Financial Report

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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.

Item	Related segment	Profit after tax 2019 $m	Profit after tax 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

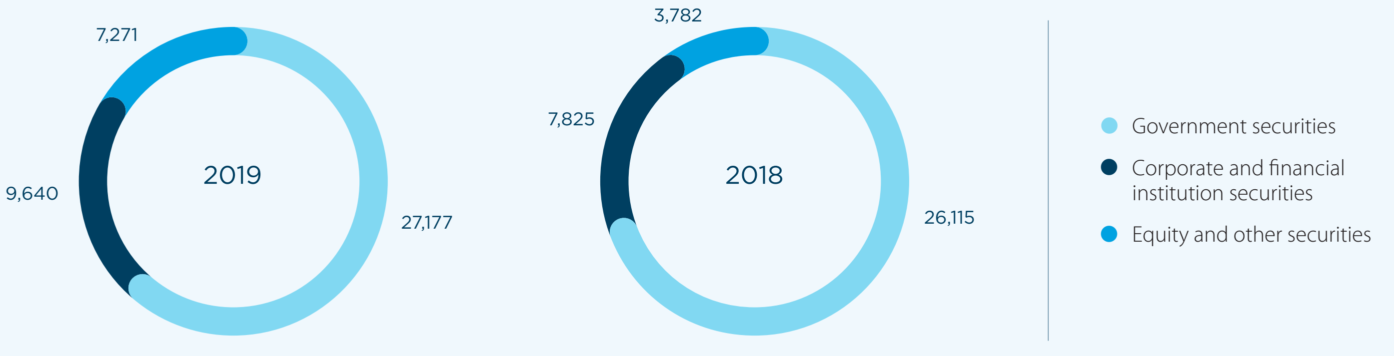
A financial asset may be irrevocably designated at FVTPL on initial recognition when the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

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			Amount reclassified from the cash flow hedge reserve or FCTR to profit and loss
2019	Change in value of hedging instrument $m	Change in value of hedged item $m	Hedge ineffectiveness recognised in profit and loss $m	$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:

		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

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)

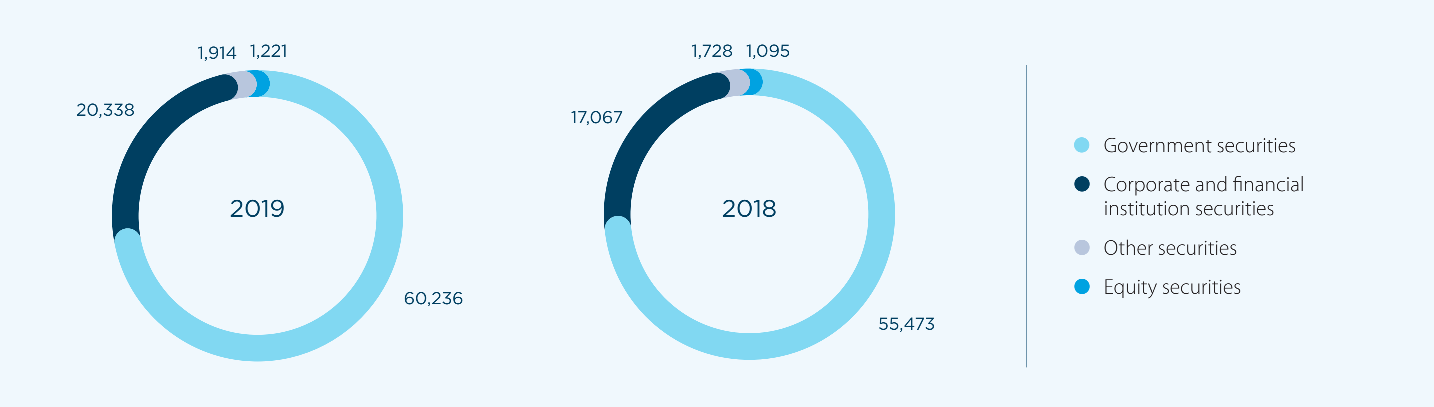
RECOGNITION AND MEASUREMENT

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 1	Stage 2	Stage 3		Total
			Collectively assessed	Individually assessed	
	$m	$m	$m	$m	$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:

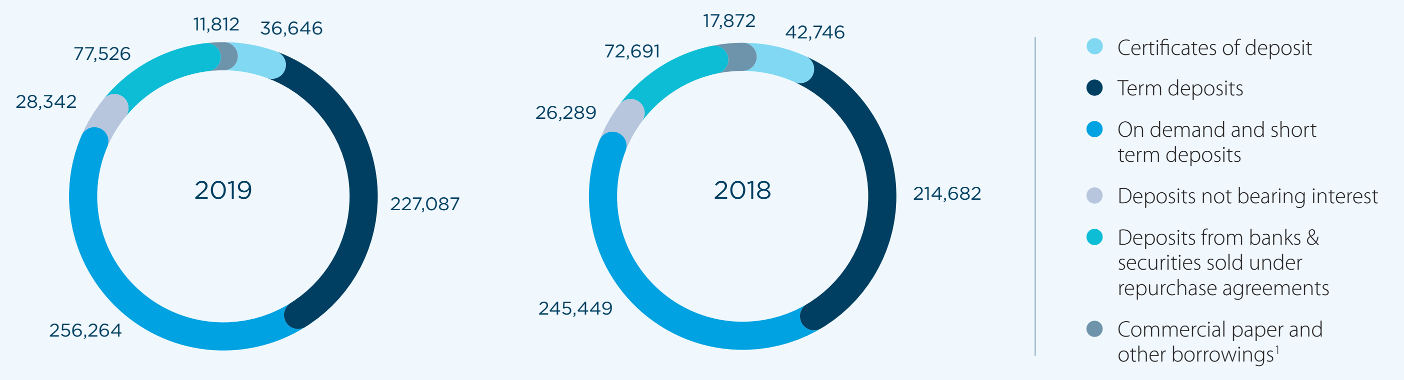
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise;
- a group of financial liabilities are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management strategy; or
- the financial liability contains 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)

As at 30 September 2019[1]	2019 Discontinued Operations $m	2018 Discontinued Operations $m	2018 Cambodia JV $m	2018 OPL NZ $m	2018 PNG Retail, Commercial & SME $m	2018 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

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

Alison Kitchen
Partner

Melbourne
30 October 2019