million at 30 September 2018. The associated re-measurement of $23 million was recognised in Retained earnings offset by a decrease in current tax liabilities of $7 million. In addition, one of the loans was previously in a fair value hedge relationship which was discontinued effective 1 October 2018. Accordingly, changes in the fair value due to changes in the hedged risk which were previously recognised as a reduction to the carrying value of the loan amounting to $15 million were written back to Retained earnings offset by an increase in current tax liabilities of $4 million.
4. The Group elected to designate certain financial liabilities (bonds included within Debt issuances) as measured at FVTPL effective from 1 October 2018 to reduce an accounting mismatch. The bonds had an amortised cost carrying amount of $879 million and a fair value of $824 million at 30 September 2018. The difference of $55 million (comprising a $109 million decrease in fair value before own credit, offset by a $54 million increase in fair value attributable to own credit) offset by a net tax impact of $17 million (increase in deferred tax asset of $17 million and an increase in current tax liability of $34 million) was recognised in Retained earnings.
5. The Group recognised a decrease of $65 million to the carrying value of Investments in associates with a corresponding decrease to Retained earnings reflecting the Group's share of the estimated initial application impact of IFRS 9 (the international equivalent of AASB 9).
6. The initial application of the expected credit loss requirements of AASB 9, resulted in increases in allowances for credit impairment attributable to the following:
   - On-balance sheet loans and advances of $647 million reflected in Net loans and advances at amortised cost;
   - Debt securities measured at amortised cost of $11 million reflected in Investment securities – debt securities at amortised cost; and
   - Off-balance sheet credit related commitments of $155 million reflected in Other provisions.

   The total impact of $813 million was recognised as a reduction to Retained earnings, offset by an increase of $234 million related to deferred tax. Additionally, loss allowances of $10 million (after-tax) attributable to Investment Securities – debt securities at FVOCI have been recognised in Reserves with a corresponding adjustment to Retained earnings. The debt securities remain at fair value on the face of the Balance Sheet.
7. On initial application of AASB 9, a portfolio of Negotiable Certificates of Deposit with a carrying amount of $2,906 million was reclassified from Net loans and advances at amortised cost to Investment Securities – debt securities at amortised cost. There was no re-measurement impact associated with this reclassification.
8. On initial application of AASB 9, loans with a carrying amount and fair value of $1,340 million that were in the process of being syndicated were reclassified from Net loans and advances at amortised cost to Net Loans and advances at FVTPL on the basis that the applicable business model is held-to-sell. There was no re-measurement impact associated with this reclassification.

36. EVENTS SINCE THE END OF THE FINANCIAL YEAR

On 17 October the Group announced it had agreed a revised price for the sale of its OnePath P&I business and ADGs to IOOF of $850 million, being a $125 million reduction from the original sale price of $975 million announced in October 2017. The new price of $850 million includes approximately $25 million that ANZ has already received for the sale of ADGs in October 2018. The revised terms reflect changing market conditions and include lower overall warranty caps as well as some changes to the strategic alliance arrangements. Subject to APRA approval, the Group expects the transaction to complete in the first quarter of calendar year 2020. The impact of the reduction in price has been reflected in the 2019 financial results.

Other than the matter above, there have been no significant events from 30 September 2019 to the date of signing this report.

CONSOLIDATED GROUP DIRECTORS' DECLARATION

Directors' Declaration

The Directors of Australia and New Zealand Banking Group Limited declare that:

a) in the Directors' opinion, the financial statements and notes of the Consolidated Entity are in accordance with the *Corporations Act 2001*, including:

   i) section 296, that they comply with the Australian Accounting Standards and any further requirements of the *Corporations Regulations 2001*; and

   ii) section 297, that they give a true and fair view of the financial position of the Consolidated Entity as at 30 September 2019 and of its performance for the year ended on that date;

b) the notes to the financial statements of the Consolidated Entity include a statement that the financial statements and notes of the Consolidated Entity comply with International Financial Reporting Standards;

c) the Directors have been given the declarations required by section 295A of the *Corporations Act 2001*; and

d) in the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors.

David M Gonski, AC
Chairman

Shayne C Elliott
Director

30 October 2019

INDEPENDENT AUDITOR'S REPORT

KPMG

TO THE SHAREHOLDERS OF AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL REPORT

OPINION

We have audited the Financial Report of Australia and New Zealand Banking Group Limited (the Company) and the entities it controlled at the year end and from time to time during the financial year (together, the Group).

In our opinion, the accompanying Financial Report of the Group is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the Group's financial position as at 30 September 2019 and of its financial performance for the year ended on that date; and
- complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

The Financial Report comprises the:

- consolidated statement of financial position as at 30 September 2019;
- consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, and consolidated statement of cash flows for the year then ended;
- notes 1 to 36 including a summary of significant accounting policies; and
- Directors' Declaration.

BASIS FOR OPINION

We conducted our audit in accordance with Australian Auditing Standards. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the Financial Report section of our report.

We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (the Code)* that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

KEY AUDIT MATTERS

The Key Audit Matters we identified are:

- Allowance for expected credit losses;
- Valuation of Financial Instruments held at Fair Value;
- Provisions for Customer Remediation;
- Accounting for Divestments; and
- IT Systems and Controls.

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTERS (continued)

ALLOWANCE FOR EXPECTED CREDIT LOSSES ($4,190M)

Refer to the critical accounting estimates and judgements disclosures in relation to the allowance for expected credit losses in Note 13 to the Financial Report.

The Key Audit Matter

AASB 9 Financial Instruments (AASB 9) was adopted by the Group on 1 October 2018. This is a key audit matter due to the significance of the loans and advances balance to the financial statements and the inherent complexity of the Group's Expected Credit Loss (ECL) models (ECL models) used to measure ECL allowances. This new and complex accounting standard requires the Group to recognise ECLs on its loans and advances and off-balance sheet positions; the Group developed new models which are reliant on data as well as a number of estimates including the impact of multiple economic scenarios and other assumptions such as defining a significant increase in credit risk (SICR). This involves significant judgement and estimates and takes into account forward looking information reflecting potential future economic events.

AASB 9 requires the Group to measure ECLs on a forward-looking basis reflecting a range of future economic conditions, including key forward-looking assumptions such as forecast GDP and unemployment levels. Post-model adjustments to the ECL results are also made by the Group to address known ECL model limitations or emerging trends in the loan portfolios. We exercise significant judgement in challenging the economic scenarios used and the judgemental overlays the Group applied to the ECL results.

The criteria selected to identify a SICR, such as a decrease in customer credit rating (CCR), are key areas of judgement within the Group's ECL methodology as these criteria determine if a forward-looking 12 month or lifetime allowance is recorded.

Separate from the ECL calculation, allowances for individually assessed loans exceeding specific thresholds are individually assessed by the Group. These specific allowances are established based on the expected future cash repayments and estimated proceeds from the value of the collateral held by the Group in respect of the loans.

How the matter was addressed in our audit

Our audit procedures for the allowance for ECL and disclosures for the year ended 30 September 2019 included assessing the Group's significant accounting policies against the requirements of the accounting standard. Additionally our procedures covered:

We tested key controls in relation to:

- The Group's ECL model governance and validation processes;
- The Group's assessment and approval of the forward looking macroeconomic assumptions and scenario weightings through challenge applied by the Group's internal governance processes; and
- Reconciliation of the data used in the ECL calculation process to gross balances recorded within the general ledger as well as source systems.
- Testing the key controls over counterparty risk grading for wholesale loans (larger customer exposures are monitored individually). We tested the approval of new lending facilities against the Group's lending policies, and controls over the monitoring of counterparty credit quality. This included testing controls over the identification of exposures showing signs of stress, either due to internal factors specific to the counterparty or external macroeconomic factors, and testing the timeliness of and the accuracy of counterparty risk assessments and risk grading against the requirements of the Group's lending policies and regulatory requirements; and
- For retail loans, testing controls over the systems which record lending arrears, group exposures into delinquency buckets, and re-calculate individual allowances. We tested automated calculation and change management controls and evaluated the Group's oversight of the portfolios, with a focus on controls over delinquency monitoring. We tested a sample of the level of allowances held against different loan products based on the delinquency profile and challenged assumptions made in respect of expected recoveries, including from collateral held.

We also tested relevant General Information Technology Controls (GITCs) over the key IT applications used by the Group in measuring ECL allowances as detailed in the IT Systems and Controls key audit matter below.

In addition to controls testing, our procedures included:

- Performing credit assessments of a sample of wholesale loans controlled by the Group's specialist workout and recovery team assessed as higher risk or impaired, and a sample of other loans, focusing on larger exposures assessed by the Group as showing signs of deterioration, or in areas of emerging risk (assessed against external market conditions). We challenged the Group's risk grading of the loan, assessment of loan recoverability, valuation of security and the impact on the credit allowance. To do this, we used the information on the Group's loan file, understood the facts and circumstances of the case with the loan officer, and performed our own assessment of recoverability. Exercising our judgement, our procedures included using our understanding of relevant industries and the macroeconomic environment and comparing data and assumptions used by the Group in recoverability assessments to externally sourced evidence, such as commodity prices, publicly available audited financial statements and comparable external valuations of collateral held. Where relevant we assessed the forecast timing of future cash flows in the context of supporting valuations and approved business plans and challenged key assumptions implicit in the valuations;
- Obtaining an understanding of the Group's processes to determine ECL allowances, evaluating the Group's ECL model methodologies against established market practices and criteria in the accounting standards;

KEY AUDIT MATTERS (continued)

- Working with KPMG Risk Consulting specialists, we assessed the accuracy of the Group's ECL model predictions by re-performing, for a sample of loans, the ECL allowance and comparing this to the amount recorded by the Group;
- Working with KPMG Economic specialists, we challenged the Group's forward-looking macroeconomic assumptions and scenarios incorporated in the Group's ECL models. We compared the Group's forecast GDP and unemployment rates to relevant publicly available macro-economic information, and considered other known variables and information obtained through our other audit procedures to identify contradictory indicators;
- Testing the implementation of the Group's SICR methodology by re-performing the staging calculation for a sample of loans and comparing our expectation to actual staging applied on an individual account level, taking into consideration movements in CCR; and
- Assessing the accuracy of the data used in the ECL models by confirming a sample of data fields such as account balance and CCR to relevant source systems.

We also challenged key assumptions in the components of the Group's post-model adjustments to the ECL allowance balance. This included:

- Evaluating underlying data used in concentration risk and economic cycle allowances by comparing underlying portfolio characteristics to recent loss experience, current market conditions and specific risks inherent in the Group's loan portfolios;
- Assessing the requirement for other additional allowances considering the Group's ECL model and data deficiencies identified by the Group's ECL model validation processes, and
- Assessing the completeness of additional allowance overlays by checking the consistency of risks we identified in the portfolios against the Group's assessment.

AASB 7 Financial Instruments: Disclosures
Assessing the appropriateness of the Group's disclosures in the financial report using our understanding obtained from our testing against the requirements of the accounting standard.

VALUATION OF FINANCIAL INSTRUMENTS HELD AT FAIR VALUE:

- ASSETS HELD AT FAIR VALUE $243,888M

- LIABILITIES HELD AT FAIR VALUE $130,346M

Refer to the critical accounting estimates, judgements and disclosures of fair values in Note 17 to the Financial Report.

The Key Audit Matter
Financial instruments held at fair value on the Group's balance sheet include investment securities, trading securities, derivative assets and liabilities, certain debt securities, and other assets and liabilities designated as measured at fair value through profit or loss or fair value through other comprehensive income. The instruments are mainly risk management products sold to customers and used by the Group to manage its own interest rate and foreign exchange risk.

The valuation of financial instruments held at fair value is considered a Key Audit Matter as:

- Financial instruments held at fair value are significant (25% of assets and 14% of liabilities);
- The significant volume and range of products transacted, in a number of international locations, increases the risk of inconsistencies in transaction management processes that could lead to inaccurate valuation;
- Determining the fair value of trading securities and derivatives involves a significant level of judgement by the Group, increasing the risk of error, and adding complexity to our audit. The level of judgement increases where internal models, as opposed to quoted market prices, are used to determine fair value of an instrument, or where inputs to the internal models, such as discount rates and measures of volatility, are not observable; or where there are a greater number of variables, including trade economic details and modelling assumptions, which feed into the internal models; and
- The valuation of certain derivatives held by the Group is sensitive to inputs including funding rates, probabilities of default loss given default. Both funding and credit risk are incorporated within the valuation of certain derivative instruments. This increased our audit effort in this area and necessitated the involvement of valuation specialists.

How the matter was addressed in our audit
Our audit procedures for the valuation of financial instruments held at fair value included:

- Testing access rights and change management controls for key valuation systems;
- Testing interface controls, notably the completeness and accuracy of data transfers between transaction processing systems, key systems used to generate valuations and any related valuation adjustments, and the Group's market risk management and finance systems to identify inconsistencies in transaction management and valuation processes across products and locations;
- Testing the governance and approval controls, such as management review and approval of the valuation models, and approval of new products against policies and procedures;

KEY AUDIT MATTERS (continued)

- Testing the front office management review and approval of the daily financial instrument trading profit and loss reconciliations prepared by the Group's independent markets and treasury control;
- Testing the management review and approval of model construction and validation, aimed at assessing the validity and robustness of underlying valuation models; and
- Testing the Group's data validation controls, such as those over key inputs in generating the fair value to market data where fair values were determined by front office teams.

We carried out testing over the valuation of financial instruments with both observable and unobservable inputs. Our specific testing involved valuation specialists and included:

- Re-performing the valuation of 'level 1' and 'level 2' investment securities and trading securities, which are primarily government, semi-government and corporate debt securities, by comparing the observable inputs, including quoted prices, to independently sourced market data;
- Using independent models, re-calculating the valuation of a sample, across locations, of derivative assets and liabilities where the fair value was determined using observable inputs. This included comparing a sample of observable inputs used in the Group's derivative valuations to independently-sourced market data, such as interest rates, foreign exchange rates and volatilities;
- Where the fair value of derivatives and other financial assets and liabilities were determined using unobservable inputs ('level 3' instruments), challenging the Group's valuation model by testing the key inputs used to comparable data in the market, including the use of proxy instruments and available alternatives. We compared the Group's valuation methodology to industry practice and the criteria in the accounting standards; and
- Evaluating the appropriateness of the Group's valuation methodology for derivative financial instruments, having regard to current and emerging derivative valuation practices across a range of peer institutions, and against the required criteria in the accounting standards. We tested adjustments made to valuations, particularly funding and credit valuation adjustments on un-collateralised derivatives. In particular, for a sample of individual counterparties, across locations, we tested key inputs to the credit valuation adjustment calculation, including the probability of default, against observable market data. Where proxies were used, we assessed the proxy against available alternatives, across a number of locations.

PROVISION FOR CUSTOMER REMEDIATION ($1,139M)

Refer to the critical accounting estimates, judgements and disclosures in Notes 21 and 33 to the Financial Report.

The Key Audit Matter

The Group has assessed the need to recognise provisions in relation to certain customer remediation activities arising from both internal and external investigations, and reviews. This includes provisions for expected refunds to customers, remediation project costs and related customer and regulatory claims, penalties, and litigation outcomes.

The provision for customer remediation activities is a Key Audit Matter due to the number of investigations, the quantum of amounts involved, and the judgements required by us in assessing the Group's determination of:

- The existence of a present legal or constructive obligation arising from a past event using the conditions of the event against the criteria in the accounting standards;
- Reliable estimates of the amounts which may be paid arising from investigations, including estimates of related costs and regulatory penalties; and
- The potential for legal proceedings, further investigations, and reviews from its regulators leading to a wider range of estimation outcomes for us to consider.

How the matter was addressed in our audit

Our audit procedures for customer remediation provisions included:

- Obtaining an understanding of the Group's processes for identifying and assessing the potential impact of the investigations into customer remediation payments, related project costs and legal proceedings associated with compliance matters, investigations and reviews from its regulators;
- Enquiring with the Group regarding ongoing legal, and regulatory matters, and investigation into other remediation activities;
- Enquiring with external legal counsel;
- Reading the minutes and other relevant documentation of the Group's Board of Directors, Board Committees, various management committees, and attending the Group's Audit and Risk Committee meetings;
- Inspecting correspondence with relevant regulatory bodies;
- For a sample of individual exposures, assessing the basis for recognition and measurement of a provision and associated costs against the requirements of the accounting standards. We did this by understanding and challenging the provisioning methodologies and underlying assumptions;

KEY AUDIT MATTERS (continued)

- Testing completeness by evaluating where exposures may have arisen based upon our knowledge and experience of broader industry matters, the Group's documentation and the current regulatory environment. We also checked these features of these exposures against the criteria defining a provision or a contingency in the accounting standards;
- Assessing the appropriateness of the Group's conclusions against the requirements of Australian Accounting Standards where estimates were unable to be reliably made for a provision to be recognised; and
- Evaluating the related disclosures against the requirements of Australian Accounting Standards.

DIVESTMENT OF WEALTH AUSTRALIA

Refer to the critical accounting estimates, judgements and disclosures in Notes 1 and 29 to the Financial Report.

The Key Audit Matter

On 17 October 2017, the Group announced the sale of its OnePath Pensions and Investments (OnePath P&I) business and Aligned Dealer Groups (ADGs) business to IOOF Holdings Limited (IOOF). The sale of the ADGs business completed on 1 October 2018. On 17 October 2019, the Group announced it had revised its contract terms with IOOF and, subject to APRA approval, the Group expects the transaction to complete in the first quarter of calendar year 2020. On 12 December 2017, the Group announced the sale of its Life Insurance business to Zurich Financial Services Australia Limited (together, the Divestment Businesses). The transaction completed on 31 May 2019 and final adjustments to sale proceeds are subject to finalization of a post completion net asset review. These businesses were part of the Wealth Australia operating segment. The financial results of the Divestment Businesses are presented as discontinued operations, and the associated assets and liabilities of OnePath P&I continues to be classified as held for sale at balance date.

The divestments are considered a Key Audit Matter due to the:

- significance of the Divestment Businesses to the Group;
- judgement applied by the Group in the measurement of the Divestment Businesses using the requirements accounting standards and the terms and conditions of the divestments;
- judgement is applied by the Group when assessing events that occur after the reporting date but before the financial statements are authorized for issue; and
- judgement applied by the Group in assessing the probability of the divestments against the requirements of Australian Accounting Standards at 30 September 2019.

We focused on the areas where judgement exists in the measurement of the discontinued operations, including the:

- allocation of goodwill between the Divestment Businesses;
- estimation of costs required to complete the divestments including costs associated with separating these businesses from the Group;
- subsequent re-measurement adjustments of the Divestment Businesses;
- consideration of adjusting and non-adjusting subsequent events relating to the Divestment Businesses; and
- taxation implications of the divestments, potentially having a significant impact on the loss on sale and requiring specialist knowledge.

How the matter was addressed in our audit

Our audit procedures in relation to the Divestment Businesses included:

- Reading the relevant transaction documents to understand the terms and conditions of the divestments;
- Assessing the criteria for the Divestment Businesses to be recognised and measured as held for sale against the criteria in the accounting standards at balance sheet date;
- Evaluating the substance of the divestments using the terms and conditions of the transaction documents against the criteria for discontinued operations in the accounting standards;
- Evaluating the Group's controls for measurement of the divestments held for sale. This included the Steering Committee review and approval of costs associated with separating the divestments from the Group;
- Assessing, on a sample basis, the identification of assets and liabilities disposed by comparing to transaction documents and underlying financial records at balance date;
- Checking the consideration for the divestments to the transaction documents and underlying financial records;
- Assessing the identification, basis for recognition, and treatment of a sample of costs associated with separating the divestments from the Group for compliance with the accounting standards;
- Comparing the quantum of the costs associated with separating the divestments from the Group to similar transactions within the market;
- Using our tax specialists, we evaluated the associated tax implications against the requirements of the tax legislation;
- Evaluating the methodology applied by the Group to allocate goodwill between the Divestment Businesses based on our knowledge of the businesses and the requirements of the accounting standards;

KEY AUDIT MATTERS (continued)

- Checking the Group's calculations of loss on sale of each of the divestments and any subsequent re-measurement adjustments;
- Assessing events that occur after the reporting date but before the financial statements were authorised for issue; and
- Assessing the disclosures in the financial report against the requirements of the accounting standards.

IT SYSTEMS AND CONTROLS

The Key Audit Matter

As a major Australian bank, the group's businesses utilise a large number of complex, interdependent Information Technology (IT) systems to process and record a high volume of transactions. Controls over access and changes to IT systems are critical to the recording of financial information and the preparation of a financial report which provides a true and fair view of the Group's financial position and performance. The IT systems and controls, as they impact the financial recording and reporting of transactions, is a key audit matter and our audit approach could significantly differ depending on the effective operation of the Group's IT controls. KPMG IT specialists were used throughout the engagement as a core part of our audit team.

How the matter was addressed in our audit

We tested the technology control environment for key IT applications (systems) used in processing significant transactions and recording balances in the general ledger. We also tested automated controls embedded within these systems which support the effective operation of technology-enabled business processes. Our audit procedures included:

- Assessing the governance and higher-level controls in place across the IT Environment, including the approach to Group policy design, review and awareness, and IT Risk Management practices.
- Design and operating effectiveness testing of controls across the User Access Management Lifecycle, including how users are on-boarded, reviewed, and removed on a timely basis from critical IT applications and supporting infrastructure. We also looked at how privileged roles and functions are managed across each IT Application and the supporting infrastructure.
- Design and operating effectiveness testing of controls in place to enable Change Management including how changes are initiated, documented, approved, tested and authorised prior to migration into the production environment of critical IT Applications. We also assessed the appropriateness of users with access to make changes to IT applications across the Group.
- Design and operating effectiveness testing of controls used by the Group's technology teams to schedule system jobs and monitor system integrity.
- Design and operating effectiveness testing of controls in place to support Program Development, including the implementation of revised guidelines per the new ANZ Delivery Framework.
- Design and operating effectiveness testing of automated business process controls include those that enforce segregation of duties conflicts between toxic role combinations within IT applications, configurations in place to perform calculations, mappings, and flagging of financial transactions, automated reconciliation controls, both between systems and intra-system and data integrity of critical system reporting used for sampling, data analysis and financial reporting across the audit

OTHER INFORMATION

Other Information is both financial and non-financial information in Australia and New Zealand Banking Group Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report, we have nothing to report.

RESPONSIBILITIES OF DIRECTORS FOR THE FINANCIAL REPORT

The Directors are responsible for:

- preparing a Financial Report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001;*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and
- assessing the Group's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL REPORT

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards

will always detect a material misstatement when it exists. Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our Auditor's Report.

REPORT ON THE REMUNERATION REPORT

In our opinion, the Remuneration Report of Australia and New Zealand Banking Group Limited for the year ended 30 September 2019, complies with Section 300A of the *Corporations Act 2001*.

DIRECTORS' RESPONSIBILITIES

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with Section 300A of the *Corporations Act 2001*.

OUR RESPONSIBILITIES

We have audited the Remuneration Report included in pages 66 to 98 of the Directors' report for the year ended 30 September 2019.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.

KPMG

KPMG

A M Kitchen

Alison Kitchen
Partner

Melbourne
30 October 2019

shareholder.anz.com

Australia and New Zealand Banking Group Limited (ANZ) ABN 11 005 357 522.

AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED

ABN 11 005 357 522

THE COMPANY

2019 Financial Report

30 September 2019

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

FINANCIAL REPORT

INCOME STATEMENT

For the year ended 30 September	Note	2019 $m	2018[1] $m
Interest income[2]		27,599	27,020
Interest expense		(17,452)	(16,574)
Net interest income	2	10,147	10,446
Other operating income	2	4,553	8,765
Net income from insurance business	2	7	18
Share of associates' (loss)/profit	2	(1)	(1)
Operating income		14,706	19,228
Operating expenses	3	(7,784)	(8,267)
Profit before credit impairment and income tax		6,922	10,961
Credit impairment charge	12	(714)	(629)
Profit before income tax		6,208	10,332
Income tax expense	4	(1,761)	(1,808)
Profit for the year		4,447	8,524

1. On adoption of AASB 15, the Company reclassified certain items previously netted which are now presented gross in operating income and operating expenses. Comparative information has been restated accordingly which increased total operating income and total operating expenses by $146 million.
2. Includes interest income calculated using the effective interest method of $23,678 million on financial assets measured at amortised cost or fair value through other comprehensive income (2018: $22,752 million on financial assets measured at amortised cost and available-for-sale assets).

The notes appearing on pages 8 to 86 form an integral part of these financial statements.

FINANCIAL REPORT (continued)

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 September	2019 $m	2018 $m
Profit for the year	4,447	8,524
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss		
Investment securities - equity securities at FVOCI[1]	45	-
Other reserve movements	98	27
Items that may be reclassified subsequently to profit or loss		
Foreign currency translation reserve	209	(154)
Other reserve movements	915	177
Income tax attributable to the above items	(301)	(124)
Other comprehensive income/(loss) after tax	966	(74)
Total comprehensive income for the year	5,413	8,450

1. On adoption of AASB 9 on 1 October 2018, the classification and measurement of financial assets were revised. Available-for-sale classification used in comparative periods ceases to exist under AASB 9 and a new classification of investment securities was introduced. Refer to Note 1 and 31 for further details. Comparative information has not been restated.

The notes appearing on pages 8 to 86 form an integral part of the financial statements.

BALANCE SHEET

As at 30 September	Note	2019 $m	2018 $m
Assets			
Cash and cash equivalents[1]	7	77,949	80,227
Settlement balances owed to ANZ		3,442	1,666
Collateral paid		13,461	9,184
Trading securities	8	34,217	29,519
Derivative financial instruments	9	116,544	64,448
Investment securities[2,3]	10	73,355	-
Available-for-sale assets[2]	10	-	64,728
Net loans and advances[3,4]	11	484,655	475,851
Regulatory deposits		215	264
Due from controlled entities		88,874	90,170
Shares in controlled entities	23	15,467	18,852
Investments in associates		18	18
Current tax assets		254	266
Deferred tax assets		1,245	1,071
Goodwill and other intangible assets	19	1,367	1,446
Premises and equipment		971	898
Other assets[4]		2,798	2,603
Total assets		914,832	841,211
Liabilities			
Settlement balances owed by ANZ		9,342	9,867
Collateral received		7,005	6,002
Deposits and other borrowings	13	524,241	511,992
Derivative financial instruments	9	117,340	65,638
Due to controlled entities		89,683	88,383
Current tax liabilities		118	85
Deferred tax liabilities[4]		67	49
Payables and other liabilities[4]		6,621	5,002
Employee entitlements		450	421
Other provisions[3,4]	20	1,905	1,270
Debt issuances	14	104,846	98,626
Total liabilities		861,618	787,335
Net assets		53,214	53,876
Shareholders' equity			
Ordinary share capital	21	26,413	27,533
Reserves	21	840	(56)
Retained earnings[4]	21	25,961	26,399
Total shareholders' equity	21	53,214	53,876

1. Includes settlement balances owed to ANZ that meet the definition of cash and cash equivalents.
2. On adoption of AASB 9 on 1 October 2018, the classification and measurement of financial assets were revised. Available-for-sale classification used in comparative periods ceases to exist under AASB 9 and a new classification of investment securities was introduced. Refer Note 1 and 31 for further details. Comparative information has not been restated.
3. On adoption of AASB 9 on 1 October 2018, the Company increased the collectively assessed provisions by $727 million ($583 million in Net loans and advances, $1 million in Investment securities, and $143 million in Provisions). Comparative information has not been restated. Refer to Note 1 and 31 for further details.
4. Comparative information has been restated for the adoption of AASB 15 and other reclassification adjustments to enhance comparability with current period presentation. Refer Note 1 and 31 for further details

The notes appearing on pages 8 to 86 form an integral part of the financial statements.

FINANCIAL REPORT (continued)

CASH FLOW STATEMENT

For the year ended 30 September	2019 $m	2018[1] $m
Profit after income tax	4,447	8,524
Adjustments to reconcile to net cash provided by/(used in) operating activities:		
Allowance for expected credit losses	714	629
Depreciation and amortisation	738	1,023
Net derivatives/foreign exchange adjustment	5,004	5,764
Impairment of investment in Wealth Australia	-	597
Impairment of investment in ANZ Share Investing	147	-
(Gain)/Loss on sale from divestments	(273)	(246)
Other non-cash movements	31	(2)
Net(increase)/decrease in operating assets:		
Collateral paid	(3,839)	(1,083)
Trading securities	(6,393)	8,913
Net loans and advances	(3,740)	(20,619)
Net intra-group loans and advances	5,301	(1,796)
Other assets	(85)	(525)
Net increase/(decrease) in operating liabilities:		
Deposits and other borrowings	(1,109)	7,432
Settlement balances owed by ANZ	(642)	1,604
Collateral received	619	341
Other liabilities	955	516
Total adjustments	(2,572)	2,548
Net cash provided by operating activities[2]	1,875	11,072
Cash flows from investing activities		
Investment securities/available-for-sale assets[3]:		
Purchases	(22,583)	(18,853)
Proceeds from sale or maturity	18,440	15,282
Proceeds from IOOF secured notes	800	-
Proceeds from divestments, net of cash disposed	185	1,786
Net movement in shares in controlled entities	(132)	989
Other assets	(648)	(301)
Net cash (used in) investing activities	(3,938)	(1,097)
Cash flows from financing activities		
Debt issuances[4]:		
Issue proceeds	20,450	21,962
Redemptions	(18,938)	(11,921)
Dividends paid[5]	(4,481)	(4,585)
On market purchase of treasury shares	(112)	(114)
Share buy-back	(1,120)	(1,880)
Net cash (used in)/provided by financing activities	(4,201)	3,462
Net (decrease)/increase in cash and cash equivalents	(6,264)	13,437
Cash and cash equivalents at beginning of year	80,227	63,399
Effects of exchange rate changes on cash and cash equivalents	3,986	3,391
Cash and cash equivalents at end of year	77,949	80,227

1. As a result of restatements impacting prior period balance sheet items, certain items in the Cash Flow Statement have been restated accordingly. Refer Note 31 for further information
2. Net cash provided by operating activities includes income taxes paid of $1,875 million (2018: $2,648 million).
3. On adoption of AASB 9 on 1 October 2018, the classification and measurement of financial assets were revised. Available-for-sale classification used in comparative periods ceases to exist under AASB 9 and a new classification of investment securities was introduced. Refer Note 1 and 31 for further details.
4. Non-cash changes in debt issuances includes fair value hedging losses of $2,106 million (2018: $1,168 million gain) and foreign exchange losses of $3,290 million (2018: foreign exchange losses $4,487 million).
5. Cash outflow for shares purchased to satisfy the dividend reinvestment plan are classified in Dividends paid.

The notes appearing on pages 8 to 86 form an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY

	Ordinary share capital $m	Reserves $m	Retained earnings $m	Total shareholders' equity $m
As at 1 October 2017	29,416	36	22,396	51,848
Impact on transition to AASB 15	-	-	22	22
Profit for the year	-	-	8,524	8,524
Other comprehensive income for the year	-	(95)	21	(74)
Total comprehensive income for the year	-	(95)	8,545	8,450
Transactions with equity holders in their capacity as equity holders:				-
Dividends paid	-	-	(4,585)	(4,585)
Group share buy-back[1]	(1,880)	-	-	(1,880)
Other equity movements:				
Group employee share acquisition scheme	(3)	-	-	(3)
Other items	-	3	21	24
As at 30 September 2018	27,533	(56)	26,399	53,876
Impact on transition to AASB 9	-	5	(483)	(478)
Profit for the year	-	-	4,447	4,447
Other comprehensive income for the year	-	894	72	966
Total comprehensive income for the year	-	894	4,519	5,413
Transactions with equity holders in their capacity as equity holders:				
Dividends paid[2]	-	-	(4,481)	(4,481)
Group share buy-back[1]	(1,120)	-	-	(1,120)
Other equity movements:				
Group employee share acquisition scheme	-	-	-	-
Other items	-	(3)	7	4
As at 30 September 2019	26,413	840	25,961	53,214

1. The Company has completed a $3.0 billion on-market share buy-back of ANZ ordinary shares purchasing $1,120 million worth of shares in 2019 (2018: $1,880 million) resulting in 42.0 million shares being cancelled in 2019 (2018: 66.7 million).
2. No new shares were issued under the Dividend Reinvestment Plan (DRP) for the 2019 interim dividend (nil shares for the 2018 final dividend; nil shares for the 2018 interim dividend) as the shares were purchased on-market and provided directly to the shareholders participating in the DRP. On-market share purchases for the DRP in the September 2019 full year were $432 million (Sep 18 full year: $392 million).

The notes appearing on pages 8 to 86 form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. ABOUT THE FINANCIAL STATEMENTS

These are the financial statements for Australia and New Zealand Banking Group Limited (the Company or ANZ) for the year ended 30 September 2019. The Company is incorporated and domiciled in Australia. The address of the Company's registered office and its principal place of business is ANZ Centre, 833 Collins Street, Docklands, Victoria, Australia 3008.

On 30 October 2019, the Directors resolved to authorise the issue of these financial statements.

Information in the financial statements is included only to the extent we consider it material and relevant to the understanding of the financial statements. A disclosure is considered material and relevant if, for example:

- the amount is significant in size (quantitative factor);
- the information is significant by nature (qualitative factor);
- the user cannot understand the Company's results without the specific disclosure (qualitative factor);
- the information is critical to a user's understanding of the impact of significant changes in the Company's business during the period, for example: business acquisitions or disposals (qualitative factor); or
- the information relates to an aspect of the Company's operations that is important to its future performance (qualitative factor) and;
- the information is required under legislative requirements of the *Corporations Act 2001, the Banking Act 1959 (Cth)* or by the Company's principal regulators, including the Australian Securities and Investments Commission (ASIC) and the Australian Prudential Regulation Authority (APRA).

This section of the financial statements:

- outlines the basis upon which the Company's financial statements have been prepared; and
- discusses any new accounting standards or regulations that directly impact the financial statements.

BASIS OF PREPARATION

This financial report is a general purpose (Tier 1) financial report (as defined under the Corporations law) prepared by a 'for profit' entity, in accordance with Australian Accounting Standards (AASs) and other authoritative pronouncements of the Australian Accounting Standards Board (AASB) the *Corporations Act 2001*, and the International Financial Reporting Standards (IFRS) and interpretations published by the International Accounting Standards Board (IASB).

The Company is a reporting entity under the *Corporations Act 2001*, and is not exempt from preparing consolidated financial statements. The financial statements for the Company have been prepared for the purpose of the Company fulfilling its financial reporting obligations under part 7.8 of the *Corporations Act 2001*, as required for Australian Financial Services Licensees.

The Company is the ultimate parent entity of the ANZ Group. The Company consists of the following operations undertaken in Australia and in its overseas branches:

- Retail and Commercial operations,
- Institutional operations, and
- Technology Services & Operations and Group Centre operations

The consolidated financial statements of the Group can be found as part of the 2019 Annual Report at https//shareholder.anz.com/annual-report-shareholder-review and copies are available from the Company's registered office and principal place of business.

We present these financial statements in Australian dollars, which is the Company's functional and presentation currency. We have rounded values to the nearest million dollars ($m), unless otherwise stated, as allowed under the *Australian Securities and Investments Commission (ASIC) Corporations (Rounding in Financial/Directors Report) Instrument 2016/191*.

BASIS OF MEASUREMENT

We have prepared the financial information in accordance with the historical cost basis - except the following assets and liabilities which we have stated at their fair value:

- derivative financial instruments and in the case of fair value hedging, a fair value adjustment is made on the underlying hedging exposure;
- financial instruments held for trading;
- financial assets and liabilities designated at fair value through profit and loss;
- available-for-sale financial assets (prior to 1 October 2018); and
- financial assets at fair value through other comprehensive income (applicable from 1 October 2018);

In accordance with AASB 119 *Employee Benefits* defined benefit obligations are measured using the Projected Unit Credit Method.

1. ABOUT THE FINANCIAL STATEMENTS (continued)

FOREIGN CURRENCY TRANSLATION

TRANSACTIONS AND BALANCES

Foreign currency transactions are translated into the relevant functional currency at the exchange rate prevailing at the date of the transaction. At the reporting date, monetary assets and liabilities denominated in foreign currencies are translated into Australian dollars, being the functional currency, at the relevant spot rate. Any foreign currency translation gains or losses are included in profit or loss in the period they arise.

We measure translation differences on non-monetary items at fair value through profit or loss and report them as part of the fair value gain or loss on these items. We include any translation differences on non-monetary items classified as investment securities measured at fair value through other comprehensive income (applicable from 1 October 2018) and non-monetary items classified as available-for-sale financial assets in the available-for-sale revaluation reserve in equity (applicable prior to 1 October 2018).

KEY JUDGEMENTS AND ESTIMATES

When applying accounting policies, management has made a number of judgements and applied estimates and assumptions about past and future events. Further information on the key judgements and estimates that we consider material to the financial statements are contained within the relevant notes to the financial statements.

ACCOUNTING STANDARDS ADOPTED IN THE PERIOD

AASB 9 FINANCIAL INSTRUMENTS (AASB 9)

The Company has applied AASB 9 effective from 1 October 2018 (with the exception of the 'own credit' requirements relating to financial liabilities designated as measured at fair value, which were early adopted by the Company effective from 1 October 2013). In addition, the Company chose to early adopt AASB 2017-6 *Amendments to Australian Accounting Standards – Prepayment Features with Negative Compensation* (AASB 2017-6) effective from 1 October 2018. AASB 9 provides an accounting policy choice, which the Company has taken in the current period, to continue to apply the AASB 139 hedge accounting requirements until the International Accounting Standards Board's ongoing project on macro hedge accounting is completed.

AASB 9 and AASB 2017-6 stipulate new requirements for the impairment of financial assets, classification and measurement of financial assets and financial liabilities and general hedge accounting. Details of the key requirements are outlined within the Financial Assets and Financial Liabilities sections in following notes, and a reconciliation of the transitional impact of adopting the standard at 1 October 2018 is set out in Note 31.

AASB 15 REVENUE FROM CONTRACTS WITH CUSTOMERS (AASB 15)

The Company adopted AASB 15 from 1 October 2018 which resulted in changes in accounting policies. The standard requires identification of distinct performance obligations within a contract, and allocation of the transaction price of the contract to those performance obligations. Revenue is then recognised as each performance obligation is satisfied. The standard also provides guidance on whether an entity is acting as a principal or an agent which impacts the presentation of revenue on a gross or net basis. In accordance with the transitional provisions of AASB 15, the Company has adopted the full retrospective transition approach. Under this approach, the cumulative effect of initially applying the standard has been recognised as an adjustment to opening retained earnings as at 1 October 2017 and comparative information for the 2018 reporting period has been restated.

The adoption of AASB 15 resulted in the following changes in accounting policy:

- Recognition of trail commission revenue: trail commission revenue previously recognised over time is now recognised at the time the Company initially distributes the underlying product to the customer where it is highly probable the revenue will not need to be reversed in future periods.

  This policy change resulted in an increase to the opening balances of Other assets $32 million, Deferred tax liabilities $10 million and Retained earnings $22 million as at 1 October 2017 to recognise revenue that qualifies for upfront recognition under AASB 15 but was not previously recognised under AASB 118 Revenue (AASB 118). The change did not impact net profit or earnings per share in the comparative periods.

- Presentation: Certain credit card loyalty costs and other costs will be presented as operating expenses where the Company has assessed that it is acting as principal (rather than an agent). Previously these costs were presented as a reduction of other operating income. In addition, certain incentives received from card scheme providers related to card marketing activities will be presented as operating income where the Company has assessed that it is acting as principal (rather than an agent). Previously these incentives were presented as a reduction of operating expenses.

  The presentation of these costs under AASB 15 increased other operating income and operating expenses by $146 million in 2018. The changes did not impact net profit or earnings per share in the comparative periods.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. ABOUT THE FINANCIAL STATEMENTS (continued)

ACCOUNTING STANDARDS NOT EARLY ADOPTED

A number of new standards, amendments to standards and interpretations have been published but are not mandatory for the financial statements for the year ended 30 September 2019, and have not been applied by the Company in preparing these financial statements. Further details of these are set out below.

GENERAL HEDGE ACCOUNTING

AASB 9 introduces new hedge accounting requirements which more closely align accounting with risk management activities undertaken when hedging financial and non-financial risks.

AASB 9 provides the Company with an accounting policy choice to continue to apply the AASB 139 hedge accounting requirements until the International Accounting Standards Board's ongoing project on macro hedge accounting is completed. The Company currently applies the hedge accounting requirements of AASB 139.

AASB 16 *LEASES* (AASB 16)

AASB 16 is effective for the Company from 1 October 2019 and replaces the previous standard AASB 117 *Leases* (AASB 117). AASB 16 primarily impacts the Company's property and technology leases which were previously classified as operating leases. Under AASB 117, operating leases were not recognised on balance sheet and rent payments were expensed over the lease term.

Under AASB 16, lessees must recognise all leases (except for lease of low value assets and short term leases) on balance sheet under a single accounting model. Accordingly, the Company will recognise its right to use an underlying leased asset over the lease term as a right-of-use (ROU) asset, and its obligation to make lease payments as a lease liability. In the income statement, the Company will recognise depreciation expense on the ROU asset and interest expense on the lease liability. As a result, lease expenses will be higher in the early periods of a lease and lower in the later periods of the lease compared to the previous standard where expenses were constant over the lease term. Cumulative expenses over the life of a lease will not change.

The Company will apply the modified retrospective transition approach whereby initial lease liabilities are recognised based on the present value of remaining lease payments as of the transition date. The initial ROU asset recognised for certain large commercial and retail leases will be measured as if AASB 16 had always been applied to the leases. For all other leases, the initial ROU asset will be measured as equal to the initial lease liability. Based on this transition approach, the Company expects to recognise an increase in liabilities of $2.2 billion and an increase in assets of $2.1 billion. This is expected to result in a reduction to opening retained earnings of $66 million and an increase in deferred tax assets of $37 million as of 1 October 2019. Comparative information from prior periods will not be restated.

The implementation of AASB 16 requires management to make certain key judgements including the determination of lease terms, discount rates and identifying arrangements that contain a lease. These estimates may be refined as the Company finalises its implementation of the standard in the first half of the 2020 financial year.

AASB 17 *INSURANCE CONTRACTS* (AASB 17)

The final version of AASB 17 was issued in July 2017 and is not effective for the Company until 1 October 2021. It will replace AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*. AASB 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts.

The measurement, presentation and disclosure requirements under AASB 17 are significantly different from current accounting standards. Although the overall profit recognised in respect of insurance contracts will not change, it is expected that the timing of profit recognition will change.

The impact of AASB 17 is not expected to have a material impact on the Company.

AASB INTERPRETATION 23 *UNCERTAINTY OVER INCOME TAX TREATMENTS (INTERPRETATION 23)*

In July 2017 the AASB issued Interpretation 23 *Uncertainty over Income Tax Treatments*. The Interpretation clarifies application of recognition and measurement requirements in IAS 12 *Income Taxes* when there is uncertainty over income tax treatments.

Interpretation 23 will apply to the Company from 1 October 2019, and is not expected to have a material impact on the Company.

REVISED CONCEPTUAL FRAMEWORK

In June 2019 the AASB issued a revised Conceptual Framework for Financial Reporting. The new Framework includes updated definitions and criteria for the recognition and derecognition of assets and liabilities. Additionally it introduces new concepts on measurement, including factors to consider when selecting a measurement basis. The revised Conceptual Framework will apply to the Company from 1 October 2020 and is not expected to have a material impact on the Company.

1. ABOUT THE FINANCIAL STATEMENTS (continued)

ACCOUNTING STANDARDS NOT EARLY ADOPTED (continued)

INTEREST RATE BENCHMARK REFORM

Interbank offered rates (IBORs), such as LIBOR, are a key reference rate for derivatives, loans and securities for global financial markets. In response to concerns about the transparency and liquidity of IBOR rates, regulators in a number of jurisdictions across the globe are well advanced in developing benchmark rates to phase out and replace IBORs, these projects are collectively known as 'IBOR Reform'. The International Accounting Standards Board (IASB) is also considering the financial reporting implications of IBOR reform which is expected to impact elements of financial instrument accounting, including hedge accounting, loan modifications, fair value methodologies and disclosures.

The IASB project is split into two phases: Phase 1 deals with pre-replacement issues (issues affecting financial reporting in the period before the replacement of IBOR's); and Phase 2 deals with replacement issues (issues affecting financial reporting when existing IBOR's are replaced).

In September 2019, the IASB issued a final standard, Interest Rate Benchmark Reform—Amendments to IFRS 9, IAS 39 and IFRS 7 which focuses on 'pre-rate replacement issues' and provides exceptions to specific hedge accounting requirements under IAS 39 and IFRS 9 so that entities will be able to apply those hedge accounting requirements under an assumption that the interest rate benchmark is not altered as a result of the interest rate benchmark reform. In October 2019, AASB adopted these amendments in AASB 2019-3 Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform.

Although the Company anticipates the new standard, once adopted, will provide certain relief in relation to hedge accounting requirements, for 30 September 2019 reporting purposes, it has considered the existing portfolio of hedge accounted relationships in light of:

- the significant uncertainty surrounding the method and timing of transition away from IBORs; and
- ongoing application and reliance in capital markets on IBOR's for financial instrument pricing.

As result of the above factors, the Company has concluded that continuation of hedge accounting relationships for potentially impacted hedge relationship remains appropriate.

The Company is considering the new standard which is effective on 1 October 2020 but may be adopted earlier.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. OPERATING INCOME

	2019 $m	2018 $m[1]
Net interest income		
Interest income by type of financial asset		
Financial assets designated at fair value through other comprehensive income		
Investment securities/Available-for-sale assets	1,329	1,232
Financial assets at amortised cost	22,349	21,520
Trading securities	627	881
Interest income - external	24,305	23,633
Interest income - controlled entities	3,294	3,387
Interest income	27,599	27,020
Interest expense by type of financial liability		
Financial liabilities at amortised cost	(13,191)	(12,148)
Securities sold short	(104)	(239)
Financial liabilities designated at fair value through profit or loss	(81)	(69)
Interest expense - external	(13,376)	(12,456)
Interest expense - controlled entities	(3,713)	(3,763)
Interest expense	(17,089)	(16,219)
Major bank levy	(363)	(355)
Net interest income	10,147	10,446
Other operating income		
i) Fee and commission income		
Lending fees	546	597
Non-lending fees	2,241	2,189
Commissions	76	57
Funds management income	25	(80)
Fee and commission income - external	2,888	2,763
Fee and commission income - controlled entities	905	1,279
Fee and commission income	3,793	4,042
Fee and commission expense	(999)	(904)
Net fee and commission income	2,794	3,138
ii) Other income		
Net foreign exchange earnings and other financial instruments income[2]	896	1,178
Dividends received from controlled entities[3]	873	4,773
Gain/(Loss) on divestments	69	246
Write down of investment in Wealth Australia (AWA)[3]	-	(597)
Write down of ANZ Share Investing	(147)	-
Dividend income on equity securities	28	28
Other	40	(1)
Other income[4]	1,759	5,627
Other operating income	4,553	8,765
Net income from insurance business	7	18
Share of associates' (loss) / profit	(1)	(1)
Operating income[5]	14,706	19,228

1. On adoption of AASB 15, the Company reclassified certain items previously netted which are now presented gross in operating income and operating expenses. Comparative information has been restated accordingly which increased total operating income by $146 million.
2. Includes fair value movements (excluding realised and accrued interest) on derivatives not designated as accounting hedges entered into to manage interest rate and foreign exchange risk on funding instruments, ineffective portions of cash flow hedges, and fair value movements in financial assets and liabilities designated at fair value through profit and loss.
3. During 2018 the Company received a dividend of $582 million from AWA and wrote the investment in AWA down. The impact has been presented net in the income statements.
4. Total other income includes external dividend income from Bank of Tianjin of $27 million (2018: $27 million).
5. Includes customer remediation of $226 million for 2019 (2018: $310 million).

2. OPERATING INCOME (continued)

RECOGNITION AND MEASUREMENT

NET INTEREST INCOME

Interest Income and Expense

We recognise interest income and expense for all financial instruments, including those classified as held for trading, assets measured at fair value through other comprehensive income (applicable from 1 October 2018), available-for-sale assets (applicable prior to 1 October 2018) or designated at fair value, through profit or loss in net interest income. For assets held at amortised cost, the Company uses the effective interest rate method to calculate amortised cost. The effective interest rate is the rate that discounts the stream of estimated future cash receipts or payments over the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or liability. For assets subject to prepayment, we determine their expected life on the basis of historical behaviour of the particular asset portfolio - taking into account contractual obligations and prepayment experience.

We recognise fees and costs, which form an integral part of the financial instrument (for example loan origination fees and costs), using the effective interest method. This is presented as part of interest income or expense depending on whether the underlying financial instrument is a financial asset or financial liability.

Major Bank Levy

The *Major Bank Levy Act 2017* ('Levy' or 'Major bank levy') applies a rate of 0.06% to certain liabilities of the Company. The Company has determined that the levy represents a finance cost for the Company and $363 million (2018: $355 million) is presented in interest expense in the Income Statement.

OTHER OPERATING INCOME

Fee and Commission Revenue

We recognise fee and commission revenue arising from contracts with customers: (a) over time when the performance obligation is satisfied across more than one reporting period or (b) at a point in time when the performance obligation is satisfied immediately or is satisfied within one reporting period.

- **Lending fees** exclude fees treated as part of the effective yield calculation of interest income. Lending fees include certain guarantee and commitment fees where the loan or guarantee is not likely to be drawn upon and other fees charged for providing customers a distinct good or service that are recognised separately from the underlying lending product (including annual package fees that provide benefits on other ANZ products).

- **Non lending fees** includes fees associated with deposit and credit card accounts, interchange fees and fees charged for specific customer transactions such as international money transfers. Where the Company provides multiple goods or services to a customer under the same contract, the Company allocates the transaction price of the contract to those performance obligations based on the relative stand-alone selling price of each performance obligation. Revenue is recognised as each performance obligation is satisfied.

- **Commissions** represent fees from third parties where ANZ acts as an agent by arranging a third party (e.g. an insurance provider) to provide goods and services to a customer. In such cases, ANZ is not primarily responsible for providing the underlying good or service to the customer. If the Company collects funds on behalf of a third party when acting as an agent, the Company only recognises the net commission it retains as revenue. When the commission is variable based on factors outside the control of the Company (e.g. a trail commission), revenue is only recognised if it is highly probable that a significant reversal of the variable amount will not be required in future periods.

- **Funds management income** represent fees earned from customers for providing financial advice and fees for asset management services and advice provided to investment funds. Revenue is recognised either at the point the financial advice is provided or over the period in which the asset management services are delivered. Performance fees associated with funds management activities are only recognised when it becomes highly probable the performance hurdle will be achieved.

Net Foreign Exchange Earnings and Other Financial Instruments Income

We recognise the following as net foreign exchange earnings and other financial instruments income:

- exchange rate differences arising on the settlement of monetary items and translation differences on monetary items translated at rates different to those at which they were initially recognised or included in a previous financial report;
- fair value movements (excluding realised and accrued interest) on derivatives that we use to manage interest rate and foreign exchange risk on funding instruments not designated as accounting hedges;

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. OPERATING INCOME (continued)

RECOGNITION AND MEASUREMENT

- the ineffective portions of fair value hedges, cash flow hedges and net investment hedges;
- immediately upon sale or repayment of a hedged item, the unamortised fair value adjustments in items designated as fair value hedges and amounts accumulated in equity related to designated cash flow hedges.
- fair value movements on financial assets and financial liabilities designated at fair value through profit or loss or held for trading;
- amounts released from the Available For Sale (AFS) revaluation reserve (applicable prior to 1 October 2018) when an available-for-sale asset is sold;
- amounts released from the FVOCI reserve (applicable from 1 October 2018) when a debt instrument classified as measured at FVOCI is sold;
- the gain or loss on derecognition of financial assets or liabilities measured at amortised cost.

Dividends Received from Controlled Entities

Dividends are recognised as revenue when the right to receive payment is established.

Gain or Loss on Disposal of Non-Financial Assets

The gain or loss on the disposal of assets is the difference between the carrying value of the asset and the proceeds of disposal net of costs. This is recognised in other income in the year in which the significant risks and rewards transfer to the buyer.

SHARE OF ASSOCIATES' PROFIT

The equity method is applied to accounting for associates. Under the equity method the Company's share of the after tax results of associates is included in the Income Statement and the Statement of Comprehensive Income.

NET INCOME FROM INSURANCE BUSINESS

We recognise:

- premiums received (net of reinsurance premiums paid) are recognised based on an assessment of the likely pattern in which risk will emerge over the term of the policies written. This assessment is undertaken periodically and updated in accordance with the latest pattern of risk emergence; and
- claims incurred are recognised net of reinsurance, on an accruals basis once the liability to the policy owner has been established under the terms of the contract and through actuarial assumptions of future claims.

3. OPERATING EXPENSES

	2019 $m	2018 $m [1]
Personnel		
Salaries and related costs[2]	3,141	3,233
Superannuation costs	252	258
Other[2]	161	163
Personnel	3,554	3,654
Premises		
Rent	383	395
Other	268	264
Premises	651	659
Technology (excluding personnel)		
Depreciation and amortisation[3]	639	922
Licences and outsourced services	477	457
Other	185	204
Technology (excluding personnel)	1,301	1,583
Restructuring	56	210
Other		
Advertising and public relations	188	160
Professional fees[2]	482	497
Freight, stationery, postage and communication	173	179
Royal Commission legal costs	15	55
Other[2]	1,364	1,270
Other expenses	2,222	2,161
Operating expenses[2]	7,784	8,267

1. On adoption of AASB 15, the Company reclassified certain items previously netted which are now presented gross in operating income and operating expenses. Comparative information has been restated accordingly which increased total operating expense by $146 million for 2018.
2. Includes customer remediation expenses of $380 million for 2019 (2018: $255million).
3. 2018 includes an accelerated amortisation expense of $240 million.

RECOGNITION AND MEASUREMENT

OPERATING EXPENSES

Operating expenses are recognised as services are provided to the Company over the period in which an asset is consumed or once a liability is created.

SALARIES AND RELATED COSTS - ANNUAL LEAVE, LONG SERVICE LEAVE AND OTHER EMPLOYEE BENEFITS

Wages and salaries, annual leave, and other employee entitlements expected to be paid or settled within twelve months of employees rendering service are measured at their nominal amounts using remuneration rates that the Company expects to pay when the liabilities are settled.

We accrue employee entitlements relating to long service leave using an actuarial calculation. It includes assumptions regarding staff departures, leave utilisation and future salary increases. The result is then discounted using market yields at the reporting date. The market yields are determined from a blended rate of high quality corporate bonds with terms to maturity that closely match the estimated future cash outflows.

If we expect to pay short term cash bonuses, then a liability is recognised when the Company has a present legal or constructive obligation to pay this amount (as a result of past service provided by the employee) and the obligation can be reliably measured.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. OPERATING EXPENSES (continued)

RECOGNITION AND MEASUREMENT

Personnel expenses also include share-based payments which may be cash or equity settled. We calculate the fair value of equity settled remuneration at grant date, which is then amortised over the vesting period, with a corresponding increase in share capital or the share option reserve as applicable. When we estimate the fair value, we take into account market vesting conditions, such as share price performance conditions. We take non-market vesting conditions, such as service conditions, into account by adjusting the number of equity instruments included in the expense.

After the grant of an equity-based award, the amount we recognise as an expense is reversed when non-market vesting conditions are not met, for example an employee fails to satisfy the minimum service period specified in the award on resignation, termination or notice of dismissal for serious misconduct. However, we do not reverse the expense if the award does not vest due to the failure to meet a market-based performance condition.

Further information on share-based payment schemes operated by the Company during the current and prior year is included in Note 27 Employee Share and Option Plans.

4. INCOME TAX

INCOME TAX EXPENSE

Reconciliation of the prima facie income tax expense on pre-tax profit with the income tax expense recognised in profit or loss:

	2019 $m	2018 $m
Profit before income tax	6,208	10,332
Prima facie income tax expense at 30%	1,862	3,100
Tax effect of permanent differences:		
Sale of Shanghai Rural Commercial Bank (SRCB)	-	(84)
Tax provisions no longer required	(8)	(39)
Non deductible interest on debt instruments	81	67
Overseas tax rate differential	(40)	(6)
Rebatable and non-assessable dividends	(262)	(1,606)
Provision for foreign tax on dividend repatriation	34	28
Wealth Australia divestment adjustments	74	354
Other	39	13
Subtotal	1,780	1,827
Income tax over provided in previous years	(19)	(19)
Income tax expense	1,761	1,808
Current tax expense	1,901	2,037
Adjustments recognised in the current year in relation to the current tax of prior years	(19)	(19)
Deferred tax expense/(income) relating to the origination and reversal of temporary differences	(121)	(210)
Income tax expense	1,761	1,808
Australia	1,583	1,695
Overseas	178	113
Income tax expense	1,761	1,808
Effective tax rate	28.4%	17.5%

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. INCOME TAX (continued)

TAX CONSOLIDATION

The Company and all its wholly owned Australian resident entities are part of a tax-consolidated group under Australian taxation law. The Company is the head entity in the tax-consolidated group. We recognise each of the following in the separate financial statements of members of the tax consolidated group on a 'group allocation' basis: tax expense/income, and deferred tax liabilities/assets, that arise from temporary differences of the members of the tax-consolidated group. The Company (as head entity in the tax-consolidated group) recognises current tax liabilities and assets of the tax-consolidated group.

Under a tax funding arrangement between the entities in the tax consolidated group, amounts are recognised as payable to or receivable by the Company and each member of the tax-consolidated group in relation to the tax contribution amounts paid or payable between the Company and the other members of the tax-consolidated group.

Members of the tax-consolidated group have also entered into a tax sharing agreement that provides for the allocation of income tax liabilities between the entities were the head entity to default on its income tax payment obligations.

UNRECOGNISED DEFERRED TAX ASSETS AND LIABILITIES

Unrecognised deferred tax assets related to unused realised tax losses (on revenue account) total $6 million (2018: $nil). Unrecognised deferred tax liabilities related to additional potential foreign tax costs (assuming all retained earnings in offshore branches are repatriated) total $13 million (2018: $10 million).

RECOGNITION AND MEASUREMENT

INCOME TAX EXPENSE

Income tax expense comprises both current and deferred taxes and is based on the accounting profit adjusted for differences in the accounting and tax treatments of income and expenses (that is, taxable income). We recognise tax expense in profit or loss except to the extent to which it relates to items recognised directly in equity and other comprehensive income, in which case we recognise it directly in equity or other comprehensive income respectively.

CURRENT TAX EXPENSE

Current tax is the tax we expect to pay on taxable income for the year, based on tax rates (and tax laws) which are enacted at the reporting date. We recognise current tax as a liability (or asset) to the extent that it is unpaid (or refundable).

DEFERRED TAX ASSETS AND LIABILITIES

We account for deferred tax using the balance sheet method. Deferred tax arises because accounting income is not always the same as the taxable income. This creates temporary differences, which usually reverse over time. Until they reverse, we recognise a deferred tax asset, or liability, on the balance sheet. We measure deferred taxes at the tax rates that we expect will apply to the period(s) when the asset is realised, or the liability settled, based on tax rates (and tax laws) that have been enacted or substantially enacted at the reporting date.

We offset current and deferred tax assets and liabilities only to the extent that:

- they relate to income taxes imposed by the same taxation authority;
- there is a legal right and intention to settle on a net basis; and
- it is allowed under the tax law of the relevant jurisdiction.

KEY JUDGEMENTS AND ESTIMATES

Judgement is required in determining provisions held in respect of uncertain tax positions. The Company estimates its tax liabilities based on its understanding of the relevant law in each of the countries in which it operates and seeks independent advice where appropriate.

5. DIVIDENDS

ORDINARY SHARE DIVIDENDS

Dividends are provided for in the financial statements once determined, accordingly, the final dividend announced for the current financial year is provided for and paid in the following financial year.

Dividends	% of total	Amount per share	Total dividend $m
Financial Year 2018			
2017 final dividend paid		80 cents	2,350
2018 interim dividend paid		80 cents	2,317
Bonus option plan adjustment			(82)
Dividends paid during the year ended 30 September 2018			4,585
Cash	91.5%		4,193
Dividend reinvestment plan	8.5%		392
Dividends paid during the year ended 30 September 2018			4,585
Financial Year 2019			
2018 final dividend paid		80 cents	2,295
2019 interim dividend paid		80 cents	2,267
Bonus option plan adjustment			(81)
Dividends paid during the year ended 30 September 2019			4,481
Cash	90.4%		4,049
Dividend reinvestment plan	9.6%		432
Dividends paid during the year ended 30 September 2019			4,481

Dividends announced and to be paid after year-end	Payment date	Amount per share	Total dividend $m
2019 final dividend (partially franked at 70% for Australian tax, New Zealand imputation credit NZD 9 cents per share)	18 December 2019	80 cents	2,268

DIVIDEND REINVESTMENT PLAN AND BONUS OPTION PLAN

Eligible shareholders can elect to reinvest their dividend entitlement into ANZ ordinary shares under the Company's Dividend Reinvestment Plan (DRP). Eligible shareholders can elect to forgo their dividend entitlement and instead receive ANZ ordinary shares under the Company's Bonus Option Plan (BOP). For the 2019 final dividend, DRP participation will be satisfied by an on-market purchase of shares and BOP participation will be satisfied by an issue of ANZ ordinary shares. There will be no discount applied to the DRP and BOP price.

See Note 21 Shareholders' Equity for details of shares the Company issued or purchased in respect of the DRP and BOP.

DIVIDEND FRANKING ACCOUNT

	Currency	2019 $m	2018 $m
Australian franking credits available at 30% tax rate	AUD	35	97
New Zealand imputation credits available (which can be attached to our Australian dividends but may only be used by New Zealand resident shareholders)	NZD	4,068	3,868

The above amounts represent the balances of the franking accounts as at the end of the financial year, adjusted for:

- franking credits that will arise from the payment of income tax payable as at the end of the financial year; and
- franking credits/debits from the receipt/payment of dividends that have been recognised as tax receivables/payables as at the end of the financial year.

NOTES TO THE FINANCIAL STATEMENTS (continued)

5. DIVIDENDS (continued)

The proposed final 2019 dividend will utilise the entire balance of $35 million franking credits available at 30 September 2019. Instalment tax payments on account of the 2020 financial year which will be made after 30 September 2019 will generate sufficient franking credits to enable the final 2019 dividend to be fully franked. The extent to which future dividends will be franked will depend on a number of factors, including the level of profits generated by the Company that will be subject to tax in Australia.

RESTRICTIONS ON THE PAYMENT OF DIVIDENDS

APRA's written approval is required before paying dividends on ANZ ordinary shares:

- if the aggregate dividends exceed the Company's after tax earnings (in calculating those after tax earnings, we take into account any payments we made on senior capital instruments) in the financial year to which they relate; or
- if the Group's Common Equity Tier 1 capital ratio falls within capital range buffers specified by APRA.

If the Company fails to pay a dividend or distribution on its ANZ Capital Notes or ANZ Capital Securities on the scheduled payment date, it may (subject to a number of exceptions) be restricted from resolving to pay or paying any dividend on the ANZ ordinary shares.

6. SEGMENT REPORTING

No operating segment disclosures have been presented in these Company financial statements. Disaggregated information for the Company's segments is not information which is regularly provided to the Chief Executive Officer, who is the Chief Operating Decision Maker (CODM) of the Company.

Full details of the operating segments of the Group are provided in Note 7 Segment Reporting in the ANZ 2019 Group Annual Report located at https://shareholder.anz.com/annual-report-shareholder-review.

FINANCIAL ASSETS

Outlined below is a description of how we classify and measure financial assets relevant to the subsequent note disclosures.

CLASSIFICATION AND MEASUREMENT

Financial assets - general

There are three measurement classifications for financial assets under AASB 9: amortised cost, fair value through profit or loss (FVTPL) and fair value through other comprehensive income (FVOCI). Financial assets are classified into these measurement classifications on the basis of two criteria:

- the business model within which the financial asset is managed; and
- the contractual cash flow characteristics of the financial asset (specifically whether the contractual cash flows represent solely payments of principal and interest).

The resultant financial asset classifications are as follows:

- Amortised cost: Financial assets with contractual cash flows that comprise solely payments of principal and interest only and which are held in a business model whose objective is to collect their cash flows;
- FVOCI: Financial assets with contractual cash flows that comprise solely payments of principal and interest only and which are held in a business model whose objective is to collect their cash flows or to sell the assets; and
- FVTPL: Any other financial assets not falling into the categories above are measured at FVTPL.

Fair Value Option for Financial Assets

A financial asset may be irrevocably designated FVTPL on initial recognition when the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

7. CASH AND CASH EQUIVALENTS

	2019 $m	2018 $m
Coins, notes and cash at bank	934	912
Securities purchased under agreements to resell in less than 3 months	24,939	27,631
Balances with central banks	24,218	32,009
Settlement balances owed to ANZ within 3 months	27,858	19,675
Cash and cash equivalents	77,949	80,227

8. TRADING SECURITIES

	2019 $m	2018 $m
Government securities	22,993	21,545
Corporate and financial institution securities	4,995	4,302
Equity and other securities	6,229	3,672
Trading securities	34,217	29,519

RECOGNITION AND MEASUREMENT

Trading securities are financial instruments we either:

- acquire principally for the purpose of selling in the short-term; or
- hold as part of a portfolio we manage for short-term profit making.

We recognise purchases and sales of trading securities on trade date:

- initially, we measure them at fair value through the profit and loss; and
- subsequently, we measure them in the balance sheet at their fair value with any revaluation recognised in the profit or loss.

KEY JUDGEMENTS AND ESTIMATES

Judgement is required when applying the valuation techniques used to measure the fair value of trading securities not valued using quoted market prices. Refer to Note 16 Fair Value of Financial Assets and Financial Liabilities for further details.

NOTES TO THE FINANCIAL STATEMENTS (continued)

9. DERIVATIVE FINANCIAL INSTRUMENTS

Fair Value	Assets 2019 $m	Liabilities 2019 $m	Assets 2018 $m	Liabilities 2018 $m
Derivative financial instruments - held for trading	113,369	(114,413)	62,813	(63,177)
Derivative financial instruments - designated in hedging relationships	3,175	(2,927)	1,635	(2,461)
Derivative financial instruments	116,544	(117,340)	64,448	(65,638)

FEATURES

Derivative financial instruments are contracts:

- whose value is derived from an underlying price index (or other variable) defined in the contract – sometimes the value is derived from more than one variable;
- that require little or no initial net investment; and
- that are settled at a future date.

Movements in the price of the underlying variables, which cause the value of the contract to fluctuate, are reflected in the fair value of the derivative.

PURPOSE

The Company's derivative financial instruments have been categorised as following:

Trading	Derivatives held in order to: • Meet customer needs for managing their own risks. • Manage risks in the Company that are not in a designated hedge accounting relationship (balance sheet management). • Undertake market making and positioning activities to generate profits from short-term fluctuations in prices or margins.
Designated in Hedging Relationships	Derivatives designated into hedge accounting relationships in order to minimise profit or loss volatility by matching movements to underlying positions relating to: • Hedges of the Company's exposures to interest rate risk and currency risk. • Hedges of other exposures relating to non-trading positions.

TYPES

The Company offers and uses four different types of derivative financial instruments:

Forwards	A contract documenting the rate of interest, or the currency exchange rate, to be paid or received on a notional principal obligation at a future date.
Futures	An exchange traded contract in which the parties agree to buy or sell an asset in the future for a price agreed on the transaction date, with a net settlement in cash paid on the future date without physical delivery of the asset.
Swaps	A contract in which two parties exchange a series of cash flows for another.
Options	A contract in which the buyer of the contract has the right - but not the obligation - to buy (known as a "call option") or to sell (known as a "put option") an asset or instrument at a set price on a future date. The seller has the corresponding obligation to fulfil the transaction to sell or buy the asset or instrument if the buyer exercises the option.

RISKS MANAGED

The Company offers and uses the instruments described above to manage fluctuations in the following market factors:

Foreign Exchange	Currencies at current or determined rates of exchange.
Interest Rate	Fixed or variable interest rates applying to money lent, deposited or borrowed.
Commodity	Soft commodities (that is, agricultural products such as wheat, coffee, cocoa and sugar) and hard commodities (that is, mined products such as gold, oil and gas).
Credit	Counterparty risk in the event of default.

9. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

DERIVATIVE FINANCIAL INSTRUMENTS – HELD FOR TRADING

The majority of the Company's derivative financial instruments are held for trading. The fair value of derivative financial instruments held for trading are:

Fair Value	Assets 2019 $m	Liabilities 2019 $m	Assets 2018 $m	Liabilities 2018 $m
Interest rate contracts				
Forward rate agreements	80	(84)	6	(7)
Futures contracts	32	(99)	48	(31)
Swap agreements	82,258	(81,074)	32,873	(33,510)
Options purchased	1,451	-	780	-
Options sold	-	(2,317)	-	(1,408)
Total	83,821	(83,574)	33,707	(34,956)
Foreign exchange contracts				
Spot and forward contracts	13,723	(13,599)	14,057	(13,221)
Swap agreements	13,591	(15,151)	12,276	(11,609)
Options purchased	394	-	461	-
Options sold	-	(501)	-	(649)
Total	27,708	(29,251)	26,794	(25,479)
Commodity contracts	1,806	(1,555)	2,258	(2,684)
Credit default swaps				
Structured credit derivatives purchased	16	-	22	-
Other credit derivatives purchased	4	(10)	8	(29)
Credit derivatives purchased	20	(10)	30	(29)
Structured credit derivatives sold	-	(19)	-	(26)
Other credit derivatives sold	14	(4)	24	(3)
Credit derivatives sold	14	(23)	24	(29)
Total	34	(33)	54	(58)
Derivative financial instruments - held for trading	113,369	(114,413)	62,813	(63,177)

NOTES TO THE FINANCIAL STATEMENTS (continued)

9. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

DERIVATIVE FINANCIAL INSTRUMENTS – DESIGNATED IN HEDGING RELATIONSHIPS

There are three types of hedge accounting relationships the Company utilises:

	Fair value hedge	Cash flow hedge	Net investment hedge
Objective of this hedging arrangement	To hedge our exposure to changes to the fair value of a recognised asset or liability or unrecognised firm commitment caused by interest rate or foreign currency movements.	To hedge our exposure to variability in cash flows of a recognised asset or liability, a firm commitment or a highly probable forecast transaction caused by interest rate, foreign currency and other price movements.	To hedge our exposure to exchange rate differences arising from the translation of our foreign operations from their functional currency to Australian dollars.
Recognition of effective hedge portion	The following are recognised in profit or loss at the same time: • all changes in the fair value of the underlying item relating to the hedged risk; and • the change in the fair value of derivatives.	We recognise the effective portion of changes in the fair value of derivatives designated as a cash flow hedge in the cash flow hedge reserve.	We recognise the effective portion of changes in the fair value of the hedging instrument in the foreign currency translation reserve.
Recognition of ineffective hedge portion	Recognised immediately in Other operating income.		
If a hedging instrument expires, or is sold, terminated, or exercised; or no longer qualifies for hedge accounting	When we recognise the hedged item in profit or loss, we recognise the related unamortised fair value adjustment in profit or loss. This may occur over time if the hedged item is amortised to profit or loss as part of the effective yield over the period to maturity.	Only when we recognise the hedged item in profit or loss is the amount previously deferred in the cash flow hedge reserve transferred to profit or loss.	The amount we defer in the foreign currency translation reserve remains in equity and is transferred to profit or loss only when we dispose of, or partially dispose of, the foreign operation.
Hedged item sold or repaid	We recognise the unamortised fair value adjustment immediately in profit or loss.	Amounts accumulated in equity are transferred immediately to profit or loss.	The gain or loss, or applicable proportion, we recognise in equity is transferred to profit or loss on disposal or partial disposal of a foreign operation.

As outlined in Note 1, ANZ has continued to apply the AASB 139 hedge accounting requirements until the International Accounting Standards Board's ongoing project on macro hedge accounting is completed. However, new hedge disclosures are required for 2019 and onwards under AASB 7 *Financial Instruments: Disclosures (AASB 7)* which are presented below. The presentation of derivatives information for 2018 has not been amended.

The fair value of derivative financial instruments designated in hedging relationships are:

	Nominal amount $m	Assets 2019 $m	Liabilities 2019 $m	Assets 2018 $m	Liabilities 2018 $m
Fair value hedges					
Foreign exchange swap agreements	21	1	-	1	-
Foreign exchange spot and forward contracts	581	-	(9)	1	-
Interest rate swap agreements	84,195	1,752	(2,479)	1,211	(2,251)
Interest rate futures contracts	3,139	-	(27)	47	(1)
Cash flow hedges					
Interest rate swap agreements	49,409	1,347	(311)	330	(148)
Foreign exchange swap agreements	2,934	75	(91)	44	(52)
Foreign exchange spot and forward contracts	159	-	(1)	1	-
Net investment hedges					
Foreign exchange spot and forward contracts	540	-	(9)	-	(9)
Derivative financial instruments - designated in hedging relationships	140,978	3,175	(2,927)	1,635	(2,461)

9. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The maturity profile of the nominal amounts of our hedging instruments held at 30 September 2019 is:

Nominal Amount		Average rate	Less than 3 months $m	3 to 12 months $m	1 to 5 years $m	After 5 years $m	Total $m
Fair value hedges							
Interest rate	Interest Rate	1.97%	3,195	14,463	48,727	20,949	87,334
Foreign exchange	HKD/AUD FX Rate	5.38	602	-	-	-	602
Cash flow hedges							
Interest rate	Interest Rate	2.10%	596	7,429	39,630	1,754	49,409
Foreign exchange[1]	AUD/USD FX Rate USD/EUR FX Rate	0.72 0.91	40	120	1,652	1,281	3,093
Net investment hedges							
Foreign exchange	TWD/AUD FX Rate	21.41	111	429	-	-	540

[1] Hedges of foreign exchange risk cover multiple currency pairs. The table reflects the larger currency pairs only.

The impact of ineffectiveness from our designated hedge relationships by type of hedge relationship and type of risk being hedged are:

	Ineffectiveness			
2019	Change in value of hedging instrument $m	Change in value of hedged item $m	Hedge ineffectiveness recognised in profit and loss $m	Amount reclassified from the cash flow hedge reserve or FCTR to profit and loss $m
Fair value hedges[1]				
Interest rate	158	(155)	3	-
Foreign exchange	(36)	36	-	-
Cash flow hedges[1]				
Interest rate	850	(840)	10	1
Foreign exchange	20	(20)	-	2
Net investment hedges[1]				
Foreign exchange	(35)	35	-	-

[1] All hedging instruments are held within Derivative Financial Instruments.

Hedge ineffectiveness recognised is classified within Other operating income. Reclassification adjustments to the Statement of Comprehensive Income are recognised within Net interest income.

Hedged items in relation to the Company's fair value hedges at 30 September 2019 are as follows:

			Carrying amount		Accumulated fair value hedge adjustments on the hedged item	
	Balance sheet presentation	Hedged risk	Assets $m	Liabilities $m	Assets $m	Liabilities $m
Fixed rate loans and advances	Net loans and advances	Interest rate	1,242	-	12	-
Fixed rate debt issuance	Debt issuances	Interest rate	-	(49,928)	-	(1,412)
Fixed rate investment securities (FVOCI)[1]	Investment securities	Interest rate	41,362	-	1,662	-
Equity securities at FVOCI[1]	Investment securities	Foreign exchange	581	-	52	-
Total			43,185	(49,928)	1,726	(1,412)

[1] The carrying amount of debt and equity instruments at fair value through other comprehensive income does not include the fair value hedge adjustment as the hedge assets are measured at fair value. The accounting for the hedge relationship results in transfer of the hedge adjustment out of other comprehensive income into the Income Statement.

The cumulative amount of fair value hedge adjustments relating to ceased hedge relationships remaining on the Balance Sheet is $5 million.

NOTES TO THE FINANCIAL STATEMENTS (continued)

9. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Hedged items in relation to the Company's cash flow and net investment hedges for 30 September 2019 are as follows:

		Cash flow hedge reserve		Foreign currency translation reserve	
	Hedged risk	Continuing hedges $m	Discontinued hedges $m	Continuing hedges $m	Discontinued hedges $m
Cash Flow hedges					
Floating rate loans and advances	Interest rate	1,252	33	-	-
Floating rate customer deposits	Interest rate	(274)	(24)	-	-
Foreign currency debt issuance	Foreign exchange	14	-	-	-
Foreign currency investment securities	Foreign exchange	6	-	-	-
Highly probable forecast transactions	Foreign exchange	3	-	-	-
Net investment hedges					
Foreign operations	Foreign exchange	-	-	36	(149)

The table below details the reconciliation of the cash flow hedge reserve by risk type:

	Interest Rate $m	Foreign Currency $m	Total $m
Balance at 1 October 2018	106	-	106
Fair value gains	840	20	860
Transferred to income statement	1	2	3
Income taxes and others	(257)	(5)	(262)
Balance at 30 September 2019	690	17	707

Hedges from net investments in a foreign operation resulted in a $35 million decrease in the foreign currency translation reserve during the year. There were no reclassifications from FCTR to the income statement during the year.

2018 Disclosure

The impact recognised in profit or loss arising from derivative financial instruments designated in hedge accounting relationships, are as follows:

	Hedge accounting type	2018 $m
Gain/(loss) recognised in other operating income		
Hedged item	Fair value	934
Hedging instrument	Fair value	(949)
Ineffective portion of hedged instrument	Cash flow	13

9. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

RECOGNITION AND MEASUREMENT

Recognition	Initially and at each reporting date, we recognise all derivatives at fair value. If the fair value of a derivative is positive, then we carry it as an asset, but if its value is negative, then we carry it as a liability. Valuation adjustments are integral in determining the fair value of derivatives. This includes: • a credit valuation adjustment (CVA) to reflect the counterparty risk and/or event of default; and • a funding valuation adjustment (FVA) to account for funding costs and benefits in the derivatives portfolio.
Derecognition of assets and liabilities	We remove derivative assets from our balance sheet when the contracts expire or we have transferred substantially all the risks and rewards of ownership. We remove derivative liabilities from our balance sheet when the Company's contractual obligations are discharged, cancelled or expired.
Impact on the Income Statement	How we recognise gains or losses on derivative financial instruments depends on whether the derivative is held for trading or is designated into a hedging relationship. For derivative financial instruments held for trading, gains or losses from changes in the fair value are recognised in profit or loss. For an instrument designated into a hedging relationship the recognition of gains or losses depends on the nature of the item being hedged. Refer to the table on page 24 for profit or loss treatment depending on the hedge type. Sources of hedge ineffectiveness may arise from basis risk and differences in discounting between the hedged items and the hedging instruments. The hedging instruments are discounted using Overnight Index Swaps discount curves which are not applied to the hedged items.
Hedge effectiveness	To qualify for hedge accounting a hedge is expected to be highly effective. A hedge is highly effective only if the following conditions are met: • the hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated (prospective effectiveness); and • the actual results of the hedge are within the range of 80-125% (retrospective effectiveness). The Company monitors hedge effectiveness on a regular basis but at a minimum at least at each reporting date.

KEY JUDGEMENTS AND ESTIMATES

Judgement is required when we select the valuation techniques used to measure the fair value of derivatives, particularly the selection of valuation inputs that are not readily observable, and the application of valuation adjustments to certain derivatives. Refer to Note 16 Fair Value of Financial Assets and Financial Liabilities for further details.

NOTES TO THE FINANCIAL STATEMENTS (continued)

10. INVESTMENT SECURITIES

	2019 $m	2018 $m
Investment securities measured at fair value through other comprehensive income		
- debt securities	67,400	-
- equity securities	1,168	-
Investment securities measured at amortised cost		
- debt securities [1]	4,787	-
Available-for-sale assets		
- debt securities	-	63,644
- equity securities	-	1,084
Total	73,355	64,728

1. Includes allowance for expected credit losses of $1 million.

2019 Investment securities	Less than 3 months $m	3 to 12 months $m	1 to 5 years $m	After 5 years $m	No maturity $m	Total $m
Government securities	6,582	13,049	22,632	11,368	-	53,631
Corporate and financial institution securities	1,024	1,883	13,385	351	-	16,643
Other securities	-	-	183	1,730	-	1,913
Equity securities	-	-	-	-	1,168	1,168
Total	7,606	14,932	36,200	13,449	1,168	73,355
2018 Available-for-sale assets						
Government securities	5,725	6,729	24,455	11,569	-	48,478
Corporate and financial institution securities	850	2,221	10,364	-	-	13,435
Other securities	-	-	159	1,572	-	1,731
Equity securities	-	-	-	-	1,084	1,084
Total	6,575	8,950	34,978	13,141	1,084	64,728

During the year, the Company recognised a net gain (before tax) in Other operating income from the recycling of gains previously deferred in equity of $26 million (2018: $70 million) in respect of investment securities (applicable from 1 October 2018) and available-for-sale assets (prior to 1 October 2018).

The carrying value of equity securities classified as FVOCI/AFS equity securities is $1,168 million (2018: $1,084 million). This includes the Company's $1,106 million (2018: $1,025 million) investment in the Bank of Tianjin (BoT).

10. INVESTMENT SECURITIES (continuing)

RECOGNITION AND MEASUREMENT

Policy applicable from 1 October 2018

Investment securities are those financial assets in security form (i.e. transferable debt or equity instruments) that are not held for trading purposes. By way of exception, bills of exchange (a form of security/transferable instrument) which are used to facilitate the Bank's customer lending activities are classified as Loans and advances (rather than Investment Securities) to better reflect the substance of the arrangement.

Non-traded equity investments may be designated at FVOCI on an instrument by instrument basis. If this election is made, gains or losses are not reclassified from other comprehensive income to profit or loss on disposal of the investment. However, gains or losses may be reclassified within equity.

Assets disclosed as investment securities are subject to the general classification and measurement policy for Financial Assets outlined at the commencement of the Company's financial asset disclosures on page 20. Additionally, expected credit losses associated with "Investment securities - debt securities at amortised cost" and "Investment securities - debt securities at fair value through comprehensive income" are recognised and measured in accordance with the accounting policy outlined in Note 12. For "Investment securities – debt securities at fair value through other comprehensive income" the allowance for ECL is recognised in the FVOCI reserve in equity with a corresponding charge to profit or loss.

Policy applicable prior to 1 October 2018

Available for sale (AFS) assets comprise non-derivative financial assets which we designate as AFS since we do not hold them principally for trading purposes. They include both equity and debt securities. AFS assets are initially recognised at fair value plus transaction costs and are revalued at least bi-annually. On revaluation, we include movements in fair value within the available-for-sale revaluation reserve in equity, except for certain items which are recognised directly in profit or loss, being interest on debt securities, dividends received, foreign exchange on debt securities and impairment charges.

When we sell the asset, any cumulative gain or loss from the available-for-sale revaluation reserve is recognised in profit or loss.

At each reporting date, we assess whether any AFS assets are impaired. We assess the impairment of any debt securities if an event has occurred which will have a negative impact on the asset's estimated cash flows. For equity securities, we assess if there is a significant or prolonged decline in their fair value below cost.

If an AFS asset is impaired, then we remove the cumulative loss related to that asset from the available-for-sale revaluation reserve. We then recognise it in profit or loss for:

- debt instruments, as a credit impairment expense; and
- equity instruments, as a negative impact in other operating income.

We recognise any later reversals of impairment on debt securities in the profit or loss through the credit impairment charge line. However, we do not make any reversals of impairment for equity securities. To the extent previously impaired equity securities recover in value, gains are recognised directly in equity.

KEY JUDGEMENTS AND ESTIMATES

Judgement is required when we select valuation techniques used to measure the fair value of assets not valued using quoted market prices, particularly the selection of valuation inputs that are not readily observable. Refer to Note 16 Fair Value of Financial Assets and Financial Liabilities for further details.

NOTES TO THE FINANCIAL STATEMENTS (continued)

11. NET LOANS AND ADVANCES

	2019 $m	2018 $m
Overdrafts	6,265	6,047
Credit cards	7,788	8,379
Commercial bills	6,159	6,861
Term loans – housing	265,810	273,908
Term loans – non-housing	199,659	180,965
Other	1,454	1,494
Subtotal	487,135	477,654
Unearned income	(144)	(165)
Capitalised brokerage/mortgage origination fees	585	710
Gross loans and advances (including assets classified as held for sale)	487,576	478,199
Allowance for expected credit losses (refer to Note 12)[1,2]	(2,921)	(2,348)
Net loans and advances	484,655	475,851
Residual contractual maturity:		
Within one year	83,848	76,744
After more than one year	400,807	399,107
Net loans and advances	484,655	475,851
Carried on Balance Sheet at:		
Amortised cost	483,858	475,850
Fair value through profit or loss (designated on initial recognition)	797	1
Net loans and advances	484,655	475,851

1. On adoption of AASB 9 on 1 October 2018, the Company increased the collectively assessed provisions by $583 million. Comparative information has not been restated. Refer to Note 1 and 31 for further details.
2. $432 million of individually and collectively assessed provisions for credit impairment attributable to off-balance sheet credit related commitments at 30 September 2018 were reclassified from Net loans and advances at amortised cost to Other provisions to enhance comparability with current period presentation.

RECOGNITION AND MEASUREMENT

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are facilities the Company provides directly to customers or through third party channels.

Loans and advances are initially recognised at fair value plus transaction costs directly attributable to the issue of the loan or advance, which are primarily brokerage/mortgage origination fees which we amortise over the estimated life of the loan. Subsequently, we then measure loans and advances at amortised cost using the effective interest rate method, net of any provision for credit impairment, or at fair value when they are specifically designated on initial recognition as fair value through profit or loss or when held for trading.

We classify contracts to lease assets and hire purchase agreements as finance leases if they transfer substantially all the risks and rewards of ownership of the asset to the customer or an unrelated third party. We include these facilities in 'Other' in the table above.

The Company enters into transactions in which it transfers financial assets that are recognised on its balance sheet. When the Company retains substantially all of the risks and rewards of the transferred assets then the transferred assets remain on the Company's balance sheet, however, if substantially all the risks and rewards are transferred then the Company derecognises the asset.

If the risks and rewards are partially retained and control over the asset is lost, then the Company derecognises the asset. If control over the asset is not lost, the Company continues to recognise the asset to the extent of its continuing involvement.

We separately recognise the rights and obligations retained, or created, in the transfer as assets and liabilities as appropriate.

From 1 October 2018, assets disclosed as net loans and advances are subject to the general classification and measurement policy for Financial Assets outlined at the commencement of the Company's Financial Asset disclosures on page 20. Additionally, expected credit losses associated with loans and advances at amortised cost are recognized and measured in accordance with the accounting policy outlined in Note 12.

12. ALLOWANCE FOR EXPECTED CREDIT LOSSES

ALLOWANCE FOR EXPECTED CREDIT LOSSES

As described in Notes 1 and 31, the Company adopted AASB 9 effective from 1 October 2018 which resulted in the application of an expected credit loss (ECL) model for measuring impairment of financial assets and amendments to the presentation of credit impairment information for the current year. Comparative information has not been restated.

The following tables present the movement in the allowance for ECL (including allowance for ECL reclassified as held for sale) for the year.

Net loans and advances - at amortised cost

Allowance for ECL is included in Net loans and advances.

			Stage 3		
	Stage 1 $m	Stage 2 $m	Collectively assessed $m	Individually assessed $m	Total $m
As at 1 October 2018	729	1,199	308	695	2,931
Transfer between stages	139	(270)	(90)	221	-
New and increased provisions (net of releases)	(136)	246	143	995	1,248
Write-backs				(331)	(331)
Bad debts written off (excluding recoveries)				(953)	(953)
Foreign currency translation and other movements[1]	14	6		6	26
As at 30 September 2019	746	1,181	361	633	2,921

[1] Includes the impact of discount unwind on individually assessed allowance for ECL.

The movement in expected credit losses is consistent with the movement in corresponding gross balances.

Investment securities - debt securities at amortised cost

Allowance for ECL is included in Investment securities.

			Stage 3		
	Stage 1 $M	Stage 2 $M	Collectively assessed $M	Individually assessed $M	Total $M
As at 1 October 2018	1	-	-	-	1
Transfer between stages	-	-	-	-	-
New and increased provisions (net of releases)	-	-	-	-	-
Write-backs	-	-	-	-	-
Bad debts written off (excluding recoveries)	-	-	-	-	-
Foreign currency translation and other movements	-	-	-	-	-
As at 30 September 2019	1	-	-	-	1

Investment securities - debt securities at FVOCI

Allowance for ECL does not change the carrying amount which remains at fair value. Instead, the allowance for ECL is recognised in Other Comprehensive Income (OCI), with a corresponding charge to profit or loss.

			Stage 3		
	Stage 1 $m	Stage 2 $m	Collectively assessed $m	Individually assessed $m	Total $m
As at 1 October 2018	4	-	-	-	4
Transfer between stages	-	-	-	-	-
New and increased provisions (net of releases)	1	-	-	-	1
Write-backs	-	-	-	-	-
Bad debts written off (excluding recoveries)	-	-	-	-	-
Foreign currency translation and other movements	-	-	-	-	-
As at 30 September 2019	5	-	-	-	5

NOTES TO THE FINANCIAL STATEMENTS (continued)

12. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)

ALLOWANCE FOR EXPECTED CREDIT LOSSES

Off-balance sheet commitments - undrawn and contingent facilities
Allowance for ECL is included in Provisions.

	Stage 1 $m	Stage 2 $m	Stage 3 Collectively assessed $m	Stage 3 Individually assessed $m	Total $m
As at 1 October 2018	408	141	8	18	575
Transfer between stages	21	(23)	1	1	-
New and increased provisions (net of releases)	(33)	7	5	-	(21)
Write-backs	-	-	-	(1)	(1)
Bad debts written off (excluding recoveries)	-	-	-	-	-
Foreign currency translation and other movements	9	1	-	(6)	4
As at 30 September 2019	405	126	14	12	557

2018 Provision for credit impairment disclosures under AASB 139

The below disclosure does not reflect the adoption of AASB 9 and are prepared under the requirements of the previous AASB 139.

Provision for credit impairment	Net loans and advances 2018 $m	Off-balance sheet credit related commitments 2018 $m	Total 2018 $m
Individual provision			
Balance at start of year	887	16	903
New and increased provisions	1,175	12	1,187
Write-backs	(337)	-	(337)
Bad debts written off (excluding recoveries)	(1,031)	-	(1,031)
Other[1]	1	(10)	(9)
Total individual provision	695	18	713
Collective provision			
Balance at start of year	1,625	434	2,059
Charge/(release) to profit or loss	14	(27)	(13)
Other[2]	14	7	21
Total collective provision	1,653	414	2,067
Total provision for credit impairment	2,348	432	2,780

1. Other individual provision includes the impact of the sale completion of the Asia Retail and Wealth business divestment in 2018. It includes an adjustment for exchange rate fluctuations and the impact of discount unwind on individual provisions.
2. Other collective provision includes the impact of the sale completion of the Asia Retail and Wealth business divestment, and an adjustment for exchange rate fluctuations.

12. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)

CREDIT IMPAIRMENT CHARGE - INCOME STATEMENT

Credit impairment charge/(release) analysis under AASB 9

	2019 $m
New and increased provisions (net of releases)[1]	
- Collectively assessed	11
- Individually assessed	1,217
Write-backs	(332)
Recoveries of amounts previously written-off	(182)
Total credit impairment charge	714

1. Includes the impact of transfers between collectively assessed and individually assessed.

The contractual amount outstanding on financial assets that were written off during the period ended 30 September 2019 and that are still subject to enforcement activity is $141 million.

2018 Credit impairment charge/(release) analysis under AASB 139

The below disclosures do not reflect the adoption of AASB 9 and is prepared under the requirements of the previous AASB 139.

	2018 $m
New and increased individual provisions[1]	1,187
Write-backs	(337)
Recoveries of amounts previously written-off	(208)
Individually assessed credit impairment charge	642
Collectively assessed credit impairment charge/(release)	(13)
Credit impairment charge	629

NOTES TO THE FINANCIAL STATEMENTS (continued)

12. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)

RECOGNITION AND MEASUREMENT

Policy applicable from 1 October 2018

EXPECTED CREDIT LOSS IMPAIRMENT MODEL

The measurement of expected credit losses reflects an unbiased, probability weighted prediction which evaluates a range of scenarios and takes into account the time value of money, past events, current conditions and forecasts of future economic conditions.

Expected credit losses are either measured over 12 months or the expected lifetime of the financial asset, depending on credit deterioration since origination, according to the following three-stage approach:

- Stage 1: At the origination of a financial asset, and where there has not been a significant increase in credit risk (SICR) since origination, an allowance equivalent to 12 months ECL is recognised reflecting the expected credit losses resulting from default events that are possible within the next 12 months from the reporting date. For instruments with a remaining maturity of less than 12 months, expected credit losses are estimated based on default events that are possible over the remaining time to maturity.
- Stage 2: Where there has been a significant increase in credit risk since origination, an allowance equivalent to lifetime ECL is recognised reflecting expected credit losses resulting from all possible default events over the expected life of a financial instrument. If credit risk were to improve in a subsequent period such that the increase in credit risk since origination is no longer considered significant, the exposure returns to a Stage 1 classification and a 12 month ECL applies.
- Stage 3: Where there is objective evidence of impairment, an allowance equivalent to lifetime ECL is recognised.

Expected credit losses are estimated on a collective basis for exposures in Stage 1 and Stage 2, and on either a collective or individual basis when transferred to Stage 3.

MEASUREMENT OF EXPECTED CREDIT LOSS

ECL is calculated as the product of the following credit risk factors at a facility level, discounted to incorporate the time value of money:

- Probability of default (PD) - the estimate of the likelihood that a borrower will default over a given period;
- Exposure at default (EAD) - the expected balance sheet exposure at default taking into account repayments of principal and interest, expected additional drawdowns and accrued interest; and
- Loss given default (LGD) - the expected loss in the event of the borrower defaulting, expressed as a percentage of the facility's EAD, taking into account direct and indirect recovery costs.

These credit risk factors are adjusted for current and forward looking information through the use of macro-economic variables.

EXPECTED LIFE

When estimating ECL for exposures in Stage 2 and 3, the Company considers the expected lifetime over which it is exposed to credit risk.

For non-retail portfolios, the Company uses the maximum contractual period as the expected lifetime for non-revolving credit facilities. For non-retail revolving credit facilities, such as corporate lines of credit, the expected life reflects the Company's contractual right to withdraw a facility as part of a contractually agreed annual review, after taking into account the applicable notice period.

For retail portfolios, the expected lifetime is determined using behavioural term, taking into account expected prepayment behaviour and substantial modifications.

DEFINITION OF DEFAULT, CREDIT IMPAIRED AND WRITE-OFFS

The definition of default used in measuring expected credit losses is aligned to the definition used for internal credit risk management purposes across all portfolios. This definition is also in line with the regulatory definition of default. Default occurs when there are indicators that a debtor is unlikely to fully satisfy contractual credit obligations to the Company, or the exposure is 90 days past due.

Financial assets, including those that are well secured, are considered credit impaired for financial reporting purposes when they default.

When there is no realistic probability of recovery, loans are written off against the related impairment allowance on completion of the Company's internal processes and when all reasonably expected recoveries have been collected. In subsequent periods, any recoveries of amounts previously written-off are credited to credit impairment charge in the income statement.

12. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)

RECOGNITION AND MEASUREMENT

MODIFIED FINANCIAL ASSETS

If the terms of a financial asset are modified or an existing financial asset is replaced with a new one for either credit or commercial reasons, an assessment is made to determine if the changes to the terms of the existing financial asset are considered substantial. This assessment considers both changes in cash flows arising from the modified terms as well as changes in the overall instrument risk profile; for example, changes in the principal (credit limit), term, or type of underlying collateral. Where a modification is considered non-substantial, the existing financial asset is not derecognised and its date of origination continues to be used to determine SICR. Where a modification is considered substantial, the existing financial asset is derecognised and a new financial asset is recognised at its fair value on the modification date, which also becomes the date of origination used to determine SICR for this new asset.

SIGNIFICANT INCREASE IN CREDIT RISK (SICR)

Stage 2 assets are those that have experienced a significant increase in credit risk (SICR) since origination. In determining what constitutes a SICR, the Company considers both qualitative and quantitative information:

i. Internal credit rating grade

For the majority of portfolios, the primary indicator of a SICR is a significant deterioration in the internal credit rating grade of a facility since origination and is measured by application of thresholds.

For non-retail portfolios, a SICR is determined by comparing the Customer Credit Rating (CCR) applicable to a facility at reporting date to the CCR at origination of that facility. A CCR is assigned to each borrower which reflects the probability of default of the borrower and incorporates both borrower and non-borrower specific information, including forward looking information. CCRs are subject to review at least annually or more frequently when an event occurs which could affect the credit risk of the customer.

For retail portfolios, a SICR is determined by comparing each facility's scenario weighted lifetime probability of default at the reporting date to the scenario weighted lifetime probability of default at origination. The scenario weighted lifetime probability of default may increase significantly if:

- there has been a deterioration in the economic outlook, or an increase in economic uncertainty; or
- there has been a deterioration in the customer's overall credit position, or ability to manage their credit obligations.

ii. Backstop criteria

The Company uses 30 days past due arrears as a backstop criteria for both non-retail and retail portfolios. For retail portfolios only, facilities are required to demonstrate three to six months of good payment behaviour prior to being allocated back to Stage 1.

FORWARD LOOKING INFORMATION

Forward-looking information is incorporated into both our assessment of whether a financial asset has experienced a significant increase in credit risk since its initial recognition and in our estimate of ECL. In applying forward looking information for estimating ECL, the Company considers four probability-weighted forecast economic scenarios as follows:

i. Base case scenario

The base case scenario is ANZ's view of the most likely future macro-economic conditions. It reflects management's assumptions used for strategic planning and budgeting, and also informs ANZ's Internal Capital Adequacy Assessment Process (ICAAP) which is the process ANZ applies in strategic and capital planning over a 3 year time horizon;

ii. Upside and iii. Downside scenarios

The upside and downside scenarios are fixed by reference to average economic cycle conditions (that is, they are not based on the economic conditions prevailing at balance date) and are based on a combination of more optimistic (in the case of the upside) and pessimistic (in the case of the downside) economic events and uncertainty over long term horizons; and

iv. Severe downside scenario

The severe downside scenario is fixed by reference to average economic cycle conditions and accounts for the potentially severe impact of less likely extremely adverse economic conditions. It reflects macro-economic conditions of a downturn economic event with a probability of occurrence once every 25 years.

The four scenarios are described in terms of macro-economic variables used in the PD, LGD and EAD models (collectively the ECL models) depending on the portfolio and country of the borrower. Examples of the variables include unemployment rates, GDP growth rates, house price indices, commercial property price indices and consumer price indices.

NOTES TO THE FINANCIAL STATEMENTS (continued)

12. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)

RECOGNITION AND MEASUREMENT

Probability weighting of each scenario is determined by management considering the risks and uncertainties surrounding the base case scenario, as well as specific portfolio considerations where required.

The Group Asset and Liability Committee (GALCO) is responsible for reviewing and approving the base case forecast scenario and the Credit and Market Risk Committee (CMRC) approves the probability weights applied to each scenario.

Where applicable, temporary adjustments may be made to account for situations where known or expected risks have not been adequately addressed in the modelling process. CMRC is responsible for approving such adjustments.

ECL Sensitivity

The table below illustrates the impact on the Company's ECL allowance under scenarios where a 100% weighting is applied to both upside and downside scenarios with all other modelling assumptions remaining constant.

	Total ECL $m	Impact $m
100% upside scenario	1,956	(878)
100% downside scenario	4,501	1,668

Policy applicable prior to 1 October 2018

The Company recognises two types of impairment provisions for its loans and advances:

- Individual provisions for significant assets that are assessed to be impaired; and
- Collective provisions for portfolios of similar assets that are assessed collectively for impairment.

The accounting treatment for each of them is detailed below:

	Individually	Collectively
Assessment	If any impaired loans and advances exceed specified thresholds and an impairment event has been identified, then we assess the need for a provision individually.	To allow for any small value loans and advances where losses may have been incurred but not yet identified, and individually significant loans and advances that we do not assess as impaired, we assess them collectively in pools of assets with similar credit risk characteristics.
Impairment	Loans and advances are assessed as impaired if we have objective evidence that we may not recover principal or interest payments (that is, a loss event has been incurred).	We estimate the provision on the basis of historical loss experience for assets with similar credit risk characteristics to others in the respective collective pool. We adjust the historical loss experience based on current observable data – such as: changing economic conditions, the impact of the inherent risk of large concentrated losses within the portfolio and an assessment of the economic cycle.
Measurement	We measure impairment loss as the difference between the asset's carrying amount and estimated future cash flows discounted to their present value at the asset's original effective interest rate. We record the result as an expense in profit or loss in the period we identify the impairment and recognise a corresponding reduction in the carrying amount of loans and advances through an offsetting provision.	
Uncollectable amounts	If a loan or advance is uncollectable (whether partially or in full), then we write off the balance (and also any related provision for credit impairment). We write off unsecured retail facilities at the earlier of the facility becoming 180 days past due, or the customer's bankruptcy or similar legal release from the obligation to repay the loan or advance. For secured facilities, write offs occur net of the proceeds determined to be recoverable from the realisation of collateral.	
Recoveries	If we recover any cash flows from loans and advances we have previously written off, then we recognise the recovery in profit or loss in the period the cash flows are received.	
Off-balance sheet amounts	Any off-balance sheet items, such as loan commitments, are considered for impairment both on an individual and collective basis.	

12. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)

KEY JUDGEMENTS AND ESTIMATES

Applicable from 1 October 2018

When estimating the allowance for expected credit losses for loans and advances, we used management's judgement in respect of the matters outlined below.

	Key Judgements
Determining when a significant increase in credit risk has occurred	In the measurement of ECL, judgement is involved in setting the rules to determine whether there has been a significant increase in credit risk (SICR) since initial recognition of a loan, resulting in the financial asset moving from 'stage 1' to 'stage 2'. This is a key area of judgement as transition from stage 1 to stage 2 increases the ECL calculation from an allowance based on the probability of default in the next 12 months, to an allowance for lifetime expected credit losses. Subsequent decreases in credit risk combined with transition from stage 2 to stage 1 may similarly result in significant changes in the ECL allowance. The setting of precise trigger points requires judgement which may have a material impact upon the size of the ECL allowance. The Company monitors the effectiveness of SICR criteria on an ongoing basis.
Measuring both 12-month and lifetime credit losses	The PD, LGD, and EAD credit risk parameters used in determining ECL are point-in-time measures reflecting the relevant forward looking information determined by management. Judgement is involved in determining which forward-looking information variables are relevant for particular lending portfolios and for determining each portfolio's point-in-time sensitivity. In addition, judgement is required where behavioural characteristics are applied in estimating the lifetime of a facility to be used in measuring ECL. All other things being equal, an increase in the expected behavioural life will increase the amount of ECL.
Forecasting forward-looking scenarios	Our forecast of forward looking information variables is established from a "base case" or most likely scenario that is used internally by management for planning and forecasting purposes. The expected outcomes of key economic drivers for the base case scenario as at 30 September, 2019 are as follows: **Australia** The unemployment rate is expected to remain essentially flat and GDP growth to improve modestly over the forecast period, with residential property values expected to improve after a period of decline. Commercial property prices are expected to decline slightly through the forecast period. Consumer price index growth is expected to rise from current levels. **Rest of world** GDP growth is forecast to taper lower in the near term due to uncertainty in the global outlook. Inflation is also expected to remain soft over the forecast period to 2020.
Probability weighting of each scenario	Probability weighting of each scenario is determined by management considering the risks and uncertainties surrounding the base case scenario, as well as specific portfolio considerations where required.
Management temporary adjustments	Management temporary adjustments to the ECL allowance are adjustments we use in circumstances where we judge that our existing inputs, assumptions and model techniques do not capture all the risk factors relevant to our lending portfolios. Emerging local or global macroeconomic, microeconomic or political events, and natural disasters that are not incorporated into our current parameters, risk ratings, or forward-looking information are examples of such circumstances. The use of management temporary adjustments may impact the amount of ECL recognised.

NOTES TO THE FINANCIAL STATEMENTS (continued)

12. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)

KEY JUDGEMENTS AND ESTIMATES

Applicable prior to 1 October 2018

When we measured impairment of loans and advances, we used management's judgement of the extent of losses at reporting date.

	Individually	Collectively
Key Judgements	• Estimated future cash flows • Business prospects for the customer • Realisable value of any collateral • Group's position relative to other claimants • Reliability of customer information • Likely cost and duration of recovering loans	• Estimated future cash flows • Historical loss experience of assets with similar risk characteristics • Impact of large concentrated losses inherent in the portfolio • Assessment of the economic cycle

We regularly reviewed our key judgements and updated them to reflect actual loss experience.

FINANCIAL LIABILITIES

Outlined below is a description of how we classify and measure financial liabilities relevant to the subsequent note disclosures.

CLASSIFICATION AND MEASUREMENT

Financial liabilities

Financial liabilities are measured at amortised cost, or fair value through profit or loss when they are held for trading. Additionally, financial liabilities can be designated at FVTPL where:

- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise;
- a group of financial liabilities are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management strategy; or
- the financial liability contains one or more embedded derivatives unless:

  a) the embedded derivative does not significantly modify the cash flows that otherwise would be required by the contract, or

  b) the embedded derivative is closely related to the host financial liability.

Where financial liabilities are designated as measured at fair value, gains or losses relating to changes in the entity's own credit risk are included in other comprehensive income, except where doing so would create or enlarge an accounting mismatch in profit or loss. This section of AASB 9 was early adopted by the Company on 1 October 2013.

13. DEPOSITS AND OTHER BORROWINGS

The table below shows our total deposits and other borrowings by type:

	2019 $m	2018 $m
Certificates of deposit	34,952	41,867
Term deposits	173,641	164,182
On demand and short term deposits	214,002	205,647
Deposits not bearing interest	15,765	14,562
Deposits from banks and securities sold under repurchase agreements	76,468	70,992
Commercial paper	9,413	14,742
Deposits and other borrowings	524,241	511,992
Residual contractual maturity:		
- to be settled within 1 year	522,125	504,182
- to be settled after 1 year	2,116	7,810
Deposits and other borrowings	524,241	511,992
Carried on Balance Sheet at:		
Amortised cost	524,220	511,937
Fair value through profit or loss (designated on initial recognition)	21	55
Deposits and other borrowings	524,241	511,992

RECOGNITION AND MEASUREMENT

For deposits and other borrowings that are:

- not designated at fair value through profit or loss on initial recognition, we measure them at amortised cost and recognise their interest expense using the effective interest rate method; and
- managed on a fair value basis, reduce or eliminate an accounting mismatch or contain an embedded derivative, we designate them as fair value through profit or loss.

Refer to Note 16 Fair Value of Financial Assets and Financial Liabilities for details of the split between amortised cost and fair value.

For deposits and other borrowings designated at fair value we recognise the amount of fair value gain or loss attributable to changes in the Company's own credit risk in other comprehensive income in retained earnings. Any remaining amount of fair value gain or loss we recognise directly in profit or loss. Once we have recognised an amount in other comprehensive income, we do not later reclassify it to profit or loss.

Securities sold under repurchase agreements represent a liability to repurchase the financial assets that remain on our balance sheet since the risks and rewards of ownership remain with the Company. Over the life of the repurchase agreement, we recognise the difference between the sale price and the repurchase price and charge it to interest expense in the Income Statement.

NOTES TO THE FINANCIAL STATEMENTS (continued)

14. DEBT ISSUANCES

The Company uses a variety of funding programmes to issue senior debt (including covered bonds) and subordinated debt. The difference between senior debt and subordinated debt is that holders of senior debt take priority over holders of subordinated debt owed by the Company. In the winding up of the Company, the subordinated debt will be repaid by the Company, only after the repayment of claims of depositors, other creditors and the senior debt holders.

	2019 $m	2018 $m
Senior debt	71,767	68,951
Covered bonds	16,826	14,221
Total unsubordinated debt	**88,593**	83,172
Subordinated debt		
- Additional Tier 1 capital	7,838	7,461
- Tier 2 capital	8,415	7,993
Total subordinated debt	**16,253**	15,454
Total debt issued	**104,846**	98,626

For further information relating to debt issuances, refer to the ANZ 2019 Group Annual Report (Note 15 Debt Issuances) available at https://shareholder.anz.com/annual-report-shareholder-review.

15. FINANCIAL RISK MANAGEMENT

RISK MANAGEMENT FRAMEWORK AND MODEL

INTRODUCTION

The use of financial instruments is fundamental to the Company's businesses of providing banking and other financial services to our customers. The associated financial risks (primarily credit, market, and liquidity risks) are a significant portion of the Company's key material risks.

We disclose details of all key material risks impacting the Company, and further information on the Company's risk management activities, in the Our Approach to Risk Management section of the Directors' Report in the ANZ 2019 Group Annual Report available at https//shareholder.anz.com/annual-report-shareholder-review.

This note details the Company's financial risk management policies, processes and quantitative disclosures in relation to the key financial risks:

Key material financial risks	Key sections applicable to this risk
Overview	• An overview of our Risk Management Framework
Credit risk The risk of financial loss resulting from: • a counterparty failing to fulfil its obligations; or • a decrease in credit quality of a counterparty resulting in a financial loss. Credit Risk incorporates the risks associated with us lending to customers who could be impacted by climate change or by changes to laws, regulations, or other policies adopted by governments or regulatory authorities, including carbon pricing and climate change adaptation or mitigation policies.	• Credit risk overview, management and control responsibilities • Maximum exposure to credit risk • Credit quality • Concentrations of credit risk • Collateral management
Market risk The risk to the Company's earnings arising from: • changes in any interest rates, foreign exchange rates, credit spreads, volatility and correlations; or • from fluctuations in bond, commodity or equity prices.	• Market risk overview, management and control responsibilities • Measurement of market risk • Traded and non-traded market risk • Equity securities designated at FVOCI (from 1 October 2018) and available-for-sale (prior to 1 October 2018) • Foreign currency risk – structural exposures
Liquidity and funding risk The risk that the Company is unable to meet payment obligations as they fall due, including: • repaying depositors or maturing wholesale debt; or • the Group having insufficient capacity to fund increases in assets.	• Liquidity risk overview, management and control responsibilities • Key areas of measurement for liquidity risk • Liquidity risk outcomes • Residual contractual maturity analysis of the Company's liabilities

NOTES TO THE FINANCIAL STATEMENTS (continued)

15. FINANCIAL RISK MANAGEMENT (continued)

OVERVIEW

AN OVERVIEW OF OUR RISK MANAGEMENT FRAMEWORK

This overview is provided to aid the users of the financial statements to understand the context of the financial disclosures required under AASB 7 *Financial Instruments: Disclosures*. It should be read in conjunction with the Our Approach to Risk Management section of the Directors' Report in the ANZ 2019 Group Annual Report available at https//shareholder.anz.com/annual-report-shareholder-review.

The Board is responsible for establishing and overseeing the Company's Risk Management Framework (RMF). The Board has delegated authority to the Board Risk Committee (BRC) to develop and monitor compliance with the Company's risk management policies. The BRC reports regularly to the Board on its activities.

The Board approves the strategic objectives of the Company including:

- the Risk Appetite Statement (RAS), sets out the Board's expectations regarding the degree of risk that the Company is prepared to accept in pursuit of its strategic objectives and business plan; and
- the Risk Management Strategy (RMS), which describes the Company's strategy for managing risks and the key elements of the RMF that gives effect to this strategy. This includes a description of each material risk, and an overview of how the RMF addresses each risk, with reference to the relevant policies, standards and procedures. It also includes information on how the Company identifies measures, evaluates, monitors, reports and controls or mitigates material risks.

The Company, through its training and management standards and procedures, aims to maintain a disciplined and robust control environment in which all employees understand their roles and obligations. At the Company, risk is everyone's responsibility.

The Company has an independent risk management function, headed by the Chief Risk Officer who:

- is responsible for overseeing the risk profile and the risk management framework;
- can effectively challenge activities and decisions that materially affect the Company's risk profile; and
- has an independent reporting line to the BRC to enable the appropriate escalation of issues of concern.

The Company's Internal Audit Function reports directly to the Board Audit Committee (BAC). Internal Audit provides:

- an independent evaluation of the Company's RMF annually that seeks to ensure compliance with, and the effectiveness of, the risk management framework;
- facilitation of a comprehensive review every three years that seeks to ensure that the appropriateness, effectiveness and adequacy of the risk management framework; and
- recommendations to improve the framework and/or work practices to strengthen the effectiveness of day to day operations.

CREDIT RISK

CREDIT RISK OVERVIEW, MANAGEMENT AND CONTROL RESPONSIBILITIES

Granting credit facilities to customers is one of the Company's major sources of income. As this activity is also a principal risk, the Company dedicates considerable resources to its management. The Company assumes credit risk in a wide range of lending and other activities in diverse markets and in many jurisdictions. Credit risks arise from traditional lending to customers as well as from inter-bank, treasury, trade finance and capital markets activities around the world.

Our credit risk management framework ensures we apply a consistent approach across the Company when we measure, monitor and manage the credit risk appetite set by the Board. The Board is assisted and advised by the BRC in discharging its duty to oversee credit risk. The BRC:

- sets the credit risk appetite and credit strategies; and
- approves credit transactions beyond the discretion of executive management.

15. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK (continued)

We quantify credit risk through an internal credit rating system (masterscales) to ensure consistency across exposure types and to provide a consistent framework for reporting and analysis. The system uses models and other tools to measure the following for customer exposures:

Probability of Default (PD)	Expressed by a Customer Credit Rating (CCR), reflecting the Company's assessment of a customer's ability to service and repay debt.
Exposure at Default (EAD)	The expected balance sheet exposure at default taking into account repayments of principal and interest, expected additional drawdowns and accrued interest at the time of default.
Loss Given Default (LGD)	Expressed by a Security Indicator (SI) ranging from A to G. The SI is calculated by reference to the percentage of loan covered by security which the Company can realise if a customer defaults. The A-G scale is supplemented by a range of other SIs which cover factors such as cash cover and sovereign backing. For retail and some small business customers, we group exposures into large homogenous pools – and the LGD is assigned at the pool level.

Our specialist credit risk teams develop and validate the Company's PD and LGD rating models. The outputs from these models drive our day-to-day credit risk management decisions including origination, pricing, approval levels, regulatory capital adequacy, economic capital allocation, and credit provisioning.

All customers with whom the Company has a credit relationship are assigned a CCR at origination via either of the following assessment approaches:

Large and more complex lending	Retail and some small business lending
Rating models provide a consistent and structured assessment, with judgement required around the use of out-of-model factors. We handle credit approval on a dual approval basis, jointly with the business writer and an independent credit officer.	Automated assessment of credit applications using a combination of scoring (application and behavioural), policy rules and external credit reporting information. If the application does not meet the automated assessment criteria, then it is referred out for manual assessment.

We use the Company's internal CCRs to manage the credit quality of financial assets neither past due nor impaired. To enable wider comparisons, the Company's CCRs are mapped to external rating agency scales as follows:

Credit Quality Description	Internal CCR	ANZ Customer Requirements	Moody's Rating	Standard & Poor's Rating
Strong	CCR 0+ to 4-	Demonstrated superior stability in their operating and financial performance over the long-term, and whose earnings capacity is not significantly vulnerable to foreseeable events.	Aaa – Baa3	AAA – BBB-
Satisfactory	CCR 5+ to 6-	Demonstrated sound operational and financial stability over the medium to long-term — even though some may be susceptible to cyclical trends or variability in earnings.	Ba1 – B1	BB+ – B+
Weak	CCR 7 to 8=	Demonstrated some operational and financial instability, with variability and uncertainty in profitability and liquidity projected to continue over the short and possibly medium term.	B2 - Caa	B - CCC
Defaulted	CCR 8- to 10	When doubt arises as to the collectability of a credit facility, the financial instrument (or "the facility") is classified as defaulted.	N/A	N/A

The Company has adopted AASB 9 effective from 1 October 2018 which has resulted in changes to the classification and measurement of financial assets, including the impairment of financial assets. The presentation of credit risk information for 2019 has been amended with no restatement of comparatives. Refer Notes 1 and 31 for further details on key requirements and impacts of the changes due to the adoption of AASB 9.

MAXIMUM EXPOSURE TO CREDIT RISK

For financial assets recognised on the balance sheet, the maximum exposure to credit risk is the carrying amount. In certain circumstances there may be differences between the carrying amounts reported on the balance sheet and the amounts reported in the tables below. Principally, these differences arise in respect of financial assets that are subject to risks other than credit risk, such as equity instruments which are primarily subject to market risk, or bank notes and coins.

For undrawn facilities, this maximum exposure to credit risk is the full amount of the committed facilities. For contingent exposures, the maximum exposure to credit risk is the maximum amount the Company would have to pay if the instrument is called upon.

The table below shows our maximum exposure to credit risk of on-balance sheet and off-balance sheet positions before taking account of any collateral held or other credit enhancements:

NOTES TO THE FINANCIAL STATEMENTS (continued)

15. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK (continued)

	Reported		Excluded[1]		Maximum exposure to credit risk	
	2019 $m	2018 $m	2019 $m	2018 $m	2019 $m	2018 $m
On-balance sheet positions						
Net loans and advances	484,655	475,851	-	-	484,655	475,851
Other financial assets:						
Cash and cash equivalents	77,949	80,227	934	912	77,015	79,315
Settlement balances owed to ANZ	3,442	1,666	3,442	1,666	-	-
Collateral paid	13,461	9,184	-	-	13,461	9,184
Trading securities	34,217	29,519	5,922	3,486	28,295	26,033
Derivative financial instruments	116,544	64,448	-	-	116,544	64,448
Investment securities[2]						
- debt securities at amortised costs	4,787	-	-	-	4,787	-
- debt securities at FVOCI	67,400	-	-	-	67,400	-
- equity securities at FVOCI	1,168	-	1,168	-	-	-
Available-for-sale assets[2]	-	64,728	-	1,084	-	63,644
Regulatory deposits	215	264	-	-	215	264
Due from controlled entities	88,874	90,170	-	-	88,874	90,170
Other financial assets[3]	2,167	2,177	-	-	2,167	2,177
Total other financial assets	410,224	342,383	11,466	7,148	398,758	335,235
Subtotal	894,879	818,234	11,466	7,148	883,413	811,086
Off-balance sheet positions						
Undrawn and contingent facilities[4]	211,796	203,051	-	-	211,796	203,051
Total	1,106,675	1,021,285	11,466	7,148	1,095,209	1,014,137

1. Bank notes and coins and cash at bank within Cash and cash equivalents;Trade dated assets within Settlement balances owed to ANZ; Equity securities and precious metal exposures within Trading securities;Equity securities within Investment securities (classified as Available-for-sale assets in 2018) were excluded as they do not have credit risk exposure.
2. On adoption of AASB 9 on 1 October 2018, the classification and measurement of financial assets were revised. Available-for-sale classification used in comparative periods ceases to exist under AASB 9 and a new classification of investment securities was introduced. Refer to Note 1 for further details. Comparative information has not been restated.
3. Other financial assets mainly comprise accrued interest and acceptances.
4. Undrawn facilities and contingent liabilities includes guarantees, letters of credit and performance related contingencies, net of collectively assessed allowance for expected credit losses.

CREDIT QUALITY

An analysis of the Company's credit risk exposure is presented in the following tables based on the Company's internal rating by stage without taking account of the effects of any collateral or other credit enhancements:

Net loans and advances

	2019				
			Stage 3		
	Stage 1 $m	Stage 2 $m	Collectively assessed $m	Individually assessed $m	Total $m
Strong	330,531	16,720	-		347,251
Satisfactory	95,286	23,717	-		119,003
Weak	6,462	7,770	-		14,232
Defaulted	-	-	4,248	1,604	5,852
Gross loans and advances at amortised cost	432,279	48,207	4,248	1,604	486,338
Allowance for ECL	(746)	(1,181)	(361)	(633)	(2,921)
Net loans and advances at amortised cost	431,533	47,026	3,887	971	483,417
Coverage ratio	0.17%	2.45%	8.50%	39.46%	0.60%
Loans and advances at fair value through profit or loss					797
Unearned income					(144)
Capitalised brokerage/mortgage origination fees					585
Net carrying amount					484,655

15. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK (continued)

Investment securities - debt securities at amortised cost

	2019				
			Stage 3		
	Stage 1 $m	Stage 2 $m	Collectively assessed $m	Individually assessed $m	Total $m
Strong	4,714	-	-	-	4,714
Satisfactory	74	-	-	-	74
Weak	-	-	-	-	-
Defaulted	-	-	-	-	-
Gross investment securities - debt securities at amortised cost	4,788	-	-	-	4,788
Allowance for ECL	(1)	-	-	-	(1)
Net investment securities - debt securities at amortised cost	4,787	-	-	-	4,787
Coverage ratio	0.02%	-	-	-	0.02%

Investment securities - debt securities at FVOCI

	2019				
			Stage 3		
	Stage 1 $m	Stage 2 $m	Collectively assessed $m	Individually assessed $m	Total $m
Strong	67,400	-	-	-	67,400
Satisfactory	-	-	-	-	-
Weak	-	-	-	-	-
Defaulted	-	-	-	-	-
Investment securities - debt securities at FVOCI	67,400	-	-	-	67,400
Allowance for ECL recognised in other comprehensive income	(5)	-	-	-	(5)
Coverage ratio	0.01%	0.00%	0.00%	0.00%	0.01%

NOTES TO THE FINANCIAL STATEMENTS (continued)

15. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK (continued)

Other financial assets

	2019 $m
Strong	317,051
Satisfactory	9,138
Weak	382
Defaulted	-
Total carrying amount	326,571

Off-balance sheet commitments - undrawn and contingent facilities

	2019				
	Stage 1 $m	Stage 2 $m	Stage 3 Collectively assessed $m	Stage 3 Individually assessed $m	Total $m
Strong	139,051	1,816	-	-	140,867
Satisfactory	19,546	2,923	-	-	22,469
Weak	271	793	-	-	1,064
Defaulted	-	-	96	38	134
Gross undrawn and contingent facilities subject to ECL	158,868	5,532	96	38	164,534
Allowance for ECL included in Provisions	(405)	(126)	(14)	(12)	(557)
Net undrawn and contingent facilities subject to ECL	158,463	5,406	82	26	163,977
Coverage ratio	0.25%	2.28%	14.58%	31.58%	0.34%
Undrawn and contingent facilities not subject to ECL[1]					47,819
Net undrawn and contingent facilities					211,796

1. Commitments that can be unconditionally cancelled at any time without notice.

15. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK (continued)

2018 Credit Risk Disclosures

The below disclosures do not reflect the adoption of AASB 9 and have been prepared under the requirements of the previous AASB 139.

The table below provides an analysis of the credit quality of the maximum exposure to credit risk split by:

- neither past due nor impaired financial assets by credit quality;
- past due but not impaired assets by ageing; and
- restructured and impaired assets presented as gross amounts and net of individual provisions.

	Loans and advances	Other financial assets	Off-balance sheet credit related commitments	Total
	2018 $m	2018 $m	2018 $m	2018 $m
Neither past due nor impaired				
Strong credit profile	350,031	333,962	173,688	857,681
Satisfactory risk	98,222	1,185	27,996	127,403
Sub-standard but not past due or impaired	13,321	88	1,337	14,746
Sub-total	461,574	335,235	203,021	999,830
Past due but not impaired				
≥ 1 < 30 days	7,454	-	-	7,454
≥ 30 < 60 days	2,062	-	-	2,062
≥ 60 < 90 days	1,133	-	-	1,133
≥ 90 days	2,693	-	-	2,693
Sub-total	13,342	-	-	13,342
Restructured and impaired				
Impaired loans	1,382	-	-	1,382
Restructured items[1]	248	-	-	248
Non-performing commitments and contingencies	-	-	48	48
Gross impaired financial assets	1,630	-	48	1,678
Individual provisions	(695)	-	(18)	(713)
Sub-total restructured and net impaired	935	-	30	965
Total	475,851	335,235	203,051	1,014,137

1. Restructured items are 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 for new facilities with similar risk.

In 2019, the Company implemented a more market responsive collateral valuation methodology for the home loan portfolio in Australia which increased the number of home loans being classified as impaired rather than past due. Comparative information has not been restated for the change in methodology. Additionally, refinement to underlying processes and associated data resulted in the transfer of loans from past due and sub-standard categories into impaired assets. Comparative information has been restated with a transfer from past due of $99 million and from sub-standard of $27 million.

NOTES TO THE FINANCIAL STATEMENTS (continued)

15. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK (continued)

CONCENTRATIONS OF CREDIT RISK

Credit risk becomes concentrated when a number of customers are engaged in similar activities, have similar economic characteristics, or have similar activities within the same geographic region – therefore, they may be similarly affected by changes in economic or other conditions. The Company monitors its credit portfolio to manage risk concentration and rebalance the portfolio. The Company also applies single customer counterparty limits to protect against unacceptably large exposures to one single customer.

Composition of financial instruments that give rise to credit risk by industry group are presented below:

	Loans and advances		Other financial assets		Off-balance sheet credit related commitments		Total	
	2019 $m	2018 $m	2019 $m	2018 $m	2019 $m	2018 $m	2019 $m	2018 $m
Agriculture, forestry, fishing and mining	20,163	19,658	860	538	16,117	15,317	37,140	35,513
Business services	7,063	7,158	112	82	6,075	5,989	13,250	13,229
Construction	4,859	5,101	33	32	5,140	5,379	10,032	10,512
Electricity, gas and water supply	5,293	4,916	1,543	534	5,226	4,508	12,062	9,958
Entertainment, leisure and tourism	11,170	10,652	652	305	2,877	3,118	14,699	14,075
Financial, investment and insurance	52,333	43,245	321,569	262,203	39,107	35,326	413,009	340,774
Government and official institutions	2,002	748	62,886	63,225	1,637	2,043	66,525	66,016
Manufacturing	19,338	16,926	2,196	1,815	36,319	33,298	57,853	52,039
Personal lending	274,357	288,127	1,072	1,070	42,246	42,982	317,675	332,179
Property services	34,196	33,576	1,009	484	15,126	13,584	50,331	47,644
Retail trade	10,771	10,959	131	105	5,737	5,458	16,639	16,522
Transport and storage	11,955	10,204	966	459	6,844	6,606	19,765	17,269
Wholesale trade	12,665	11,946	2,784	2,644	16,347	17,725	31,796	32,315
Other	20,970	14,438	2,946	1,739	13,555	12,150	37,471	28,327
Gross total	487,135	477,654	398,759	335,235	212,353	203,483	1,098,247	1,016,372
Provision for credit impairment	(2,921)	(2,348)	(1)	-	(557)	(432)	(3,479)	(2,780)
Subtotal	484,214	475,306	398,758	335,235	211,796	203,051	1,094,768	1,013,592
Unearned income	(144)	(165)	-	-	-	-	(144)	(165)
Capitalised brokerage/mortgage origination fees	585	710	-	-	-	-	585	710
Maximum exposure to credit risk	484,655	475,851	398,758	335,235	211,796	203,051	1,095,209	1,014,137

15. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK (continued)

COLLATERAL MANAGEMENT

We use collateral for on and off-balance sheet exposures to mitigate credit risk if a counterparty cannot meet its repayment obligations from its expected cash flows. Where there is sufficient collateral, an expected credit loss is not recognised. This is largely the case for certain lending products that are secured by corresponding investment for which the margin loans are utilised and for reverse repurchase agreements. For some products, the collateral provided by customers is fundamental to the product's structuring, so it is not strictly the secondary source of repayment - for example, lending secured by trade receivables is typically repaid by the collection of those receivables. During the period there was no change in our collateral policies.

The nature of collateral or security held for the relevant classes of financial assets is as follows:

Net loans and advances	
Loans - housing and personal	Housing loans are secured by mortgage(s) over property and additional security may take the form of guarantees and deposits. Personal lending (including credit cards and overdrafts) is predominantly unsecured. If we take security, then it is restricted to eligible vehicles, motor homes and other assets.
Loans - business	Business loans may be secured, partially secured or unsecured. Typically, we take security by way of a mortgage over property and/or a charge over the business or other assets. If appropriate, we may take other security to mitigate the credit risk, for example: guarantees, standby letters of credit or derivative protection.
Other financial assets	
Trading securities, Investment securities (from 1 October 2018), Available-for-sale assets (prior to 1 October 2018), Derivatives and Other financial assets	For trading securities, we do not seek collateral directly from the issuer or counterparty. However, the collateral may be implicit in the terms of the instrument (for example, with an asset-backed security). The terms of debt securities may include collateralisation. For derivatives, we typically terminate all contracts with the counterparty and settle on a net basis at market levels current at the time of a counterparty default under International Swaps and Derivatives Association (ISDA) Master Agreements. Our preferred practice is to use a Credit Support Annex (CSA) to the ISDA so that open derivative positions with the counterparty are aggregated and cash collateral (or other forms of eligible collateral) is exchanged daily. The collateral is provided by the counterparty when their position is out of the money (or provided to the counterparty by the Company when our position is out of the money).
Off-balance sheet positions	
Undrawn and contingent facilities.	Collateral for off balance sheet positions is mainly held against undrawn facilities, and they are typically performance bonds or guarantees. Undrawn facilities that are secured include housing loans secured by mortgages over residential property and business lending secured by commercial real estate and/or charges over business assets.

The table below shows the estimated value of collateral we hold and the net unsecured portion of credit exposures:

	Credit exposure		Total value of collateral		Unsecured portion of credit exposure	
	2019 $m	2018 $m	2019 $m	2018 $m	2019 $m	2018 $m
Net loans and advances	484,655	475,851	374,041	372,996	110,614	102,855
Other financial assets	398,758	335,235	29,998	30,166	368,760	305,069
Off-balance sheet positions	211,796	203,051	33,984	34,072	177,812	168,979
Total	1,095,209	1,014,137	438,023	437,234	657,186	576,903

NOTES TO THE FINANCIAL STATEMENTS (continued)

15. FINANCIAL RISK MANAGEMENT (continued)

MARKET RISK

MARKET RISK OVERVIEW, MANAGEMENT AND CONTROL RESPONSIBILITIES

Market risk stems from the Company's trading and balance sheet management activities, the impact of changes and correlation between interest rates, foreign exchange rates, credit spreads and volatility in bond, commodity or equity prices.

The BRC delegates responsibility for day-to-day management of both market risks and compliance with market risk policies to the Credit & Market Risk Committee (CMRC) and the Group Asset & Liability Committee (GALCO).

Within overall strategies and policies established by the BRC, business units and risk management have joint responsibility for the control of market risk at the Company level. The Market Risk team (a specialist risk management unit independent of the business) allocates market risk limits at various levels and monitors and reports on them daily. This detailed framework allocates individual limits to manage and control exposures using risk factors and profit and loss limits.

Management, measurement and reporting of market risk is undertaken in two broad categories:

Traded Market Risk	Non-Traded Market Risk
Risk of loss from changes in the value of financial instruments due to movements in price factors for both physical and derivative trading positions. Principal risk categories monitored are: 1. Currency risk – potential loss arising from changes in foreign exchange rates or their implied volatilities. 2. Interest rate risk – potential loss from changes in market interest rates or their implied volatilities. 3. Credit spread risk – potential loss arising from a movement in margin or spread relative to a benchmark. 4. Commodity risk – potential loss arising from changes in commodity prices or their implied volatilities. 5. Equity risk – potential loss arising from changes in equity prices.	Risk of loss associated with the management of non-traded interest rate risk, liquidity risk and foreign exchange exposures. This includes interest rate risk in the banking book. This risk of loss arises from adverse changes in the overall and relative level of interest rates for different tenors, differences in the actual versus expected net interest margin, and the potential valuation risk associated with embedded options in financial instruments and bank products.

MEASUREMENT OF MARKET RISK

We primarily manage and control market risk using Value at Risk (VaR), sensitivity analysis and stress testing.

VaR gauges the Company's possible daily loss based on historical market movements.

The Company's VaR approach for both traded and non-traded risk is historical simulation. We use historical changes in market rates, prices and volatilities over:

- the previous 500 business days, to calculate standard VaR; and
- a 1-year stressed period, to calculate stressed VaR.

We calculate traded and non-traded VaR using one-day and ten-day holding periods. For stressed VaR, we use a ten-day period. Back testing is used to ensure our VaR models remain accurate.

The Company measures VaR at a 99% confidence interval which means there is a 99% chance that a loss will not exceed the VaR for the relevant holding period.

15. FINANCIAL RISK MANAGEMENT (continued)

MARKET RISK (continued)

TRADED AND NON-TRADED MARKET RISK

Traded market risk

The table below shows the traded market risk VaR on a diversified basis by risk categories:

	30 September 2019				30 September 2018			
	As at $m	High for year $m	Low for year $m	Average for year $m	As at $m	High for year $m	Low for year $m	Average for year $m
Traded value at risk 99% confidence								
Foreign exchange	1.3	9.0	1.2	3.6	2.9	9.8	1.7	4.0
Interest rate	2.8	9.5	2.8	5.3	8.2	14.9	4.8	7.4
Credit	4.8	4.8	1.1	2.8	2.0	6.2	2.0	3.7
Commodity	1.5	4.0	1.1	1.8	3.5	4.4	1.1	2.9
Equity	-	-	-	-	-	-	-	-
Diversification benefit[1]	(4.9)	n/a	n/a	(5.9)	(9.1)	n/a	n/a	(7.8)
Total VaR	5.5	13.1	5.3	7.6	7.5	16.9	5.8	10.2

1. The diversification benefit reflects risks that offset across categories. The high and low VaR figures reported for each factor did not necessarily occur on the same day as the high and low VaR reported for the Company as a whole. Consequently, a diversification benefit for high and low would not be meaningful and is therefore omitted from the table.

Non-traded market risk

Balance sheet risk management

The principal objectives of balance sheet risk management are to maintain acceptable levels of interest rate and liquidity risk to mitigate the negative impact of movements in interest rates on the earnings and market value of the Company's banking book, while ensuring the Company maintains sufficient liquidity to meet its obligations as they fall due.

Interest rate risk management

Non-traded interest rate risk relates to the potential adverse impact of changes in market interest rates on the Company's future net interest income. This risk arises from two principal sources, namely mismatches between the repricing dates of interest bearing assets and liabilities; and the investment of capital and other non-interest bearing liabilities in interest bearing assets. Interest rate risk is reported using VaR and scenario analysis (based on the impact of a 1% rate shock). The table below shows VaR figures for non-traded interest rate risk for the combined Company as well as Australia, New Zealand and Asia Pacific, Europe and Americas (APEA) geographies which are calculated separately.

	30 September 2019				30 September 2018			
	As at $m	High for year $m	Low for year $m	Average for year $m	As at $m	High for year $m	Low for year $m	Average for year $m
Non-traded value at risk 99% confidence								
Australia	22.7	22.7	16.4	18.9	21.9	32.7	20.3	23.6
New Zealand	0.0	0.1	0.0	0.0	0.0	0.2	0.0	0.0
Asia Pacific, Europe & America	17.6	17.6	12.7	16.1	15.5	15.5	12.5	14.0
Diversification benefit[1]	(10.7)	n/a	n/a	(11.0)	(11.8)	n/a	n/a	(9.6)
Total VaR	29.6	29.6	21.2	24.0	25.6	35.2	22.3	28.0

1. The diversification benefit reflects the historical correlation between the regions. The high and low VaR figures reported for the region did not necessarily occur on the same day as the high and low VaR reported for the Company as a whole. Consequently, a diversification benefit for high and low would not be meaningful and is therefore omitted from the table.

NOTES TO THE FINANCIAL STATEMENTS (continued)

15. FINANCIAL RISK MANAGEMENT (continued)

MARKET RISK (continued)

We undertake scenario analysis to stress test the impact of extreme events on the Company's market risk exposures. We model a 1% overnight parallel positive shift in the yield curve to determine the potential impact on our net interest income over the next 12 months. This is a standard risk measure which assumes the parallel shift is reflected in all wholesale and customer rates.

The table below shows the outcome of this risk measure for the current and previous financial years, expressed as a percentage of reported net interest income. A positive number signifies that a rate increase is positive for net interest income over the next 12 months.

	2019	2018[1]
Impact of 1% rate shock		
As at period end	1.01%	0.98%
Maximum exposure	1.01%	1.77%
Minimum exposure	0.02%	0.23%
Average exposure (in absolute terms)	0.42%	0.77%

1. Prior period numbers have been restated to reflect IRR model enhancements

EQUITY SECURITIES DESIGNATED AT FVOCI (FROM 1 OCTOBER 2018) AND AVAILABLE-FOR-SALE (PRIOR TO 1 OCTOBER 2018)

Our investment securities (from 1 October 2018) and available-for-sale assets (prior to 1 October 2018) contain equity investment holdings which predominantly comprise investments we hold for longer-term strategic reasons. The market risk impact on these equity investments is not captured by the Company's VaR processes for traded and non-traded market risks. Therefore, the Company regularly reviews the valuations of the investments within the portfolio and assesses whether the investments are impaired based on the recognition and measurement policies set out in Note 10 Investment securities.

FOREIGN CURRENCY RISK – STRUCTURAL EXPOSURES

Our investment of capital in foreign operations — for example, branches, subsidiaries or associates with functional currencies other than the Australian Dollar — exposes the Company to the risk of changes in foreign exchange rates. Variations in the value of these foreign operations arising as a result of exchange differences are reflected in the foreign currency translation reserve in equity.

Where it is considered appropriate, the Company takes out economic hedges against larger foreign exchange denominated revenue streams (primarily New Zealand Dollar, US dollar and US dollar correlated). The primary objective of hedging is to ensure that, if practical, the consolidated capital ratios are neutral to the effect of changes in exchange rates.

LIQUIDITY AND FUNDING RISK

LIQUIDITY RISK AND FUNDING POSITION

For information related to the liquidity risk and funding position refer to the ANZ 2019 Group Annual Report (Note 16 Financial Risk Management), available at https://shareholder.anz.com/annual-report-shareholder-review.

RESIDUAL CONTRACTUAL MATURITY ANALYSIS OF THE COMPANY'S LIABILITIES

The table below provides residual contractual maturity analysis of financial liabilities at 30 September within relevant maturity groupings. The table below excludes "Due to controlled entities" liabilities of $89.7 billion (2018: $88.4 billion) as the contractual maturity is linked to the repayment of underlying assets which are managed on a pool basis which is continuously reviewed. All outstanding Debt Issuance and Subordinated Debt is profiled on the earliest date on which the Company may be required to pay. All at-call liabilities are reported in the "Less than 3 months" category. Any other items without a specified maturity date are included in the "After 5 years" category. The amounts represent principal and interest cash flows - so they may differ from equivalent amounts reported on balance sheet. It should be noted that this is not how the Company manages its liquidity risk. The management of this risk is detailed in the ANZ 2019 Group Annual Report (Note 16 Financial Risk Management), available at https://shareholder.anz.com/annual-report-shareholder-review.

15. FINANCIAL RISK MANAGEMENT (continued)

LIQUIDITY AND FUNDING RISK (continued)

2019	Less than 3 months $m	3 to 12 months $m	1 to 5 years $m	After 5 years $m	Total $m
Settlement balances owed by ANZ	9,313	29	-	-	9,342
Collateral received	7,005	-	-	-	7,005
Deposits and other borrowings	447,479	74,646	3,818	97	526,040
Liability for acceptances	293	-	-	-	293
Debt issuances[1]	7,579	13,958	79,370	13,207	114,114
Derivative liabilities (excluding those held for balance sheet management)[2]	108,457	-	-	-	108,457
Derivative assets and liabilities (balance sheet management)					
- Funding					
Receive leg	(24,570)	(22,462)	(62,851)	(15,524)	(125,407)
Pay leg	23,832	20,392	58,629	14,668	117,521
- Other balance sheet management					
Receive leg	(84,339)	(24,538)	(8,350)	(1,583)	(118,810)
Pay leg	84,525	25,088	9,373	1,972	120,958

2018	Less than 3 months $m	3 to 12 months $m	1 to 5 years $m	After 5 years $m	Total $m
Settlement balances owed by ANZ	9,867	-	-	-	9,867
Collateral received	6,002	-	-	-	6,002
Deposits and other borrowings	440,725	65,446	7,918	116	514,205
Liability for acceptances	316	-	-	-	316
Debt issuances[1]	4,563	17,946	67,787	19,826	110,122
Derivative liabilities (excluding those held for balance sheet management)[2]	58,784	-	-	-	58,784
Derivative assets and liabilities (balance sheet management)					
- Funding					
Receive leg	(13,221)	(26,116)	(66,671)	(30,071)	(136,079)
Pay leg	13,193	25,122	64,316	30,005	132,636
- Other balance sheet management					
Receive leg	(50,237)	(13,492)	(10,249)	(1,469)	(75,447)
Pay leg	50,479	13,626	10,763	1,634	76,502

1. Any callable wholesale debt instruments have been included at their next call date. Balance includes subordinated debt instruments that may be settled in cash or in equity, at the option of the Company, and perpetual debt instruments after 5 years.
2. The full mark-to-market of derivative liabilities not held for balance sheet management purposes is included in the "less than 3 months" category.

At 30 September 2019 $171,881 million (2018: $164,944 million) of the Company's undrawn facilities and $40,472 million (2018: $38,539 million) of its issued guarantees mature in less than 1 year, based on the earliest date on which the Company may be required to pay.

NOTES TO THE FINANCIAL STATEMENTS (continued)

16. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Company carries a significant number of financial instruments on the balance sheet at fair value. The fair value is the best estimate of the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date.

VALUATION

The Company has an established control framework, including appropriate segregation of duties, to ensure that fair values are accurately determined, reported and controlled. The framework includes the following features:

- products are approved for transacting with external customers and counterparties only where fair values can be appropriately determined;
- quoted market prices used to value financial instruments are independently verified with information from external pricing providers;
- fair value methodologies and inputs are evaluated and approved by a function independent of the party that undertakes the transaction;
- movements in fair values are independently monitored and explained by reference to underlying factors relevant to the fair value; and
- valuation adjustments (such as funding valuation adjustments, credit valuation adjustments and bid-offer adjustments) are independently validated and monitored.

If the Company holds offsetting risk positions, then the Company uses the portfolio exemption in AASB 13 *Fair Value Measurement* (AASB 13) to measure the fair value of such groups of financial assets and financial liabilities. We measure the portfolio based on the price that would be received to sell a net long position (an asset) for a particular risk exposure, or to transfer a net short position (a liability) for a particular risk exposure.

Fair value designation

We designate certain loans and advances and certain deposits and other borrowings and debt issuances as fair value through profit or loss:

- where they contain a separable embedded derivative which significantly modifies the instruments' cash flow; or
- in order to eliminate an accounting mismatch which would arise if the asset or liabilities were otherwise carried at amortised cost. This mismatch arises as we measure the derivative financial instruments (which we acquired to mitigate interest rate risk of the assets or liabilities) at fair value through profit or loss.

Our approach ensures that we recognise the fair value movements on the assets or liabilities in profit or loss in the same period as the movement on the associated derivatives.

We may also designate certain loans and advances and certain deposits and other borrowings and debt issuances as fair value through profit or loss where they are managed on a fair value basis to align the measurement with how the instruments are managed.

FAIR VALUE APPROACH AND VALUATION TECHNIQUES

We use valuation techniques to estimate the fair value of assets and liabilities for recognition, measurement and disclosure purposes where no quoted price in an active market exists for that asset or liability. This includes the following:

Asset or Liability	Fair Value Approach
Financial instruments classified as: - Trading securities - Securities sold short - Derivative financial assets and liabilities - Investment securities (from 1 October 2018) - Available-for-sale assets (prior to 1 October 2018)	Valuation techniques are used that incorporate observable market inputs for financial instruments with similar credit risk, maturity and yield characteristics. Equity instruments that are not traded in active markets may be measured using comparable company valuation multiples.
Financial instruments classified as: - Net loans and advances - Deposits and other borrowings - Debt issuances	Discounted cash flow techniques are used whereby contractual future cash flows of the instruments are discounted using wholesale market interest rates, or market borrowing rates for debt with similar maturities or yield curve appropriate for the remaining term to maturity.

16. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The following tables set out the classification of financial asset and liability categories according to measurement bases together with their carrying amounts as reported on the balance sheet.

		2019			2018		
	Note	At amortised cost $m	At fair value $m	Total $m	At amortised cost $m	At fair value $m	Total $m
Financial assets							
Cash and cash equivalents	7	77,949	-	77,949	80,227	-	80,227
Settlement balances owed to ANZ		3,442	-	3,442	1,666	-	1,666
Collateral paid		13,461	-	13,461	9,184	-	9,184
Trading securities	8	-	34,217	34,217	-	29,519	29,519
Derivative financial assets and liabilities	9	-	116,544	116,544	-	64,448	64,448
Investment securities	10	4,787	68,568	73,355	-	-	-
Available-for-sale assets	10	-	-	-	-	64,728	64,728
Net loans and advances	11	483,858	797	484,655	475,850	1	475,851
Regulatory deposits		215	-	215	264	-	264
Due from controlled entities		86,907	1,967	88,874	90,170	-	90,170
Other financial assets		2,167	-	2,167	2,023	-	2,023
Total		672,786	222,093	894,879	659,384	158,696	818,080
Financial liabilities							
Settlement balances owed by ANZ		9,342	-	9,342	9,867	-	9,867
Collateral received		7,005	-	7,005	6,002	-	6,002
Deposits and other borrowings	13	524,220	21	524,241	511,937	55	511,992
Derivative financial instruments	9	-	117,340	117,340	-	65,638	65,638
Due to controlled entities		89,683	-	89,683	88,383	-	88,383
Payables and other liabilities		4,231	2,390	6,621	3,942	1,060	5,002
Debt issuances	14	100,199	4,647	104,846	97,184	1,442	98,626
Total		734,680	124,398	859,078	717,315	68,195	785,510

FAIR VALUE HIERARCHY

The Company categorises assets and liabilities carried at fair value into a fair value hierarchy as required by AASB 13 based on the observability of inputs used to measure the fair value:

- Level 1 - valuations based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - valuations using inputs other than quoted prices included within Level 1 that are observable for a similar asset or liability, either directly or indirectly; and
- Level 3 - valuations where significant unobservable inputs are used to measure the fair value of the asset or liability.

NOTES TO THE FINANCIAL STATEMENTS (continued)

16. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

FAIR VALUE HIERARCHY (continued)

The following table presents assets and liabilities carried at fair value in accordance with the fair value hierarchy:

	Fair value measurements							
	Quoted market price (Level 1)		Using observable inputs (Level 2)		Using unobservable inputs (Level 3)		Total	
	2019 $m	2018 $m	2019 $m	2018 $m	2019 $m	2018 $m	2019 $m	2018 $m
Assets								
Trading securities[1]	29,439	23,969	4,778	5,550	-	-	34,217	29,519
Derivative financial instruments	351	630	116,137	63,764	56	54	116,544	64,448
Investment securities[2]	67,182		228		1,158		68,568	
Available-for-sale assets[1,2]	-	61,655	-	1,996	-	1,077	-	64,728
Net loans and advances (measured at fair value)	-	-	797	1	-	-	797	1
Due from controlled entities	-	-	1,967	-	-	-	1,967	-
Total	96,972	86,254	123,907	71,311	1,214	1,131	222,093	158,696
Liabilities								
Deposits and other borrowings (designated at fair value)	-	-	21	55	-	-	21	55
Derivative financial instruments	868	1,666	116,421	63,929	51	43	117,340	65,638
Payables and other liabilities[3]	2,352	1,048	38	12	-	-	2,390	1,060
Debt issuances (designated at fair value)	1,009	-	3,638	1,442	-	-	4,647	1,442
Total	4,229	2,714	120,118	65,438	51	43	124,398	68,195

1. During the year, there were no material transfers from Level 1 to Level 3 (2018: $676 million); Level 2 to Level 1 (2018: $783 million) and Level 1 to Level 2. Transfers into and out of levels are measured at the beginning of the reporting period in which the transfer occurred.
2. On adoption of AASB 9 on 1 October 2018, the classification and measurement of financial assets was revised. The available-for-sale classification used in comparative periods no longer exists under AASB 9 and a new classification of investment securities was introduced. Comparative information has not been restated.
3. Payables and other liabilities relates to securities sold short, which we classify as held for trading and measured at fair value through profit or loss.

FAIR VALUE MEASUREMENT INCORPORATING UNOBSERVABLE MARKET DATA

Level 3 fair value measurements

The net balance of Level 3 is an asset of $1,163 million (2018: $1,088 million). The assets and liabilities which incorporate significant unobservable inputs primarily include:

- equities for which there is no active market or traded prices cannot be observed;
- structured credit products for which credit spreads and default probabilities relating to the reference assets and derivative counterparties cannot be observed;
- other derivatives referencing market rates that cannot be observed primarily due to lack of market activity.

Movement in the Level 3 balance is mainly due to the revaluation of the Company's investment in Bank of Tianjin.

There were no other material transfers in or out of Level 3 during the period.

Bank of Tianjin (BoT)

The investment is valued based on comparative price-to-book (P/B) multiples (a P/B multiple is the ratio of the market value of equity to the book value of equity). The extent of judgement applied in determining the appropriate multiple and comparator group from which the multiple is derived are non-observable inputs which have resulted in the Level 3 classification.

16. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

FAIR VALUE MEASUREMENT INCORPORATING UNOBSERVABLE MARKET DATA (continued)

Sensitivity to Level 3 data inputs

When we make assumptions due to significant inputs not being directly observable in the market place (Level 3 inputs), then changing these assumptions changes the Company's estimate of the instrument's fair value. Favourable and unfavourable changes are determined by changing the primary unobservable parameter used to derive the valuation.

Bank of Tianjin (BoT)

The valuation of the BoT investment is sensitive to the selected unobservable input, being the P/B multiple. If the P/B multiple was increased or decreased by 10% it would result in a $111 million (Sep 18: $102 million) increase or decrease to the fair value of the investment, which would be recognised in shareholders' equity.

Other

The remaining Level 3 balance is immaterial and changes in the Level 3 inputs have a minimal impact on net profit and net assets of the Company.

Deferred fair value gains and losses

Where fair values are determined using unobservable inputs, the Company does not immediately recognise the difference between the transaction price and the amount we determine based on the valuation technique (day one gain or loss) in profit or loss. After initial recognition, we recognise the deferred amount in profit or loss on a straight line basis over the life of the transaction or until all inputs become observable.

The day one gains and losses deferred are not material.

FINANCIAL ASSETS AND FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE

The following table sets out the Company's basis of estimating fair values of financial instruments carried at amortised cost:

Financial Asset and Liability	Fair Value Approach
Investment securities – debt securities at amortised cost	Calculated based on quoted market prices or observable inputs as applicable. If quoted market prices are not available, we use a discounted cash flow model using a yield curve appropriate for the remaining term to maturity of the debt instrument. The fair value reflects adjustments to credit spreads applicable for that instrument.
Net loans and advances to banks	Discounted cash flows using prevailing market rates for loans with similar credit quality.
Net loans and advances to customers	Present value of future cash flows, discounted using a curve that incorporates changes in wholesale market rates, the Company's cost of wholesale funding and the customer margin, as appropriate.
Deposit liability without a specified maturity or at call	The amount payable on demand at the reporting date. We do not adjust the fair value for any value we expect the Company to derive from retaining the deposit for a future period.
Interest bearing fixed maturity deposits and other borrowings and acceptances with quoted market rates	Market borrowing rates of interest for debt with a similar maturity are used to discount contractual cash flows to derive the fair value.
Debt issuances	Calculated based on quoted market prices or observable inputs as applicable. If quoted market prices are not available, we use a discounted cash flow model using a yield curve appropriate for the remaining term to maturity of the debt instrument. The fair value reflects adjustments to credit spreads applicable to the Company for that instrument.

NOTES TO THE FINANCIAL STATEMENTS (continued)

16. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

FINANCIAL ASSETS AND FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE (continued)

The financial assets and financial liabilities listed in the table below are carried at amortised cost on the Company's balance sheet. While this is the value at which we expect the assets will be realised and the liabilities settled, the Company provides an estimate of the fair value of the financial assets and financial liabilities at balance date in the table below.

	At amortised cost		Categorised into fair value hierarchy						Fair value (total)	
			Quoted market price (Level 1)		Using observable inputs (Level 2)		With significant non-observable inputs (Level 3)			
	2019 $m	2018 $m	2019 $m	2018 $m	2019 $m	2018 $m	2019 $m	2018 $m	2019 $m	2018 $m
Financial assets										
Net loans and advances	483,858	475,850	-	-	21,425	28,352	462,909	447,259	484,334	475,611
Investment securities[1]	4,787	-	-	-	4,790	-	-	-	4,790	-
Due from controlled entities	86,907	90,170	-	-	-	-	86,907	90,170	86,907	90,170
Total	575,552	566,020	-	-	26,215	28,352	549,816	537,429	576,031	565,781
Financial liabilities										
Deposits and other borrowings	524,220	511,937	-	-	524,383	512,049	-	-	524,383	512,049
Debt issuances	100,199	97,184	39,620	31,365	61,832	66,529	-	-	101,452	97,894
Due to controlled entities	89,683	88,383	-	-	-	-	89,683	88,383	89,683	88,383
Total	714,102	697,504	39,620	31,365	586,215	578,578	89,683	88,383	715,518	698,326

1. Investment securities under AASB 9 includes securities measured at amortised cost.

KEY JUDGEMENTS AND ESTIMATES

The Company evaluates the material accuracy of the valuations incorporated in the financial statements as they can involve a high degree of judgement and estimation in determining the carrying values of financial assets and liabilities at the balance sheet date.

The majority of valuation models the Company uses employ only observable market data as inputs. However, for certain financial instruments, we may use data that is not readily observable in current markets. If we use unobservable market data, then we need to exercise more judgement to determine fair value depending on the significance of the unobservable input to the overall valuation. Generally, we derive unobservable inputs from other relevant market data and compare them to observed transaction prices where available.

When establishing the fair value of a financial instrument using a valuation technique, the Company considers valuation adjustments in determining the fair value. We may apply adjustments (such as bid/offer spreads, credit valuation adjustments and funding valuation adjustments – refer Note 9 Derivative Financial Instruments) to the techniques used to reflect the Company's assessment of factors that market participants would consider in setting fair value.

17. ASSETS CHARGED AS SECURITY FOR LIABILITIES AND COLLATERAL ACCEPTED AS SECURITY FOR ASSETS

The following disclosure excludes the amounts presented as collateral paid and received in the Balance Sheet that relate to derivative liabilities and derivative assets respectively. The terms and conditions of those collateral agreements are included in the standard Credit Support Annex that forms part of the International Swaps and Derivatives Association Master Agreement.

ASSETS CHARGED AS SECURITY FOR LIABILITIES

Assets charged as security for liabilities include the following types of instruments:

- Securities provided as collateral for repurchase transactions. These transactions are governed by standard industry agreements.
- Specified residential mortgages provided as security for notes and bonds issued to investors as part of the Company's covered bond programs.
- Collateral provided to central banks.
- Collateral provided to clearing houses.

The carrying amount of assets pledged as security are as follows:

	2019 $m	2018 $m
Securities sold under arrangements to repurchase[1]	**42,640**	39,332
Residential mortgages provided as security for covered bonds	**20,052**	19,612
Other	**4,421**	1,191

1. The amounts disclosed as securities sold under arrangements to repurchase include both:
   - assets pledged as security which continue to be recognised on the Company's balance sheet; and
   - assets repledged, which are included in the disclosure below.

COLLATERAL ACCEPTED AS SECURITY FOR ASSETS

The Company has received collateral associated with various financial instruments. Under certain transactions the Company has the right to sell, or to repledge, the collateral received. These transactions are governed by standard industry agreements.

The fair value of collateral we have received and that which we have sold or repledged is as follows:

	2019 $m	2018 $m
Fair value of assets which can be sold or repledged	**37,526**	35,360
Fair value of assets sold or repledged	**29,384**	23,270

NOTES TO THE FINANCIAL STATEMENTS (continued)

18. OFFSETTING

We offset financial assets and financial liabilities in the balance sheet (in accordance with AASB 132 *Financial Instruments: Presentation*) when there is:

- a current legally enforceable right to set off the recognised amounts in all circumstances; and
- an intention to settle the asset and liability on a net basis, or to realise the asset and settle the liability simultaneously.

If the above conditions are not met, the financial assets and liabilities are presented on a gross basis.

The Company does not have any arrangements that satisfy the conditions necessary to offset financial assets and financial liabilities within the balance sheet. The following table identifies financial assets and financial liabilities which have not been offset but are subject to enforceable master netting agreements (or similar arrangements) and the related amounts not offset in the balance sheet. We have not taken into account the effect of over-collateralisation.

			Amount subject to master netting agreement or similar			
2019	Total amounts recognised in the Balance Sheet $m	Amounts not subject to master netting agreement or similar $m	Total $m	Financial instruments $m	Financial collateral (received)/ pledged $m	Net amount $m
Derivative financial assets	116,544	(2,323)	114,221	(102,761)	(6,232)	5,228
Reverse repurchase, securities borrowing and similar agreements[1]	36,648	(4,845)	31,803	(1,414)	(30,389)	-
Total financial assets	153,192	(7,168)	146,024	(104,175)	(36,621)	5,228
Derivative financial liabilities	(117,340)	1,648	(115,692)	102,761	9,803	(3,128)
Repurchase, securities borrowing and similar agreements[2]	(40,826)	17,240	(23,586)	1,414	22,172	-
Total financial liabilities	(158,166)	18,888	(139,278)	104,175	31,975	(3,128)

			Amount subject to master netting agreement or similar			
2018	Total amounts recognised in the Balance Sheet $m	Amounts not subject to master netting agreement or similar $m	Total $m	Financial instruments $m	Financial collateral (received)/ pledged $m	Net amount $m
Derivative financial assets	64,448	(2,423)	62,025	(52,723)	(5,042)	4,260
Reverse repurchase, securities borrowing and similar agreements[1]	34,623	(4,337)	30,286	(398)	(29,888)	-
Total financial assets	99,071	(6,760)	92,311	(53,121)	(34,930)	4,260
Derivative financial liabilities	(65,638)	2,706	(62,932)	52,723	7,037	(3,172)
Repurchase, securities borrowing and similar agreements[2]	(37,581)	11,997	(25,584)	398	25,186	-
Total financial liabilities	(103,219)	14,703	(88,516)	53,121	32,223	(3,172)

1. Reverse repurchase agreements:
   - with less than 90 days to maturity are presented in the Balance Sheet within cash and cash and cash equivalents; or
   - with 90 days or more to maturity are presented in the Balance Sheet within net loans and advances.
2. Repurchase agreements are presented in the Balance Sheet within deposits and other borrowings.

19. GOODWILL AND OTHER INTANGIBLE ASSETS

	Goodwill[1]		Software		Total	
	2019 $m	2018 $m	2019 $m	2018 $m	2019 $m	2018 $m
Balance at start of year	73	69	1,373	1,783	1,446	1,852
Additions	10	-	412	386	422	386
Amortisation expense[2]	-	-	(497)	(787)	(497)	(787)
Impairment expense	-	-	(4)	(17)	(4)	(17)
Foreign currency exchange difference	(1)	4	1	8	-	12
Balance at end of year	82	73	1,285	1,373	1,367	1,446
Cost	82	73	6,767	6,289	6,888	6,401
Accumulated amortisation/impairment	n/a	n/a	(5,482)	(4,916)	(5,521)	(4,955)
Carrying amount	82	73	1,285	1,373	1,367	1,446

1. Goodwill excludes notional goodwill in equity accounted investments.
2. 2018 includes an accelerated amortisation expense of $240 million.

RECOGNITION AND MEASUREMENT

The table below details how we recognise and measure different intangible assets:

	Goodwill	Software
Definition	Excess amount the Company has paid in acquiring a business over the fair value less costs of disposal of the identifiable assets and liabilities acquired.	Purchases of "off the shelf" software assets are capitalised as assets. Internal and external costs incurred in building software and computer systems costing greater than $20 million are capitalized as assets. Those less than $20 million are expensed in the year in which the costs are incurred.
Carrying value	Cost less any accumulated impairment losses. Allocated to the cash generating unit to which the acquisition relates.	Initially, measured at cost. Subsequently, carried at cost less accumulated amortisation and impairment losses. Costs incurred in planning or evaluating software proposals or in maintaining systems after implementation are not capitalised.
Useful life	Indefinite. Goodwill is reviewed for impairment at least annually or when there is an indication of impairment.	Except for major core infrastructure, amortised over periods between 3-5 years. Major core infrastructure amortised over periods between 7 or 10 years.
Depreciation method	Not applicable.	Straight-line method.

NOTES TO THE FINANCIAL STATEMENTS (continued)

19. GOODWILL AND OTHER INTANGIBLE ASSETS (continued)

KEY JUDGEMENTS AND ESTIMATES

Management judgement is used to assess the recoverable value of goodwill, and other intangible assets, and the useful economic life of an asset (or if an asset has an indefinite life). We reassess the recoverability of the carrying value at each reporting date.

At each balance date, software and other intangible assets, including those not ready for use, are assessed for indicators of impairment. In the event that an asset's carrying amount is determined to be greater than its recoverable amount, the carrying value of the asset is written down immediately.

In addition, the expected useful economic life of intangible assets, including software assets, are assessed at each reporting date. The assessment requires management judgement, and in relation to our software assets, a number of factors can influence the expected useful lives. These factors include changes to business strategy, significant divestments and the pace of technological change.

20. OTHER PROVISIONS

	2019 $m	2018 $m
ECL allowance on undrawn facilities[1]	557	432
Customer remediation	967	556
Restructuring costs	37	94
Non-lending losses, frauds and forgeries	63	75
Other	281	113
Total other provisions	1,905	1,270

1. Refer to Note 12 Allowance for Expected Credit Losses for movement analysis.

	Customer remediation $m	Restructuring costs $m	Non-lending losses, frauds and forgeries $m	Other $m
Balance at start of year	556	94	75	113
New and increased provisions made during the year	608	46	1	308
Provisions used during the year	(150)	(91)	(5)	(40)
Unused amounts reversed during the year	(47)	(12)	(8)	(100)
Balance at end of year	967	37	63	281

Customer remediation

Customer remediation includes provisions for expected refunds to customers, remediation project costs and related customer and regulatory claims, penalties and litigation outcomes.

Restructuring costs

Provisions for restructuring costs arise from activities related to material changes in the scope of business undertaken by the Company or the manner in which that business is undertaken and include employee termination benefits. Costs relating to on-going activities are not provided for and are expensed as incurred.

Non-lending losses, frauds and forgeries

Non-lending losses include losses arising from certain legal actions not directly related to amounts of principal outstanding for loans and advances and losses arising from forgeries, frauds and the correction of operational issues. The amounts recognised are the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties that surround the events and circumstances that affect the provision.

Other

Other provisions comprise various other provisions including workers compensation, make-good provisions associated with leased premises and contingent liabilities recognised as part of a business combination.

NOTES TO THE FINANCIAL STATEMENTS (continued)

20. OTHER PROVISIONS (continued)

RECOGNITION AND MEASUREMENT

The Company recognises provisions when there is a present obligation arising from a past event, an outflow of economic resources is probable, and the amount of the provision can be measured reliably.

The amount recognised is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the estimated cash flows required to settle the present obligation, its carrying amount is the present value of those cash flows..

KEY JUDGEMENTS AND ESTIMATES

The Company holds provisions for various obligations including customer remediation, restructuring costs and surplus lease space, non-lending losses, fraud and forgeries and litigation related claims. These provisions involve judgements regarding the timing and outcome of future events, including estimates of expenditure required to satisfy such obligations. Where relevant, expert legal advice has been obtained and, in light of such advice, provisions and/or disclosures as deemed appropriate have been made.

In relation to customer remediation, determining the amount of the provisions, which represent management's best estimate of the cost of settling the identified matters, requires the exercise of significant judgement. It will often be necessary to form a view on a number of different assumptions, including, the number of impacted customers, the average refund per customer, the associated remediation project costs, and the implications of regulatory exposures and customer claims having regard to their specific facts and circumstances. Consequently, the appropriateness of the underlying assumptions is reviewed on a regular basis against actual experience and other relevant evidence including expert legal advice and adjustments are made to the provisions where appropriate.

21. SHAREHOLDERS' EQUITY

SHAREHOLDERS' EQUITY

	2019 $m	2018 $m
Ordinary share capital	26,413	27,533
Reserves:		
Foreign currency translation reserve	(21)	(230)
Share option reserve	89	92
FVOCI reserve	65	-
Available-for-sale revaluation reserve	-	(24)
Cash flow hedge reserve	707	106
Total reserves	840	(56)
Retained earnings	25,961	26,399
Total shareholders' equity	53,214	53,876

ORDINARY SHARE CAPITAL

The table below details the movement in ordinary shares for the period.

	2019		2018	
	Number of shares	$m	Number of shares	$m
Balance at start of the year	2,873,618,118	27,533	2,937,415,327	29,416
Bonus option plan[1]	2,999,796	-	2,891,060	-
Dividend reinvestment plan[2]	-	-	-	-
Group employee share acquisition scheme	-	-	-	(3)
Share buy-back[3]	(42,032,991)	(1,120)	(66,688,269)	(1,880)
Balance at end of year	2,834,584,923	26,413	2,873,618,118	27,533

1 The Company issued 1.4 million shares under the Bonus Option Plan (BOP) for the 2019 interim dividend and 1.6 million shares for the 2018 final dividend (1.4 million shares for the 2018 interim dividend and 1.5 million shares for the 2017 final dividend).

2 No new shares were issued under the Dividend Reinvestment Plan (DRP) for the 2019 interim dividend (nil shares for the 2018 final dividend; nil shares for the 2018 interim dividend) as the shares were purchased on-market and provided directly to the shareholders participating in the DRP. On-market purchases for the DRP in the September 2019 financial year were $432 million (Sep 18 full year: $392 million).

3 The Company completed a $3.0 billion on-market share buy-back of ANZ ordinary shares purchasing $1,120 million in the September 2019 full year (Sep 18 full year: $1,880 million) resulting in 42.0 million ANZ ordinary shares being cancelled in the September 2019 full year (Sep 18 full year: 66.7 million)

NOTES TO THE FINANCIAL STATEMENTS (continued)

21. SHAREHOLDERS' EQUITY (continued)

RECOGNITION AND MEASUREMENT

Ordinary shares	Ordinary shares have no par value. They entitle holders to receive dividends, or proceeds available on winding up of the Company, in proportion to the number of fully paid ordinary shares held. They are recognised at the amount paid per ordinary share net of directly attributable costs. Every holder of fully paid ordinary shares present at a meeting in person, or by proxy, is entitled to: • on a show of hands, one vote; and • on a poll, one vote, for each share held.
Treasury shares	Treasury shares are shares in the Company which: • the ANZ Employee Share Acquisition Plan purchases on market and have not yet distributed, or • the Company issues to the ANZ Employee Share Acquisition Plan and have not yet been distributed. Treasury shares are deducted from share capital and excluded from the weighted average number of ordinary shares used in the earnings per share calculations.
Reserves:	
Foreign currency translation reserve	Includes differences arising on translation of assets and liabilities into Australian dollars when the functional currency of a foreign operation (including subsidiaries and branches) is not Australian dollars. In this reserve, we reflect any offsetting gains or losses on hedging these exposures, together with any tax effect.
Cash flow hedge reserve	Includes fair value gains and losses associated with the effective portion of designated cash flow hedging instruments together with any tax effect.
Available-for-sale reserve (prior to 1 October 2018)	Includes the changes in fair value and exchange differences on the revaluation of available-for-sale financial assets together with any tax effect.
FVOCI reserve (from 1 October 2018)	Includes changes in the fair value of certain debt securities and equity securities included within Investment Securities together with any tax effect. In respect of debt securities classified as measured at FVOCI, the FVOCI reserve records accumulated changes in fair value arising subsequent to initial recognition, except for those relating to allowance for expected credit losses, interest income and foreign currency exchange gains and losses which are recognised in profit or loss. As debt securities at FVOCI are recorded at fair value, the balance of the FVOCI reserve is net of the ECL allowance associated with such assets. When a debt security measured at FVOCI is derecognised, the cumulative gain or loss recognised in the FVOCI reserve in respect of that security is reclassified to profit or loss and presented in Other Operating Income. In respect of the equity securities classified as measured at FVOCI, the FVOCI reserve records accumulated changes in fair value arising subsequent to initial recognition (including any related foreign exchange gains or losses). When an equity security measured at FVOCI is derecognised, the cumulative gain or loss recognised in the FVOCI reserve in respect of that security is not recycled to profit or loss.
Share option reserve	Includes amounts which arise on the recognition of share-based compensation expense.

22. CAPITAL MANAGEMENT

CAPITAL MANAGEMENT STRATEGY

The Company's capital management strategy aims to protect the interests of depositors, creditors and shareholders. We achieve this through an Internal Capital Adequacy Assessment Process (ICAAP) whereby the Company conducts detailed strategic and capital planning over a 3 year time horizon. The process involves:

- forecasting economic variables, financial performance of the Company's divisions and the financial impact of new strategic initiatives to be implemented during the planning period;
- performing stress tests under different economic scenarios to determine the level of additional capital ('stress capital buffer') needed to absorb losses that may be experienced under an economic downturn;
- reviewing capital ratios and targets across various classes of capital against the Company's risk profile; and
- developing a capital plan, taking into account capital ratio targets, current and future capital issuances requirements and options around capital products, timing and markets to execute the capital plan under differing market and economic conditions.

The capital plan is approved by the Board and updated as required. The Board and senior management are provided with regular updates of the Company's capital position. Any material actions required to ensure ongoing prudent capital management are submitted to the Board for approval. Throughout the year, the Company maintained compliance with all the regulatory requirements related to Capital Adequacy in the jurisdictions in which it operates.

REGULATORY ENVIRONMENT

As ANZ is an Authorised Deposit-taking Institution (ADI) in Australia, it is regulated by APRA under the Banking Act 1959 (Cth). The Company must comply with the minimum regulatory capital requirements, prudential capital ratios and specific reporting levels that APRA sets and which are consistent with the global Basel III capital framework. This is the common framework for determining the appropriate level of bank regulatory capital as set by the Basel Committee on Banking Supervision (BCBS).

For reporting purposes as part of the ANZ 2019 Annual Report, Capital Adequacy Ratios are presented for the Level 2 ADI and are not presented for the Company as a standalone entity. Refer to Note 23 Capital Management in the ANZ 2019 Group Annual Report for details of the Capital Adequacy Ratios, which can be found at https://shareholder.anz.com/annual-report-shareholders-review.

NOTES TO THE FINANCIAL STATEMENTS (continued)

23. SHARES IN CONTROLLED ENTITIES

	Incorporated in	Nature of business	2019 $m	2018 $m
ANZ (Lao) Sole Company Ltd[1]	Laos	Banking	26	51
ANZ Bank (Taiwan) Ltd[2]	Taiwan	Deregistered	-	849
ANZ Bank (Vietnam) Ltd	Vietnam	Banking	205	205
ANZ Capel Court Ltd	Australia	Securitisation Manager	18	18
ANZ Capital Hedging Pty Ltd	Australia	Deregistered	-	200
ANZ Centre Chattels Trust	Australia	Property	167	167
ANZ Centre Trust	Australia	Property	550	550
ANZ Equities (Nominees) Pty Ltd	Australia	Non-operating	-	10
ANZ Funds Pty Ltd	Australia	Holding Company	11,870	12,053
ANZ Guam, Inc	Guam	Banking	17	17
ANZ Lenders Mortgage Insurance Pty Ltd	Australia	Mortgage Insurance	398	398
ANZ Properties (Australia) Pty Ltd	Australia	Property	7	6
ANZ Rewards No.2 Pty Ltd	Australia	Credit Card Loyalty Program	40	40
ANZ Securities (Holdings) Pty Ltd	Australia	Holding Company	39	36
ANZ Support Services India Private Ltd	India	IT Services	25	25
ANZ Wealth Australia Ltd[3]	Australia	Holding Company	538	2,563
ANZi Holdings Pty Ltd	Australia	Holding Company	56	-
Australia and New Zealand Bank (China) Company Ltd	China	Banking	1,121	1,121
Australia and New Zealand Banking Group (PNG) Ltd	Papua New Guinea	Banking	40	40
Chongqing Liangping ANZ Rural Bank Company Ltd	China	Banking	5	5
Citizens Bancorp	Guam	Holding Company	24	24
E S & A Holdings Pty Ltd	Australia	Non-operating	43	43
Esanda Finance Corporation Ltd	Australia	Non-operating	5	5
Looking Together Pty Ltd	Australia	Non-operating	6	6
ACN 003 042 082 Ltd	Australia	Holding Company	5	158
PT Bank ANZ Indonesia (99% ownership)	Indonesia	Banking	262	262
Shares in controlled entities			15,467	18,852

1. Formerly ANZ Bank (Lao) Ltd
2. In April 2019, ANZ Bank (Taiwan) Ltd merged with the Taiwan branch of the Company
3. ANZ Wealth Australia Ltd returned $2.1 billion of capital following the sale of its OnePath Insurance business in May 2019

RECOGNITION AND MEASUREMENT

The Company's subsidiaries are those entities it controls through being exposed to, or having rights to, variable returns from the entity and being able to affect those returns through its power over the entity. The Company assesses whether it has power over those entities by examining the Company's existing rights to direct the relevant activities of the entity. Investments in controlled entities are carried at cost less any accumulated impairment losses.

At least at each reporting date, the Company reviews investments in controlled entities for any indication of impairment. If an indication of impairment exists, then the Company determines the recoverable amount of the controlled entity using the higher of:

- the controlled entity's fair value less cost of disposal; and
- its value-in-use.

We use a discounted cash flow methodology, and other methodologies (such as capitalisation of earnings methodology), to determine the recoverable amount.

24. TRANSFERS OF FINANCIAL ASSETS

In the normal course of business the Company enters into transactions where it transfers financial assets directly to third parties or to Structured Entities (SEs). These transfers may give rise to the Company fully, or partially derecognising those financial assets depending on the Company's exposure to the risks and rewards or control over the transferred assets. If the Company retains substantially all of the risk and rewards of a transferred asset, the transfer does not qualify for derecognition and the asset remains on the Company's balance sheet in its entirety.

SECURITISATIONS

Net loans and advances include residential mortgages securitised under the Company's securitisation programs which are assigned to bankruptcy remote SEs to provide security for obligations payable on the notes issued by the SEs. The holders of the issued notes have full recourse to the pool of residential mortgages which have been securitised and the Company cannot otherwise pledge or dispose of the transferred assets.

In some instances the Company is also the holder of the securitised notes. In addition, the Company is entitled to any residual income of the SEs and sometimes enters into derivatives with the SEs. The Company retains the risks and rewards of the residential mortgages and continues to recognise the mortgages as financial assets. The obligation to pay this amount to the SE is recognised as a financial liability of the Company.

The Company is exposed to variable returns from its involvement with these securitisation SEs and has the ability to affect those returns through its power over the SEs activities. The SEs are therefore consolidated by the Company when preparing consolidated Group financial statements.

COVERED BONDS

The Company operates various global covered bond programs to raise funding in its primary markets. Net loans and advances include residential mortgages assigned to bankruptcy remote SEs associated with these covered bond programs. The mortgages provide security for the obligations payable on the issued covered bonds.

The covered bond holders have dual recourse to the issuer and the cover pool of assets. The issuer cannot otherwise pledge or dispose of the transferred assets, however, subject to legal arrangements it may repurchase and substitute assets as long as the required cover is maintained.

The Company is required to maintain the cover pool at a level sufficient to cover the bond obligations. In addition the Company is entitled to any residual income of the covered bond SEs and enters into derivatives with the SEs. The Company retains the majority of the risks and rewards of the residential mortgages and continues to recognise the mortgages as financial assets. The obligation to pay this amount to the SEs is recognised as a financial liability of the Company.

The Company is exposed to variable returns from its involvement with the covered bond SEs and has the ability to affect those returns through its power over the SEs activities. The SEs are therefore consolidated by the Company when preparing consolidated Group financial statements. The covered bonds issued externally are included within debt issuances.

REPURCHASE AGREEMENTS

When the Company sells securities subject to repurchase agreements under which we retain substantially all the risks and rewards of ownership, then those assets do not qualify for derecognition. An associated liability is recognised for the consideration received from the counterparty.

The table below sets out the balance of assets transferred that do not qualify for derecognition, along with the associated liabilities:

	Securitisations[1,2]		Covered bonds		Repurchase agreements	
	2019 $m	2018 $m	2019 $m	2018 $m	2019 $m	2018 $m
Current carrying amount of assets transferred	**65,947**	64,765	**20,052**	19,612	**42,640**	39,332
Carrying amount of associated liabilities	**65,947**	64,765	**20,052**	19,612	**40,826**	37,581

1. The balances relate to transfers to internal structured entities.
2. The securitisation noteholders have recourse only to the pool of residential mortgages which have been securitised. The carrying value of securitised assets and the associated liabilities approximates their fair value.

NOTES TO THE FINANCIAL STATEMENTS (continued)

25. ASSETS AND LIABILITIES HELD FOR SALE

At 30 September 2019 and 30 September 2018, there were no assets or liabilities that have been reclassified to held for sale.

INCOME STATEMENT IMPACT RELATING TO ASSETS AND LIABILITIES HELD FOR SALE

During 2018, the Company recognised the following impacts in relation to assets and liabilities held for sale:

- $13 million gain relating to the completion of the sale related activities of the Asia Retail and Wealth business.
- $247 million net gain relating to SRCB comprising a $289 million gain on release of reserves, $56 million of foreign exchange losses and other costs, and a $14 million adjustment for tax.

The net result of these disposals is included in other income (refer to Note 2 Operating Income).

KEY JUDGEMENTS AND ESTIMATES

A significant level of judgement is used by the Company to determine:

- whether an asset or group of assets is classified and presented as held for sale or as a discontinued operation; and
- the fair value of the assets and liabilities classified as being held for sale.

Management is required to exercise significant judgement when assessing the fair value less costs to sell for assets and liabilities held for sale. The judgemental factors include determining: costs to sell, allocation of goodwill, indemnities provided under the sale contract and consideration received - particularly where elements of consideration are contingent in nature. Any impairment we record is based on the best available evidence of fair value compared to the carrying value before the impairment. The final sale price may be different to the fair value we estimate when recording the impairment. Management regularly assess the appropriateness of the underlying assumptions against actual outcomes and other relevant evidence and adjustments are made to fair value where appropriate. We expect that the sales will complete within 12 months after balance date, subject to the relevant regulatory approvals and customary terms of sale for such assets.

26. SUPERANNUATION AND POST EMPLOYMENT BENEFIT OBLIGATIONS

Set out below is a summary of amounts recognised in the Balance Sheet in respect of the defined benefit superannuation schemes:

	2019 $m	2018 $m
Defined benefit obligation and scheme assets		
Present value of funded defined benefit obligation	(1,353)	(1,246)
Fair value of scheme assets	1,591	1,385
Net defined benefit asset	238	139
As represented in the Balance Sheet		
Net liabilities arising from defined benefit obligations included in payables and other liabilities	(17)	(15)
Net assets arising from defined benefit obligations included in other assets	255	154
Net defined benefit asset	238	139
Weighted average duration of the benefit payments reflected in the defined benefit obligation (years)	14.9	16.8

As at the most recent reporting dates of the schemes, the aggregate surplus of net market value of assets over the value of accrued benefits on a funding basis was $38 million (2018: deficit of $10 million). In 2019, the Company made defined benefit contributions totalling $2 million (2018: $2 million). It expects to make contributions of around $2 million next financial year.

GOVERNANCE OF THE SCHEMES AND FUNDING OF THE DEFINED BENEFIT SECTIONS

The main defined benefit superannuation schemes in which the Company participates operate under trust law and are managed and administered on behalf of the members in accordance with the terms of the relevant trust deed and rules and all relevant legislation. These schemes have corporate trustees, which are wholly owned subsidiaries of the Company. The trustees are the legal owners of the assets, which are held separately from the assets of the Company and are responsible for setting investment policy and agreeing funding requirements with the employer through the triennial actuarial valuation process.

The defined benefit section of the ANZ Australian Staff Superannuation Scheme and ANZ UK Staff Pension Scheme are the two largest defined benefit plans and have been closed to new members since 1987 and 2004 respectively. These plans did not have a material deficit, or surplus, at the last funding valuations. The Company has no present liability under the schemes' trust deeds to fund a deficit (measured on a funding basis). A contingent liability of the Company may arise if any of these schemes were wound up.

RECOGNITION AND MEASUREMENT

Defined benefit superannuation schemes

For the Company's defined benefit schemes, an independent actuary calculates the liability and expenses related to providing benefits to employees under each defined benefit scheme. They use the Projected Unit Credit Method to value the liabilities. The balance sheet includes:

- a defined benefit liability if the obligation is greater than the fair value of the schemes assets; and
- an asset (capped to its recoverable amount) if the fair value of the assets is greater than the obligation.

In each reporting period, the movements in the net defined benefit liability are recognised as follows:

- the net movement relating to the current period's service cost, net interest on the defined benefit liability, past service costs and other costs (such as the effects of any curtailments and settlements) as operating expenses;
- remeasurements of the net defined benefit liability (which comprise actuarial gains and losses and return on scheme assets, excluding interest income included in net interest) directly in retained earnings through other comprehensive income; and
- contributions of the Company directly against the net defined benefit position.

Defined contribution superannuation schemes

The Company operates a number of defined contribution schemes. It also contributes (according to local law, in the various countries in which it operates) to Government and other plans that have the characteristics of defined contribution plans. The Company's contributions to these schemes are recognised as personnel expenses when they are incurred.

NOTES TO THE FINANCIAL STATEMENTS (continued)

26. SUPERANNUATION AND POST EMPLOYMENT BENEFIT OBLIGATIONS (continued)

KEY JUDGEMENTS AND ESTIMATES

The main assumptions we use in valuing defined benefit obligations are listed in the table below. A change to any assumptions, or applying different assumptions, could effect the Statement of Other Comprehensive Income and Balance Sheet.

Assumptions	2019	2018	Sensitivity analysis change in significant assumptions	Increase/(decrease) in defined benefit obligation 2019 $m	2018 $m
Discount rate (% p.a.)	1.7 – 2.0	2.65 - 3.7	0.5% increase	(101)	(131)
Future salary increases (% p.a.)	3.15	3.75			
Future pension indexation					
In payment (% p.a.)/In deferment (% p.a)	1.75 - 3.0/2.35	2.0 - 3.0/ 2.25	0.5% increase	74	109
Life expectancy at age 60 for current pensioners			1 year increase	65	56
– Males (years)	25.6 – 28.6	25.5 - 29.0			
– Females (years)	28.8 – 30.3	28.7 - 31.0			

27. EMPLOYEE SHARE AND OPTION PLANS

The Company operates a number of employee share and option schemes under the ANZ Employee Share Acquisition Plan and the ANZ Share Option Plan.

ANZ EMPLOYEE SHARE ACQUISITION PLAN

ANZ Employee Share Acquisition Plan schemes that operated during the 2019 and 2018 years were the Employee Share Offer and the Deferred Share Plan.

Employee Share Offer	
Eligibility	Most permanent employees employed in either Australia or New Zealand with three years continuous service for the most recent financial year.
Grant	Up to AUD 1,000 in Australia (and AUD 800 in New Zealand) ANZ shares each financial year, subject to Board approval.
Allocation value	One week Volume Weighted Average Price (VWAP) of ANZ shares traded on the ASX in the week leading up to and including the date of grant.
Australia	ANZ ordinary shares are granted to eligible employees for nil consideration. The shares vest on grant and are held in trust for three years from grant date, after which time they may remain in trust, be transferred to the employee's name or sold. Dividends are automatically reinvested in the Dividend Reinvestment Plan.
New Zealand	Shares are granted to eligible employees on payment of NZD one cent per share. Shares vest subject to satisfaction of a three year service period, after which they may remain in trust, be transferred to the employee's name or sold. Unvested shares are forfeited if the employee resigns or is dismissed for serious misconduct. Dividends are either paid in cash or reinvested into the Dividend Reinvestment Plan.
Expensing value (fair value)	In Australia, the fair value of the shares is expensed in the year shares are granted, as they are not subject to forfeiture. In New Zealand, the fair value is expensed on a straight-line basis over the three year vesting period. The expense is recognised as a share-based compensation expense with a corresponding increase in equity.
2019 and 2018 grants	656,738 shares were granted on 3 December 2018 at an issue price of $26.91. 541,982 shares were granted on 1 December 2017 at an issue price of $28.67.

27. EMPLOYEE SHARE AND OPTION PLANS (continued)

Deferred Share Plan

i) ANZ Incentive Plan (ANZIP) - Chief Executive Officer (CEO) and Group Executive Committee (ExCo)	
Eligibility	Group CEO and ExCo.
Grant	50% of the CEO's Annual Variable Remuneration (AVR) and 25% of ExCo's Variable Remuneration (VR) received as deferred shares.
Conditions	Deferred over four years from grant date.
ii) ANZIP (excluding the CEO and ExCo) and Business Unit Incentive Plans (BUIPs) - for grants from 1 October 2017	
Eligibility	All employees excluding the CEO and ExCo.
Grant	If VR is at or exceeds AUD 150,000, then 60% of incentive amounts exceeding AUD 80,000 (subject to a minimum deferral amount of AUD 42,000) is deferred as shares.
Conditions	Deferred over three years from grant date.
iii) Long Term Incentives (LTIs)	
Eligibility	Selected employees.
Grant	100% deferred shares.
Conditions	Vest three years from grant date.
iv) Exceptional circumstances	
Remuneration foregone	In exceptional circumstances, we grant deferred shares to certain employees when they start with the Company to compensate them for remuneration they have foregone from their previous employer. The vesting period generally aligns with the remaining vesting period of the remuneration they have foregone, and therefore varies between grants.
Retention	We may grant deferred shares to high performing employees who are regarded as a significant retention risk to the Company.
v) Further information	
Cessation	Unless the Board decides otherwise, employees forfeit their unvested deferred shares if they resign, are terminated on notice, or are dismissed for serious misconduct. The deferred shares may be held in trust beyond the deferral period.
Dividends	Dividends are paid in cash or reinvested in the Dividend Reinvestment Plan.
Instrument	Deferred share rights may be granted instead of deferred shares in some countries as locally appropriate (see deferred share rights section).
Allocation value	All deferred shares are issued based on the VWAP of ANZ shares traded on the ASX in the week leading up to and including the date of grant.
Expensing value (fair value)	We expense the fair value of deferred shares on a straight-line basis over the relevant vesting period and we recognise the expense as a share-based compensation expense with a corresponding increase in equity.
2019 and 2018 grants	During the 2019 year, we granted 1,945,668 deferred shares (2018: 2,232,563) with a weighted average grant price of $25.39 (2018: $29.31).
Downward adjustment	Deferred shares remain at risk and the Board has the discretion to adjust the number of deferred shares downwards, including to zero at any time before the vesting date. ANZ's downward adjustment provisions are detailed in section 6.3 of the 2019 Remuneration Report. Board discretion was exercised to adjust downward 9,810 deferred shares to zero in 2019 (2018: 2,632).

NOTES TO THE FINANCIAL STATEMENTS (continued)

27. EMPLOYEE SHARE AND OPTION PLANS (continued)

Expensing of the ANZ Employee Share Acquisition Plan

Expensing value (fair value)	The fair value of shares we granted during 2019 under the Employee Share Offer and the Deferred Share Plan, measured as at the date of grant of the shares, is $67.7 million (2018: $80.9 million) based on 2,602,406 shares (2018: 2,774,545) at VWAP of $26.01 (2018: $29.17).

ANZ SHARE OPTION PLAN

Allocation	We may grant selected employees options/rights which entitle them to acquire fully paid ordinary ANZ shares at a fixed price at the time the options/rights vest. Voting and dividend rights will be attached to the ordinary shares allocated on exercise of the options/rights. Each option/right entitles the holder to one ordinary share subject to the terms and conditions imposed on grant. Exercise price of options, determined in accordance with the rules of the plan, is generally based on the VWAP of the shares traded on the ASX in the week leading up to and including the date of grant. For rights, the exercise price is nil.
Rules	Prior to the exercise of the option/right if the Company changes its share capital due to a bonus share issue, pro-rata new share issue or reorganisation the following adjustments are required: • Issue of bonus shares - When the holder exercises their option, they are also entitled to be issued the number of bonus shares they would have been entitled to had they held the underlying shares at the time of the bonus issue; • Pro-rata share offer - We will adjust the exercise price of the option in the manner set out in the ASX Listing Rules; and • Reorganisation - In respect of rights, if there is a bonus issue or reorganisation of the Company's share capital, then the Board may adjust the number of rights or the number of underlying shares so that there is no advantage or disadvantage to the holder. Holders otherwise have no other entitlements to participate: • in any new issue of the Company's securities before they exercise their options/rights; or • in a share issue of a body corporate other than ANZ (such as a subsidiary). For equity grants made after 1 November 2012, any portion of the award which vests may, at the Board's discretion, be satisfied by a cash equivalent payment rather than shares.
Expensing	We expense the fair value of options/rights on a straight-line basis over the relevant vesting period and we recognise the expense as a share-based compensation expense with a corresponding increase in equity.
Cessation	The provisions that apply if the employee's employment ends are in section 9.2.3 of the 2019 Remuneration Report in the ANZ 2019 Group Annual Report.
Downward adjustment	The Company's downward adjustment provisions are detailed in section 6.3 of the 2019 Remuneration Report in the ANZ 2019 Group Annual Report.

Option Plans that operated during 2019 and 2018

i) Performance Rights

Allocation	We grant performance rights to selected employees as part of the Company's incentive plans. Performance rights provide the holder with the right to acquire ANZ shares at nil cost, subject to a three-year vesting period[1] and Total Shareholder Return (TSR) performance hurdles. Further details on the performance hurdles are in section 6.2.3a of the 2019 Remuneration Report in the ANZ 2019 Group Annual Report.
Satisfying vesting	Any portion of the award of performance rights (that have met the performance hurdles) may be satisfied by a cash equivalent payment rather than shares at the Board's discretion. All performance rights were satisfied through a share allocation, other than 47,195 performance rights (2018: none) for which Board discretion was exercised.
2019 and 2018 grants	During the 2019 year, we granted 885,810 performance rights (2018: 1,023,239).
Downward adjustment	Board discretion was exercised to adjust downward 59,012 performance rights to zero in 2019 (2018: none).

[1] Four years for grants from 1 October 2019.

27. EMPLOYEE SHARE AND OPTION PLANS (continued)

ii) Deferred Share Rights (no performance hurdles)	
Allocation	Deferred share rights provide the holder with the right to acquire ANZ shares at nil cost after a specified vesting period. We adjust the fair value of rights for the absence of dividends during the restriction period.
Satisfying vesting	Any portion of the award of share rights may be satisfied by a cash equivalent payment rather than shares at the Board's discretion. All share rights were satisfied through a share allocation, other than 68,357 deferred share rights (2018: 108,783) for which Board discretion was exercised.
2019 and 2018 grants	During the 2019 year, 2,078,427 deferred share rights (no performance hurdles) were granted (2018: 2,546,333).
Downward adjustment	Board discretion was exercised to adjust downward 11,824 deferred share rights to zero in 2019 (2018: 1,638).

Options, Deferred Share Rights and Performance Rights on Issue

As at 30 October 2019, there were 615 holders of 4,173,045 deferred share rights on issue and 142 holders of 2,486,001 performance rights on issue.

Options/Rights Movements

This table shows the options/rights over unissued ANZ shares and their related weighted average (WA) exercise prices as at the beginning and end of 2019 and the movements during 2019:

	Opening balance 1 Oct 2018	Options/ rights granted	Options/ rights forfeited[1]	Options/ rights expired	Options/ rights exercised	Closing balance 30 Sep 2019
Number of options/rights	7,148,573	2,964,237	(1,589,109)	0	(1,835,163)	6,688,538
WA exercise price	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
WA closing share price						$26.66
WA remaining contractual life						1.9 years
WA exercise price of all exercisable options/rights outstanding						$0.00
Outstanding exercisable options/rights						181,581

This table shows the options/rights over unissued ANZ shares and their related weighted average exercise prices as at the beginning and end of 2018 and the movements during 2018:

	Opening balance 1 Oct 2017	Options/ rights granted	Options/ rights forfeited[1]	Options/ rights expired	Options/ rights exercised	Closing balance 30 Sep 2018
Number of options/rights	7,113,784	3,569,572	(2,043,209)	(1,558)	(1,490,016)	7,148,573
WA exercise price	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
WA closing share price						$28.43
WA remaining contractual life						2.1 years
WA exercise price of all exercisable options/rights outstanding						$0.00
Outstanding exercisable options/rights						67,666

1. Refers to any circumstance where equity can be forfeited (for example on cessation, downward adjustment or performance conditions not met).

All of the shares issued as a result of the exercise of options/rights during 2019 and 2018, were issued at a nil exercise price.

As at the date of the signing of the Directors' Report on 30 October 2019:

- no options/rights over ordinary shares have been granted since the end of 2019; and
- 14,464 shares issued as a result of the exercise of options/rights since the end of 2019, all with nil exercise prices.

NOTES TO THE FINANCIAL STATEMENTS (continued)

27. EMPLOYEE SHARE AND OPTION PLANS (continued)

Fair Value Assumptions

When determining the fair value, we apply the standard market techniques for valuation, including Monte Carlo and/or Black Scholes pricing models. We do so in accordance with the requirements of AASB 2 *Share-based Payments*. The models take into account early exercise of vested equity, non-transferability and internal/external performance hurdles (if any).

The table below shows the significant assumptions we used as inputs into our fair value calculation of instruments granted during the period. We present the values as weighted averages, but the specific values we use for each allocation are the ones we use for the fair value calculation.

	2019		2018	
	Deferred share rights	Performance rights	Deferred share rights	Performance rights
Exercise price ($)	**0.00**	**0.00**	0.00	0.00
Share closing price at grant date ($)	**25.83**	**25.52**	29.24	29.21
Expected volatility of ANZ share price (%)[1]	**20.0**	**20.0**	20.0	20.0
Equity term (years)	**2.5**	**4.8**	2.4	5.0
Vesting period (years)	**2.1**	**3.0**	2.1	3.0
Expected life (years)	**2.1**	**3.0**	2.1	3.0
Expected dividend yield (%)	**6**	**6**	5.75	5.75
Risk free interest rate (%)	**1.96**	**2.05**	1.65	1.95
Fair value ($)	**22.87**	**9.40**	26.03	12.24

1. Expected volatility represents a measure of the amount by which ANZ's share price is expected to fluctuate over the life of the rights. The measure of volatility used in the model is the annualised standard deviation of the continuously compounded rates of return on the historical share price over a deferred period of time preceding the date of grant. This historical average annualised volatility is then used to estimate a reasonable expected volatility over the expected life of the rights.

SATISFYING EQUITY AWARDS

All shares underpinning equity awards may be purchased on market, reallocated or be newly issued shares, or a combination.

The equity we purchased on market during the 2019 financial year (either under the ANZ Employee Share Acquisition Plan and the ANZ Share Option Plan, or to satisfy options or rights) for all employees amounted to 4,317,094 shares at an average price of $25.99 per share (2018: 3,936,773 shares at an average price of $29.00 per share).

28. RELATED PARTY DISCLOSURES

KEY MANAGEMENT PERSONNEL COMPENSATION

Key Management Personnel (KMP) are defined as all directors and those executives who report directly to the CEO:

- with responsibility for the strategic direction and management of a major income generating division; or
- who control material income and expenses.

KMP compensation included within total personnel expenses in Note 3 Operating Expenses as follows:

	2019[1] $000	2018[1] $000
Short-term benefits	15,784	19,497
Post-employment benefits	415	333
Other long-term benefits	213	150
Termination benefits	2,112	454
Share-based payments	6,184	8,910
Total	24,708	29,344

1. Includes former disclosed KMP until the end of their employment.

KEY MANAGEMENT PERSONNEL LOAN TRANSACTIONS

Loans made to KMP are made in the ordinary course of business and on normal commercial terms and conditions that are no more favourable than those given to other employees or customers, including: the term of the loan, security required and the interest rate. No amounts have been written off during the period, or individual provisions raised in respect of these balances. The aggregate of loans made, guaranteed or secured to KMP, including their related parties, were as follows:

	2019 $000	2018 $000
Loans advanced[1,2]	13,536	12,541
Interest charged[3]	285	477

1. Balances are at the balance sheet date (for KMP in office at balance sheet date) or at the date of cessation of former KMP.
2. Prior period has been restated to include credit card balances and exclude an available for redraw component of loan balances previously included within loans and advances.
3. Interest is for all KMP's during the period.

KEY MANAGEMENT PERSONNEL HOLDINGS OF ANZ SECURITIES

KMP, including their related parties, held subordinated debt, shares, share rights and options over shares in the Company directly, indirectly or beneficially as shown below:

	2019 Number[1]	2018 Number[1]
Shares, options and rights	1,892,754	2,293,271
Subordinated debt	11,802	13,152

1. Balances are at the balance sheet date (for KMP in office at balance sheet date) or at the date of cessation of former KMP.

DEPOSITS AND OTHER TRANSACTIONS OF KEY MANAGEMENT PERSONNEL AND THEIR RELATED PARTIES

The aggregate of deposits with the Bank of KMP and their related parties was $42 million (2018: $44 million).

Other transactions with KMP and their related parties included amounts paid to the Company in respect of investment management service fees, brokerage and bank fees and charges. The Company has reimbursed KMP for the costs incurred for certain administration and secretarial services associated with the performance of their duties. These transactions are conducted on normal commercial terms and conditions and no more favourable than those given to other employees or customers.

NOTES TO THE FINANCIAL STATEMENTS (continued)

28. RELATED PARTY DISCLOSURES (continued)

ASSOCIATES

During the course of the financial year, the Company conducted transactions with all associates on terms equivalent to those made on an arm's length basis as shown below:

	2019 $000	2018 $000
Amounts receivable from associates	-	34,364
Amounts payable to associates	697	608
Interest income from associates	-	1,704
Other expenses paid to associates	7,624	6,735

There have been no material guarantees given or received. No amounts have been written-off during the period, or individual provisions raised in respect of these balances.

SUBSIDIARIES

We disclose material controlled entities in Note 23 Shares in Controlled Entities. During the financial year, subsidiaries conducted transactions with each other and with associates on terms equivalent to those on an arm's length basis. As of 30 September 2019, we consider all outstanding amounts on these transactions to be fully collectible.

Transactions between the Company and its subsidiaries include providing a wide range of banking and other financial facilities. Details of amounts paid to, or received from, related parties, in the form of dividends or interest, are set out in Note 2 Operating Income.

Other intragroup transactions include providing management and administrative services, staff training, data processing facilities, transfer of tax losses, and the leasing of property plant and equipment.

29. COMMITMENTS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

CREDIT RELATED COMMITMENTS AND CONTINGENCIES

	2019 $m	2018 $m
Contract amount of:		
Undrawn facilities	171,881	164,944
Guarantees and letters of credit	20,375	16,363
Performance related contingencies	20,097	22,176
Total	212,353	203,483

UNDRAWN FACILITIES

The majority of undrawn facilities are subject to customers maintaining specific credit and other requirements or conditions. Many of these facilities are expected to be only partially used, and others may never be used at all. As such, the total of the nominal principal amounts is not necessarily representative of future liquidity risks or future cash requirements. Based on the earliest date on which the Company may be required to pay, the total undrawn facilities of $171,881 million (2018: $164,944 million) mature within 12 months.

GUARANTEES, LETTERS OF CREDIT AND PERFORMANCE CONTINGENCIES

Guarantees and contingent liabilities relate to transactions that the Company has entered into as principal – including: guarantees, standby letters of credit and documentary letters of credit.

Documentary letters of credit involve the Company issuing letters of credit guaranteeing payment in favour of an exporter. They are secured against an underlying shipment of goods or backed by a confirmatory letter of credit from another bank.

Performance related contingents are liabilities that oblige the Company to make payments to a third party if the customer fails to fulfil its non-monetary obligations under the contract.

To reflect the risk associated with these transactions, we apply the same credit origination, portfolio management and collateral requirements that we apply to loans. The contract amount represents the maximum potential amount that we could lose if the counterparty fails to meet its financial obligations. As the facilities may expire without being drawn upon, the notional amounts do not necessarily reflect future cash requirements. Based on the earliest date on which the Company may be required to pay, the total guarantees and letters of credit of $20,375 million (2018: $16,363 million) and total performance related contingencies of $20,097 million (2018: $22,176 million) mature within 12 months.

PROPERTY RELATED COMMITMENTS

	2019 $m	2018 $m
Lease rentals		
Land and buildings	1,699	1,533
Furniture and equipment	58	112
Total lease rental commitments[1]	1,757	1,645
Due within 1 year	304	321
Due later than 1 year but not later than 5 years	868	769
Due later than 5 years	585	555
Total lease rental commitments[1]	1,757	1,645

1. Total future minimum sublease payments we expect to receive under non-cancellable subleases at 30 September 2019 is $67 million (2018: $81 million). During the year, sublease payments we received amount to $28 million (2018: $29 million) and were netted against rent expense.

NOTES TO THE FINANCIAL STATEMENTS (continued)

29. COMMITMENTS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS (continued)

OTHER CONTINGENT LIABILITIES

As at 30 September 2019, the Company had contingent liabilities in respect of the matters outlined below. Where relevant, expert legal advice has been obtained and, in the light of such advice, provisions (refer to note 20) and/or disclosures as deemed appropriate have been made. In some instances we have not disclosed the estimated financial impact of the individual items either because it is not practicable to do so or because such disclosure may prejudice the interests of the Company.

REGULATORY AND CUSTOMER EXPOSURES

In recent years there has been an increase in the number of matters on which the Company engages with its regulators. There have also been significant increases in the nature and scale of regulatory investigations and reviews, civil and criminal enforcement actions (whether by court action or otherwise), formal and informal inquiries, regulatory supervisory activities and the quantum of fines issued by regulators, particularly against financial institutions both in Australia and globally. The Company has received various notices and requests for information from its regulators as part of both industry-wide and Company-specific reviews and has also made disclosures to its regulators at its own instigation. The nature of these interactions can be wide ranging and, for example, currently include a range of matters including responsible lending practices, product suitability and distribution, interest and fees and the entitlement to charge them, customer remediation, wealth advice, insurance distribution, pricing, competition, conduct in financial markets and financial transactions, capital market transactions, anti-money laundering and counter-terrorism financing obligations, reporting and disclosure obligations and product disclosure documentation. There may be exposures to customers which are additional to any regulatory exposures. These could include class actions, individual claims or customer remediation or compensation activities. The outcomes and total costs associated with such reviews and possible exposures remain uncertain.

BANK FEES LITIGATION AND PERIODICAL PAYMENT REMEDIATION AND ASIC ACTION

A litigation funder commenced a class action against the Company in 2010, followed by a second similar class action in March 2013. The applicants contended that certain exception fees (honour, dishonour and non-payment fees on transaction accounts and late payment and over-limit fees on credit cards) were unenforceable penalties and that various of the fees were also unenforceable under statutory provisions governing unconscionable conduct, unfair contract terms and unjust transactions. The claims in the March 2013 class action failed and have been dismissed.

The original claims in the 2010 class action have been dismissed. In 2017, a new claim was added to the 2010 class action, in relation to the Company's entitlement to charge certain periodical payment non-payment fees. Part of the class of customers had already received remediation payments from the Company. An agreement to settle the claim was reached in December 2018. The settlement is subject to court approval.

In July 2019, ASIC commenced civil penalty proceedings against the Company in relation to the charging of fees for periodical payments in certain circumstances between August 2003 and February 2016. ASIC seeks civil penalties in respect of alleged false or misleading representations and unconscionable conduct. ASIC also alleges that the Company engaged in misleading or deceptive conduct and breached certain statutory obligations as a financial services licensee. The matter is at an early stage. The outcomes and total costs remain uncertain. The Company is defending the allegations.

BENCHMARK/RATE ACTIONS

In July and August 2016, class action complaints were brought in the United States District Court against local and international banks, including the Company – one action relating to the bank bill swap rate (BBSW), and one action relating to the Singapore Interbank Offered Rate (SIBOR) and the Singapore Swap Offer Rate (SOR). The class actions are expressed to apply to persons and entities that engaged in US-based transactions in financial instruments that were priced, benchmarked, and/or settled based on BBSW or SIBOR. The claimants seek damages or compensation in amounts not specified, and allege that the defendant banks, including the Company, violated US anti-trust laws and (in the BBSW case only) anti-racketeering laws, the Commodity Exchange Act, and unjust enrichment principles. The Company is defending the proceedings. The matters are at an early stage.

In February 2017, the South African Competition Commission commenced proceedings against local and international banks including the Company alleging breaches of the cartel provisions of the South African Competition Act in respect of trading in the South African rand. The potential civil penalty or other financial impact is uncertain. The matter is at an early stage.

CAPITAL RAISING ACTIONS

In June 2018, the Commonwealth Director of Public Prosecutions commenced criminal proceedings against the Company and a senior employee alleging that they were knowingly concerned in cartel conduct by the joint lead managers of the Company's August 2015 underwritten institutional equity placement of approximately 80.8 million ordinary shares. The matter is at an early stage. The Company and its senior employee are defending the allegations.

In September 2018, the Australian Securities and Investments Commission (ASIC) commenced civil penalty proceedings against the Company alleging failure to comply with continuous disclosure obligations in connection with the Company's August 2015 underwritten institutional equity placement. ASIC alleges the Company should have advised the market that the joint lead managers took up approximately 25.5 million ordinary shares of the placement. The matter is at an early stage. The Company is defending the allegations.

29. COMMITMENTS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS (continued)

FRANCHISEE LITIGATION

In February 2018, two related class actions were brought against the Company alleging breaches of contract and unconscionable conduct in relation to lending to 7-Eleven franchisees. An agreement to settle the claims against the Company was reached in March 2019. The settlement is subject to court approval.

ROYAL COMMISSION

The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry released its final report on 4 February 2019. The findings and recommendations of the Commission are resulting in additional costs and may lead to further exposures, including exposures associated with further regulator activity or potential customer exposures such as class actions, individual claims or customer remediation or compensation activities. The outcomes and total costs associated with these possible exposures remain uncertain.

SECURITY RECOVERY ACTIONS

Various claims have been made or are anticipated, arising from security recovery actions taken to resolve impaired assets. These claims will be defended.

WARRANTIES AND INDEMNITIES

The Company has provided warranties, indemnities and other commitments in favour of the purchaser and other persons in connection with various disposals of businesses and assets and other transactions, covering a range of matters and risks. It is exposed to potential claims under those warranties, indemnities and commitments.

CLEARING AND SETTLEMENT OBLIGATIONS

The Company has a commitment to comply with rules governing various clearing and settlement arrangements which could result in a credit risk exposure and loss if another member institution fails to settle its payment clearing activities. The Company's potential exposure arising from these arrangements is unquantifiable in advance.

The Company holds membership of central clearing houses, including ASX Clear (Futures), London Clearing House (LCH) SwapClear and RepoClear, Korea Exchange (KRX), Hong Kong Exchange (HKEX) and the Clearing Corporation of India. These memberships allow the Company to centrally clear derivative instruments in line with cross-border regulatory requirements. Common to all of these memberships is the requirement for the Company to make default fund contributions. In the event of a default by another member, the Company could potentially be required to commit additional default fund contributions which are unquantifiable in advance.

PARENT ENTITY GUARANTEES

The Company has issued letters of comfort and guarantees in respect of certain subsidiaries in the normal course of business. Under these letters and guarantees, the Company undertakes to ensure that those subsidiaries continue to meet their financial obligations, subject to certain conditions including that the entity remains a controlled entity of the Company.

SALE OF GRINDLAYS BUSINESSES

On 31 July 2000, the Company completed the sale to Standard Chartered Bank (SCB) of ANZ Grindlays Bank Limited and the private banking business of ANZ in the United Kingdom and Jersey, together with ANZ Grindlays (Jersey) Holdings Limited and its subsidiaries, for USD1.3 billion in cash. The Company provided warranties and certain indemnities relating to those businesses and, where it was anticipated that payments would be likely under the warranties or indemnities, made provisions to cover the anticipated liabilities. The issue below has not adversely impacted the reported results. All settlements and penalties to date have been covered within existing provisions.

In 1991 certain amounts were transferred from non-convertible Indian Rupee accounts maintained with Grindlays in India. These transactions may not have complied with the provisions of the Foreign Exchange Regulation Act, 1973. Grindlays, on its own initiative, brought these transactions to the attention of the Reserve Bank of India. The Indian authorities served notices on Grindlays and certain of its officers in India and civil penalties have been imposed which are the subject of appeals. Criminal prosecutions are pending and will be defended. The amounts in issue are not material.

CONTINGENT ASSETS

NATIONAL HOUSING BANK

The Company is pursuing recovery of the proceeds of certain disputed cheques which were credited to the account of a former Grindlays customer in the early 1990s.

The disputed cheques were drawn on the National Housing Bank (NHB) in India. Proceedings between Grindlays and NHB concerning the proceeds of the cheques were resolved in early 2002.

Recovery is now being pursued from the estate of the Grindlays customer who received the cheque proceeds. Any amounts recovered are to be shared between the Company and NHB.

NOTES TO THE FINANCIAL STATEMENTS (continued)

30. COMPENSATION OF AUDITORS

	2019 $'000	2018 $'000
KPMG Australia		
Audit or review of financial reports	7,058	6,674
Audit-related services[1]	2,642	4,152
Non-audit services[2]	114	100
Total[3]	9,814	10,926
Overseas related practices of KPMG Australia		
Audit or review of financial reports	1,924	1,642
Audit-related services[1]	714	545
Non-audit services[2]	2	2
Total	2,640	2,189
Total compensation of auditors	12,454	13,115

1. Comprises prudential and regulatory services of $2.56 million (2018: $2.41 million), comfort letters $0.45 million (2018: $0.45 million) and other $0.34 million (2018: $1.84 million).
2. The nature of the non-audit services includes general market insights, controls related assessments and training.
3. Inclusive of goods and services tax.

The Company's policy allows KPMG Australia or any of its related practices to provide assurance and other audit-related services that, while outside the scope of the statutory audit, are consistent with the role of external auditor. These include regulatory and prudential reviews requested by regulators such as APRA. Any other services that are not audit or audit-related services are non-audit services. The Policy allows certain non-audit services to be provided where the service would not contravene auditor independence requirements. KPMG Australia or any of its related practices may not provide services that are perceived to be in conflict with the role of the external auditor or breach auditor independence. These include consulting advice and subcontracting of operational activities normally undertaken by management, and engagements where the auditor may ultimately be required to express an opinion on its own work.

31. IMPACT OF ADOPTION OF NEW STANDARDS AND OTHER CHANGES

Impact of the transition to AASB 15 *Revenue from Contracts with Customers* (AASB 15)

The following table summarises changes to the balance sheet in the comparatives period resulting from the application of AASB 15, and other reclassification adjustments to enhance comparability with current period presentation.

	Reported as at 30 Sep 18 $m	Impact of application of AASB 15 $m	Other reclassification adjustment $m	Restated as at 30 Sep 18 $m
Net loans and advances[1]	475,419	-	432	475,851
Other assets[2]	2,571	32	-	2,603
Other non-impacted balance sheet line items	362,757	-	-	362,757
Total assets	**840,747**	**32**	**432**	**841,211**
Deferred tax liabilities[2]	39	10	-	49
Other provisions[1,3]	838	-	432	1,270
Other non-impacted balance sheet line items	786,016	-	-	786,016
Total liabilities	**786,893**	**10**	**432**	**787,335**
Retained earnings[2]	26,377	22	-	26,399
Other non-impacted balance sheet line items	27,477	-	-	27,477
Total shareholders' equity[2]	**53,854**	**22**	**-**	**53,876**

1. $432 million of individually and collectively assessed provisions for credit impairment attributable to off-balance sheet credit related commitments at 30 September 2018 were reclassified from Net loans and advances at amortised cost to Other provisions to enhance comparability with current period presentation.
2. The Company adopted AASB 15 in this reporting period with comparatives restated. The impact of this policy change on the reported 30 September 2018 balance sheet was an increase in Other assets of $32 million, an increase in Deferred tax liabilities of $10 million and an increase in Retained earnings of $22 million, reflecting revenue that qualifies for upfront recognition under AASB 15 but was not previously recognised under AASB 118.

In addition to the balance sheet impact above, upon adoption of AASB 15 certain items previously netted are now presented gross in operating income and operating expenses. This increased total operating income and total operating expenses by $122m for the 2019 financial year. Comparative information has been restated which increased total operating income and total operating expenses by $146 million for the 2018 financial year.

Impact of the transition to AASB 9 *Financial Instruments* (AASB 9)

ALLOWANCE FOR EXPECTED CREDIT LOSSES

The table below reconciles the closing provisions for credit impairment of financial assets determined in accordance with AASB 139 *Financial Instruments: Recognition and Measurement*, and provisions for credit impairment of loan commitments and financial guarantee contracts determined in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* as at 30 September 2018, and the opening allowance for expected credit losses determined in accordance with AASB 9 as at 1 October 2018.

	As at 30 Sep 18		As at 1 Oct 18
	Provision for credit impairment under AASB 139 or AASB 137 $m	Incremental allowance for ECL under AASB 9 $m	Allowance for ECL under AASB 9 $m
Loans and advances - at amortised cost	2,348	583	2,931
Investment securities - debt securities at amortised cost	-	1	1
Off-balance sheet commitments - undrawn and contingent facilities[1]	432	143	575
Total provisions for credit impairment	**2,780**	**727**	**3,507**
Loss allowances recognised in other comprehensive income			
Investment securities - debt securities at FVOCI[2]	-	4	4
Total loss allowance recognised in other comprehensive income	-	4	4

1. The individually and collectively assessed allowance for ECL for off-balance sheet commitments is included in Other provisions.

Allowance for ECL does not change the carrying amount which remains at fair value. Instead, the allowance for ECL is recognised in OCI, with a corresponding charge to profit or loss.

NOTES TO THE FINANCIAL STATEMENTS (continued)

31. IMPACT OF ADOPTION OF NEW STANDARDS AND OTHER CHANGES (continued)

The following table summarises the adjustments arising on adoption of AASB 9.

BALANCE SHEET RECONCILIATION

	Reference	AASB 139 measurement category	AASB 9 measurement category	Restated as at 30 Sep 18 $m	AASB 9 reclassification impact $m	AASB 9 Re-measurement (excl. impairment) $m	AASB 9 credit impairment impact $m	Revised carrying amount as at 1 Oct 18 $m
Trading securities	1,2	FVTPL	FVTPL	29,519	(999)	-	-	28,520
Investment securities:								
- debt securities at amortised cost	2,6,7	N/A	Amortised cost	-	2,477	1	(1)	2,477
- debt securities at FVOCI	1,2	N/A	FVOCI	-	62,823	-	-	62,823
- equity securities at FVOCI	2	N/A	FVOCI	-	1,086	-	-	1,086
Available-for-sale assets (AFS)	2	AFS	N/A	64,728	(64,728)	-	-	-
Net loans and advances								-
- at amortised cost	3,6,7,8	Loans and receivables	Amortised cost	475,850	(2,223)	15	(583)	473,059
- at FVTPL	3,8	FVTPL	FVTPL	1	1,564	(23)	-	1,542
Due from controlled entities								
- at amortised cost	5	Loans and receivables	Amortised cost	90,170	(1,800)	-	-	88,370
- at FVPTL	5	FVTPL	FVTPL	-	1,800	149	-	1,949
Deferred tax assets	1,2,4,6	N/A	N/A	1,071	-	12	207	1,290
Other non-impacted balance sheet line items		N/A	N/A	179,872	-	-	-	179,872
Total assets				841,211	-	154	(377)	840,988
Current tax liabilities	1,3,4	N/A	N/A	85	-	30	-	115
Payables and other liabilities								
- at amortised cost	5	Amortised cost	Amortised cost	3,942	-	(19)	-	3,923
- at FVTPL	5	FVTPL	FVTPL	1,060	-	-	-	1,060
Other provisions	6	N/A	N/A	1,270	-	-	143	1,413
Debt issuances:								
- at amortised cost	4, 5	Amortised cost	Amortised cost	97,184	(2,646)	-	-	94,538
- at FVTPL	4, 5	FVTPL	FVTPL	1,442	2,646	101	-	4,189
Other non-impacted balance sheet line items		N/A	N/A	682,352	-	-	-	682,352
Total liabilities				787,335	-	112	143	787,590
Ordinary share capital				27,533	-	-	-	27,533
Reserves	1,2,6			(56)	-	2	3	(51)
Retained earnings	1,3,4,5,6			26,399	-	40	(523)	25,916
Share capital and reserves attributable to shareholders of the Company				53,876	-	42	(520)	53,398
Total shareholders' equity				53,876	-	42	(520)	53,398

31. IMPACT OF ADOPTION OF NEW STANDARDS AND OTHER CHANGES (continued)

REFERENCE

1. On initial application of AASB 9, a portfolio of bonds with a fair value of $1,000 million was transferred from Trading securities to Investment securities - debt securities at FVOCI as the applicable business model was held to collect and sell. Cumulative fair value gains/(losses) on this portfolio of $2 million (after-tax) were transferred from Retained earnings to the FVOCI reserve. Additionally, the reclassification resulted in a reduction in deferred tax assets and current tax liabilities of $1 million.
2. The Available-for-sale classification is no longer applicable under AASB 9. Accordingly, on transition:
   - $61,823 million of Available-for-sale debt instruments were reclassified to Investment securities - debt securities at FVOCI due to the business model being held to collect and sell. There was no re-measurement impact associated with this reclassification;
   - $1,818 million of Available-for-sale debt instruments were reclassified to Investment securities - debt securities at amortised cost due to the business model being held to collect at 1 October 2018. This reclassification resulted in re-measurement of a $1 million increase to the carrying amount arising from reversal of the previous available-for-sale revaluation reserve;
   - the Company made irrevocable elections to designate $1,086 million of non-traded Available-for-sale equity securities as Investment securities - equity securities at FVOCI; and
   - $1 million of Available-for-sale equity securities were reclassified to Trading securities.
3. Certain loans with contractual cash flow characteristics that are not solely payments of principal and interest were reclassified from Net loans and advances at amortised cost to Net loans and advances at FVTPL. The loans had an amortised cost carrying amount of $224 million and a fair value of $201 million at 30 September 2018. The associated re-measurement of $23 million was recognised in Retained earnings offset by a decrease in current tax liabilities of $7 million. In addition, one of the loans was previously in a fair value hedge relationship which was discontinued effective 1 October 2018. Accordingly, changes in the fair value due to changes in the hedged risk which were previously recognised as a reduction to the carrying value of the loan amounting to $15 million were written back to Retained earnings offset by an increase in current tax liabilities of $4 million.
4. The Company elected to designate certain financial liabilities (bonds included within Debt issuances) as measured FVTPL effective from 1 October 2018 to reduce an accounting mismatch. The bonds had an amortised cost carrying amount of $879 million and a fair value of $824 million at 30 September 2018. The difference of $55 million (comprising a $109 million decrease in fair value before own credit, offset by a $54 million increase in fair value attributable to own credit) offset by a net tax impact of $17 million (increase in deferred tax asset of $17 million and an increase in current tax liability of $34 million) was recognised in Retained earnings.
5. Certain capital notes with contractual cash flow characteristics that are not solely payments of principal and interest were reclassified from Due from controlled entities at amortised cost to Due from controlled entities at FVTPL. The capital notes had an amortised cost of $1,800 million and a fair value of $1,949 million at 30 September 2018. In addition, the Company elected to designate debt issuances previously measured at amortised cost as measured at FVTPL effective from 1 October 2018 to reduce an accounting mismatch. The debt issuances had an amortised cost carrying amount of $1,786 million (comprising $1,767 million recognised in Debt issuances plus $19 million relating to accrued interest recognised in Payables and other liabilities) and a fair value of $1,923 million at 30 September 2018. The net re-measurement impact $12 million was recognised in Retained earnings offset by a $4 million increase in deferred tax liabilities.
6. The initial application of the expected credit loss requirements of AASB 9, resulted in increases in allowances for credit impairment attributable to the following:
   - On-balance sheet loans and advances of $583 million reflected in Net loans and advances at amortised cost;
   - Debt securities of $1 million reflected in Investment securities – debt securities at amortised cost; and
   - Off-balance sheet credit related commitments of $143 million reflected in Other provisions.

   The total impact of $727 million was recognised as a reduction to Retained earnings, offset by an increase of $207 million related to deferred tax. Additionally, loss allowances of $2 million (after-tax) attributable to Investment securities - debt securities at FVOCI have been recognised in Reserves with a corresponding adjustment to Retained earnings. The debt securities remain at fair value on the face of the Balance Sheet.
7. On initial application of AASB 9, a portfolio of Negotiable Certificates of Deposit with a carrying amount of $659 million was reclassified from Net loans and advances at amortised cost to Investment securities - debt securities at amortised cost. There was no re-measurement impact associated with this reclassification.
8. On initial application of AASB 9, loans with a carrying amount and fair value of $1,340 million that were in the process of being syndicated were reclassified from Net loans and advances at amortised cost to Net Loans and advances at FVTPL on the basis that the applicable business model is held-to-sell. There was no re-measurement impact associated with this reclassification.

NOTES TO THE FINANCIAL STATEMENTS (continued)

32. EVENTS SINCE THE END OF THE FINANCIAL YEAR

On 17 October the Company announced it had agreed a revised price for the sale of its OnePath P&I business and ADGs to IOOF of $850 million, being a $125 million reduction from the original sale price of $975 million announced in October 2017. The new price of $850 million includes ~$25 million that ANZ has already received for the sale of ADGs in October 2018. The revised terms reflect changing market conditions and include lower overall warranty caps as well as some changes to the strategic alliance arrangements. Subject to APRA approval, the Company expects the transaction to complete in the first quarter of calendar year 2020. The impact of the reduction in price has been reflected in the 2019 financial results.

Other than the matter above, there have been no significant events from 30 September 2019 to the date of signing this report.

DIRECTORS' AND LEAD AUDITOR'S INDEPENDENCE DECLARATION

DIRECTORS' DECLARATION

The Directors of Australia and New Zealand Banking Group Limited declare that:

a) in the Directors' opinion, the financial statements and notes of the Company:

   i) are prepared in accordance with Part 7.8 of the *Corporations Act 2001*, including that they comply with the Australian Accounting Standards and the applicable regulations of the *Corporations Regulations 2001*; and

   ii) give a true and fair view of the financial position of the Company as at 30 September 2019 and of its performance for the year ended on that date; and

b) The auditor's report lodged with the financial statements is a true copy of the report on the financial statements.

Signed in accordance with a resolution of the Directors.

David M Gonski, AC
Chairman

30 October 2019

Shayne C Elliott
Director

LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

To the Directors of Australia and New Zealand Banking Group Limited declare that:

I declare that, to the best of my knowledge and belief, in relation to the audit of Australia and New Zealand Banking Group Limited for the financial year ended 30 September 2019 there have been:

i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

Alison Kitchen
Partner
Melbourne

30 October 2019

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL REPORT

OPINION

We have audited the Financial Report of Australia and New Zealand Banking Group Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with part 7.8 of the Corporations Act 2001, including:

- giving a true and fair view of the Company's financial position as at 30 September 2019 and of its financial performance for the year ended on that date; and
- complying with Australian Accounting Standards and the relevant Corporations Regulations 2001.

The Financial Report comprises the:

- statement of financial position as at 30 September 2019;
- income statement, statement of comprehensive income, statement of changes in equity, and statement of cash flows for the year then ended;
- notes 1 to 32 including a summary of significant accounting policies; and

Directors' Declaration.

BASIS FOR OPINION

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Company in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

KEY AUDIT MATTERS

The Key Audit Matters we identified are:

- Allowance for expected credit losses;
- Valuation of Financial Instruments held at Fair Value;
- Provision for Customer Remediation; and
- IT Systems and Controls.

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTERS (continued)

ALLOWANCE FOR EXPECTED CREDIT LOSSES ($2,921M)

Refer to the critical accounting estimates and judgements and disclosures in relation to allowance for expected credit losses in Note 12 to the Financial Report.

The Key Audit Matter

AASB 9 Financial Instruments (AASB 9) was adopted by the Company on 1 October 2018. This is a key audit matter due to the significance of the loans and advances balance to the financial statements and the inherent complexity of the Company's Expected Credit Loss (ECL) models (ECL models) used to measure ECL allowances. This new and complex accounting standard requires the Company to recognise ECLs on its loans and advances and off-balance sheet positions; the Company developed new models which are reliant on data as well as a number of estimates including the impact of multiple economic scenarios and other assumptions such as defining a significant increase in credit risk (SICR). This involves significant judgement and estimates and takes into account forward looking information reflecting potential future economic events.

AASB 9 requires the Company to measure ECLs on a forward-looking basis reflecting a range of future economic conditions, including key forward-looking assumptions such as forecast GDP and unemployment levels. Post-model adjustments to the ECL results are also made by the Company to address known ECL model limitations or emerging trends in the loan portfolios. We exercise significant judgement in challenging the economic scenarios used and the judgemental overlays the Company applied to the ECL results.

The criteria selected to identify a SICR, such as a decrease in customer credit rating (CCR), are key areas of judgement within the Company's ECL methodology as these criteria determine if a forward-looking 12 month or lifetime allowance is recorded.

Separate from the ECL calculation, allowances for individually assessed loans exceeding specific thresholds are individually assessed by the Company. These specific allowances are established based on the expected future cash repayments and estimated proceeds from the value of the collateral held by the Company in respect of the loans.

How the matter was addressed in our audit

Our audit procedures for the allowance for ECL and disclosures for the year ended 30 September 2019 included assessing the Company's significant accounting policies against the requirements of the accounting standard. Additionally our procedures covered:

We tested key controls in relation to:

- The Company's ECL model governance and validation processes;
- The Company's assessment and approval of the forward looking macroeconomic assumptions and scenario weightings through challenge applied by the Company's internal governance processes;
- Reconciliation of the data used in the ECL calculation process to gross balances recorded within the general ledger as well as source systems;
- Testing the key controls over counterparty risk grading for wholesale loans (larger customer exposures are monitored individually). We tested the approval of new lending facilities against the Company's lending policies, and controls over the monitoring of counterparty credit quality. This included testing controls over the identification of exposures showing signs of stress, either due to internal factors specific to the counterparty or external macroeconomic factors, and testing the timeliness of and the accuracy of counterparty risk assessments and risk grading against the requirements of the Company's lending policies and regulatory requirements; and
- For retail loans, testing controls over the systems which record lending arrears, group exposures into delinquency buckets, and re-calculate individual allowances. We tested automated calculation and change management controls and evaluated the Company's oversight of the portfolios, with a focus on controls over delinquency monitoring. We tested a sample of the level of allowances held against different loan products based on the delinquency profile and challenged assumptions made in respect of expected recoveries, including from collateral held.

We also tested relevant General Information Technology Controls (GITCs) over the key IT applications used by the Company in measuring ECL allowances as detailed in the IT Systems and Controls key audit matter below.

In addition to controls testing, our procedures included:

- Performing credit assessments of a sample of wholesale loans controlled by the Company's specialist workout and recovery team assessed as higher risk or impaired, and a sample of other loans, focusing on larger exposures assessed by the Company as showing signs of deterioration, or in areas of emerging risk (assessed against external market conditions). We challenged the Company's risk grading of the loan, assessment of loan recoverability, valuation of security and the impact on the credit allowance. To do this, we used the information on the Company's loan file, understood the facts and circumstances of the case with the loan officer, and performed our own assessment of recoverability. Exercising our judgment, our procedures included using our understanding of relevant industries and the macroeconomic environment and comparing data and assumptions used by the Company in recoverability assessments to externally sourced evidence, such as commodity prices, publicly available audited financial statements and comparable external valuations of collateral held. Where relevant we assessed the forecast timing of future cash flows in the context of supporting valuations and approved business plans and challenged key assumptions implicit in the valuations;
- Obtaining an understanding of the Company's processes to determine ECL allowances, evaluating the Company's ECL model methodologies against established market practices and criteria in the accounting standards;

INDEPENDENT AUDITOR'S REPORT (continued)

KEY AUDIT MATTERS (continued)

- Working with KPMG Risk Consulting specialists, we assessed the accuracy of the Company's ECL model predictions by re-performing, for a sample of loans, the ECL allowance and comparing this to the amount recorded by the Company;
- Working with KPMG Economic specialists, we challenged the Company's forward-looking macroeconomic assumptions and scenarios incorporated in the Company's ECL models. We compared the Company's forecast GDP and unemployment rates to relevant publicly available macro-economic information, and considered other known variables and information obtained through our other audit procedures to identify contradictory indicators;
- Testing the implementation of the Company's SICR methodology by re-performing the staging calculation for a sample of loans and comparing our expectation to actual staging applied on an individual account level, taking into consideration movements in CCR; and
- Assessing the accuracy of the data used in the ECL models by confirming a sample of data fields such as account balance and CCR to relevant source systems.

We also challenged key assumptions in the components of the Company's post-model adjustments to the ECL allowance balance. This included:

- Evaluating underlying data used in concentration risk and economic cycle allowances by comparing underlying portfolio characteristics to recent loss experience, current market conditions and specific risks inherent in the Company's loan portfolios;
- Assessing the requirement for other additional allowances considering the Company's ECL model and data deficiencies identified by the Company's ECL model validation processes, and
- Assessing the completeness of additional allowance overlays by checking the consistency of risks we identified in the portfolios against the Company's assessment.

AASB 7 Financial Instruments: Disclosures
Assessing the appropriateness of the Company's disclosures in the financial report using our understanding obtained from our testing against the requirements of the accounting standard.

VALUATION OF FINANCIAL INSTRUMENTS HELD AT FAIR VALUE

- **ASSETS HELD AT FAIR VALUE $222,093M**
- **LIABILITIES HELD AT FAIR VALUE $124,398M**

Refer to the critical accounting estimates, judgements and disclosures of fair values in Note 16 to the Financial Report.

The Key Audit Matter
Financial instruments held at fair value on the Company's balance sheet include investment securities, trading securities, derivative assets and liabilities, certain debt securities, and other assets and liabilities designated as measured at fair value through profit or loss or fair value through other comprehensive income. The instruments are mainly risk management products sold to customers and used by the Company to manage its own interest rate and foreign exchange risk.

The valuation of financial instruments held at fair value is considered a Key Audit Matter as:

- Financial instruments held at fair value are significant (25% of assets and 14% of liabilities);
- The significant volume and range of products transacted, in a number of international locations, increases the risk of inconsistencies in transaction management processes that could lead to inaccurate valuation;
- Determining the fair value of trading securities and derivatives involves a significant level of judgement by the Company, increasing the risk of error, and adding complexity to our audit. The level of judgement increases where internal models, as opposed to quoted market prices, are used to determine fair value of an instrument, or where inputs to the internal models, such as discount rates and measures of volatility, are not observable; or where there are a greater number of variables, including trade economic details and modelling assumptions, which feed into the internal models; and
- The valuation of certain derivatives held by the Company is sensitive to inputs including funding rates, probabilities of default and loss given default. Both funding and credit risk are incorporated within the valuation of certain derivative instruments. This increased our audit effort in this area and necessitated the involvement of valuation specialists.

How the matter was addressed in our audit
Our audit procedures for the valuation of financial instruments held at fair value included:

- Testing access rights and change management controls for key valuation systems;
- Testing interface controls, notably the completeness and accuracy of data transfers between transaction processing systems, key systems used to generate valuations and any related valuation adjustments, and the Company's market risk management and finance systems to identify inconsistencies in transaction management and valuation processes across products and locations;

KEY AUDIT MATTERS (continued)

- Testing the governance and approval controls, such as management review and approval of the valuation models, and approval of new products against policies and procedures;
- Testing the front office management review and approval of the daily financial instrument trading profit and loss reconciliations prepared by the Company's independent markets and treasury control;
- Testing the management review and approval of model construction and validation, aimed at assessing the validity and robustness of underlying valuation models; and
- Testing the Company's data validation controls, such as those over key inputs in generating the fair value to market data where fair values were determined by front office teams.

We carried out testing over the valuation of financial instruments with both observable and unobservable inputs. Our specific testing involved valuation specialists and included:

- Re-performing the valuation of 'level 1' and 'level 2' investment securities and trading securities, which are primarily government, semi-government and corporate debt securities, by comparing the observable inputs, including quoted prices, to independently sourced market data;
- Using independent models, re-calculating the valuation of a sample, across locations, of derivative assets and liabilities where the fair value was determined using observable inputs. This included comparing a sample of observable inputs used in the Company's derivative valuations to independently-sourced market data, such as interest rates, foreign exchange rates and volatilities;
- Where the fair value of derivatives and other financial assets and liabilities were determined using unobservable inputs ('level 3' instruments), challenging the Company's valuation model by testing the key inputs used to comparable data in the market, including the use of proxy instruments and available alternatives. We compared the Company's valuation methodology to industry practice and the criteria in the accounting standards; and
- Evaluating the appropriateness of the Company's valuation methodology for derivative financial instruments, having regard to current and emerging derivative valuation practices across a range of peer institutions, and against the required criteria in the accounting standards. We tested adjustments made to valuations, particularly funding and credit valuation adjustments on un-collateralised derivatives. In particular, for a sample of individual counterparties, across locations, we tested key inputs to the credit valuation adjustment calculation, including the probability of default, against observable market data. Where proxies were used, we assessed the proxy against available alternatives, across a number of locations.

PROVISION FOR CUSTOMER REMEDIATION ($967M)

Refer to the critical accounting estimates, judgements and disclosures in Notes 20 to the Financial Report.

The Key Audit Matter

The Company has assessed the need to recognise provisions in relation to certain customer remediation activities arising from both internal and external investigations and reviews. This includes provisions for expected refunds to customers, remediation project costs and related customer and regulatory claims, penalties, and litigation outcomes.

The provision for customer remediation activities is a Key Audit Matter due to the number of investigations, the quantum of amounts involved, and the judgements required by us in assessing the Group's determination of:

- The existence of a present legal or constructive obligation arising from a past event using the conditions of the event against the criteria in the accounting standards;
- Reliable estimates of the amounts which may be paid arising from investigations, including estimates of related costs and regulatory penalties;
- The potential for legal proceedings, further investigations, and reviews from its regulators leading to a wider range of estimation outcomes for us to consider.

How the matter was addressed in our audit

Our audit procedures for customer remediation provisions included:

- Obtaining an understanding of the Company's processes for identifying and assessing the potential impact of customer remediation payments, related project costs and legal proceedings associated with compliance matters, investigations and reviews from its regulators;
- Enquiring with the Company regarding ongoing legal and regulatory matters, and investigation into other remediation activities;
- Enquiries with external legal counsel;
- Reading the minutes and other relevant documentation of the Company's Board of Directors, Board Committees, various management committees, and attending the Company's Audit and Risk Committee meetings;
- Inspecting correspondence with relevant regulatory bodies;
- For a sample of individual exposures, assessing the basis for recognition and measurement of a provision and associated costs against the requirements of the accounting standards. We did this by understanding and challenging the provisioning methodologies and underlying assumptions;

INDEPENDENT AUDITOR'S REPORT (continued)

KEY AUDIT MATTERS (continued)

- Testing completeness by evaluating where exposures may have arisen based upon our knowledge and experience of broader industry matters, the Company's documentation of compliance matters and customer complaints and the current regulatory environment. We also checked features of these exposures against the criteria defining a provision or a contingency in the accounting standards;
- Assessing the appropriateness of the Company's conclusions against the requirements of Australian Accounting Standards where estimates were unable to be reliably made for a provision to be recognised;
- Evaluating the related disclosures against the requirements of Australian Accounting Standards.

IT SYSTEMS AND CONTROLS

The Key Audit Matter

As a major Australian bank, the Company's businesses utilise a large number of complex, interdependent Information Technology (IT) systems to process and record a high volume of transactions. Controls overaccess and changes to IT systems are critical to the recording of financial information and the preparation of a financial report which provides a true and fair view of the Company's financial position and performance.

The IT systems and controls, as they impact the financial recording and reporting of transactions, is a key Audit matter and our audit approach could significantly differ depending on the effective operation of the Company's IT controls. KPMG IT specialists were used throughout the engagement as a core part of our audit team.

How the matter was addressed in our audit

We tested the technology control environment for key IT applications (systems) used in processing significant transactions and recording balances in the general ledger. We also tested automated controls embedded within these systems which support the effective operation of technology-enabled business processes. Our audit procedures included:

- Assessing the governance and higher-level controls in place across the IT Environment, including the approach to Company policy design, review and awareness, and IT Risk Management practices;
- Design and operating effectiveness testing of controls across the User Access Management Lifecycle, including how users are on-boarded, reviewed, and removed on a timely basis from critical IT applications and supporting infrastructure. We also looked at how privileged roles and functions are managed across each IT Application and the supporting infrastructure;
- Design and operating effectiveness testing of controls in place to enable Change Management including how changes are initiated, documented, approved, tested and authorised prior to migration into the production environment of critical IT Applications. We also assessed the appropriateness of users with access to make changes to IT applications across the Company;
- Design and operating effectiveness testing of controls used by the Company's technology teams to schedule system jobs and monitor system integrity;
- Design and operating effectiveness testing of controls in place to support Program Development, including the implementation of revised guidelines per the new ANZ Delivery Framework; and
- Design and operating effectiveness testing of automated business process controls include those that enforce segregation of duties conflicts between toxic role combinations within IT applications, configurations in place to perform calculations, mappings, and flagging of financial transactions, automated reconciliation controls, both between systems and intra-system and data integrity of critical system reporting used for sampling, data analysis and financial reporting across the audit.

RESPONSIBILITIES OF DIRECTORS FOR THE FINANCIAL REPORT

The Directors are responsible for:

- preparing a Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*;
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and
- assessing the Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL REPORT

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar2.pdf. This description forms part of our Auditor's Report.

KPMG

Alison Kitchen
Partner
Melbourne
30 October 2019