AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED

ABN 11 005 357 522

THE COMPANY

2020 Financial Report

30 September 2020

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

FINANCIAL REPORT

INCOME STATEMENT

For the year ended 30 September	Note	2020 $m	2019 $m
Interest income[1]		21,739	27,599
Interest expense		(11,855)	(17,452)
Net interest income	2	9,884	10,147
Other operating income	2	4,204	4,553
Net income from insurance business	2	-	7
Share of associates' (loss)/profit	2	(1)	(1)
Operating income		14,087	14,706
Operating expenses	3	(7,788)	(7,784)
Profit before credit impairment and income tax		6,299	6,922
Credit impairment charge	12	(2,337)	(714)
Profit before income tax		3,962	6,208
Income tax expense	4	(1,156)	(1,761)
Profit for the year		2,806	4,447

1. Includes interest income calculated using the effective interest method of $18,232 million on financial assets measured at amortised cost or fair value through other comprehensive income (2019: $23,678 million).

The notes appearing on pages 8 to 89 form an integral part of these financial statements.

FINANCIAL REPORT (continued)

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 September	2020 $m	2019 $m
Profit for the year	2,806	4,447
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss		
Investment securities - equity securities at FVOCI	(151)	45
Other reserve movements	23	98
Items that may be reclassified subsequently to profit or loss		
Foreign currency translation reserve	(109)	209
Other reserve movements	587	915
Income tax attributable to the above items	(149)	(301)
Other comprehensive income after tax	201	966
Total comprehensive income for the year	3,007	5,413

The notes appearing on pages 8 to 89 form an integral part of the financial statements.

BALANCE SHEET

As at 30 September	Note	2020 $m	2019 $m
Assets			
Cash and cash equivalents	7	98,083	77,949
Settlement balances owed to ANZ		7,116	3,442
Collateral paid		13,012	13,461
Trading securities	8	38,423	34,217
Derivative financial instruments	9	130,552	116,544
Investment securities	10	80,284	73,355
Net loans and advances	11	488,002	484,655
Regulatory deposits		199	215
Due from controlled entities		100,654	88,874
Shares in controlled entities	23	15,022	15,467
Investments in associates		20	18
Current tax assets		155	254
Deferred tax assets[1]		1,744	1,245
Goodwill and other intangible assets	19	1,097	1,367
Premises and equipment[1]		2,643	971
Other assets		2,072	2,798
Total assets		979,078	914,832
Liabilities			
Settlement balances owed by ANZ		19,556	9,342
Collateral received		8,074	7,005
Deposits and other borrowings	13	558,136	524,241
Derivative financial instruments	9	131,230	117,340
Due to controlled entities		100,932	89,683
Current tax liabilities		81	118
Deferred tax liabilities		79	67
Payables and other liabilities[1]		8,070	6,621
Employee entitlements		441	450
Other provisions	20	2,157	1,905
Debt issuances	14	97,050	104,846
Total liabilities		925,806	861,618
Net assets		53,272	53,214
Shareholders' equity			
Ordinary share capital	21	26,454	26,413
Reserves	21	1,018	840
Retained earnings[1]	21	25,800	25,961
Total shareholders' equity	21	53,272	53,214

1. On adoption of AASB 16 on 1 October 2019, ANZ recognised right-of-use assets of $2.1 billion presented within Premises and equipment and lease liabilities of $2.1 billion presented within Payables and other liabilities. This resulted in a reduction to opening retained earnings of $72 million and an increase in deferred tax assets of $31 million. Comparative information has not been restated. Refer to Note 1 for further details.

The notes appearing on pages 8 to 89 form an integral part of the financial statements.

FINANCIAL REPORT (continued)

CASH FLOW STATEMENT

For the year ended 30 September	2020 $m	2019 $m
Profit after income tax	2,806	4,447
Adjustments to reconcile to net cash provided by/(used in) operating activities:		
Allowance for expected credit losses	2,337	714
Depreciation and amortisation[1, 2]	1,214	738
Goodwill impairment	10	-
Net derivatives/foreign exchange adjustment	(2,175)	5,004
Impairment of investment in Wealth Australia	42	-
Impairment of investment in ANZ Share Investing	2	147
(Gain)/Loss on sale from divestments	11	(273)
Other non-cash movements	20	31
Net(increase)/decrease in operating assets:		
Collateral paid	33	(3,839)
Trading securities	1,908	(6,393)
Net loans and advances	(7,526)	(3,740)
Net intra-group loans and advances	(393)	5,301
Other assets	(26)	(85)
Net increase/(decrease) in operating liabilities:		
Deposits and other borrowings	40,662	(1,109)
Settlement balances owed by ANZ	10,286	(642)
Collateral received	1,426	619
Other liabilities	(9,121)	955
Total adjustments	38,710	(2,572)
Net cash provided by operating activities[3]	41,516	1,875
Cash flows from investing activities		
Investment securities assets:		
Purchases	(33,731)	(22,583)
Proceeds from sale or maturity	25,346	18,440
(Repayment of)/Proceeds from IOOF secured notes	(800)	800
Proceeds from divestments, net of cash disposed	688	185
Net movement in shares in controlled entities	(75)	(132)
Other assets	(567)	(648)
Net cash (used in) investing activities	(9,139)	(3,938)
Cash flows from financing activities		
Debt issuances:[4]		
Issue proceeds	10,064	20,450
Redemptions	(17,179)	(18,938)
Dividends paid[5]	(2,861)	(4,481)
On market purchase of treasury shares	(122)	(112)
Repayment of lease liabilities[6]	(267)	-
Share buy-back	-	(1,120)
Net cash (used in)/provided by financing activities	(10,365)	(4,201)
Net (decrease)/increase in cash and cash equivalents	22,012	(6,264)
Cash and cash equivalents at beginning of year	77,949	80,227
Effects of exchange rate changes on cash and cash equivalents	(1,878)	3,986
Cash and cash equivalents at end of year	98,083	77,949

1. Includes depreciation of right-of-use assets recognised on 1 October 2019 following the adoption of AASB 16. Comparatives have not been restated.
2. Includes accelerated amortisation of $184 million following the Company's change in the application of its software amortisation policy to reflect the shorter useful life of software caused by rapidly changing technology and business requirements. Refer to Note 19 Goodwill and Other Intangible Assets for further details.
3. Net cash provided by operating activities includes income taxes paid of $1,596 million (2019: $1,875 million).
4. Non-cash changes in debt issuances includes fair value hedging losses of $532 million (2019: $2,106 million loss) and foreign exchange gains of $858 million (2019: foreign exchange losses $3,290 million).
5. Cash outflow for shares purchased to satisfy the dividend reinvestment plan are classified in Dividends paid.
6. Relates to repayments of lease liabilities which the Company commenced recognising on 1 October 2019 following the adoption of AASB 16. Comparative information has not been restated.

The notes appearing on pages 8 to 89 form an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY

	Ordinary share capital $m	Reserves $m	Retained earnings $m	Total shareholders' equity $m
As at 1 October 2018	27,533	(56)	26,399	53,876
Impact on transition to AASB 9	-	5	(483)	(478)
Profit for the year	-	-	4,447	4,447
Other comprehensive income for the year	-	894	72	966
Total comprehensive income for the year	**-**	**894**	**4,519**	**5,413**
Transactions with equity holders in their capacity as equity holders:				-
Dividends paid	-	-	(4,481)	(4,481)
Group share buy-back[2]	(1,120)	-	-	(1,120)
Other equity movements:				
Other items	-	(3)	7	4
As at 30 September 2019	26,413	840	25,961	53,214
Impact on transition to AASB 16			(72)	(72)
Profit for the year	-	-	2,806	2,806
Other comprehensive income for the year	-	183	18	201
Total comprehensive income for the year	-	183	2,824	3,007
Transactions with equity holders in their capacity as equity holders:				
Dividends paid	-	-	(2,922)	(2,922)
Dividend Reinvestment Plan[1]	61	-	-	61
Other equity movements:				
Group employee share acquisition scheme	(20)	-	-	(20)
Other items	-	(5)	9	4
As at 30 September 2020	26,454	1,018	25,800	53,272

1. 3.4 million shares were issued under the Dividend Reinvestment Plan (DRP) for the 2020 interim dividend (nil shares for the 2019 final dividend; nil shares for the 2019 interim dividend as the shares were purchased on-market and provided directly to shareholders participating in the DRP). On-market share purchases for the DRP in 2020 were $185 million (Sep 19 full year: $432 million).
2. The Company has completed a $3.0 billion on-market share buy-back of ANZ ordinary shares purchasing $1,120 million worth of shares in 2019 resulting in 42.0 million shares being cancelled in 2019.

The notes appearing on pages 8 to 89 form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. ABOUT THE FINANCIAL STATEMENTS

These are the financial statements for Australia and New Zealand Banking Group Limited (the Company or ANZ) for the year ended 30 September 2020. The Company is incorporated and domiciled in Australia. The address of the Company's registered office and its principal place of business is ANZ Centre, 833 Collins Street, Docklands, Victoria, Australia 3008.

On 4 November 2020, the Directors resolved to authorise the issue of these financial statements.

Information in the financial statements is included only to the extent we consider it material and relevant to the understanding of the financial statements. A disclosure is considered material and relevant if, for example:

- the amount is significant in size (quantitative factor);
- the information is significant by nature (qualitative factor);
- the user cannot understand the Company's results without the specific disclosure (qualitative factor);
- the information is critical to a user's understanding of the impact of significant changes in the Company's business during the period, for example: business acquisitions or disposals (qualitative factor); or
- the information relates to an aspect of the Company's operations that is important to its future performance (qualitative factor) and;
- the information is required under legislative requirements of the *Corporations Act 2001, the Banking Act 1959 (Cth)* or by the Company's principal regulators, including the Australian Securities and Investments Commission (ASIC) and the Australian Prudential Regulation Authority (APRA).

This section of the financial statements:

- outlines the basis upon which the Company's financial statements have been prepared; and
- discusses any new accounting standards or regulations that directly impact the financial statements.

BASIS OF PREPARATION

This financial report is a general purpose (Tier 1) financial report (as defined under the Corporations law) prepared by a 'for profit' entity, in accordance with *Australian Accounting Standards (AASs)* and other authoritative pronouncements of the *Australian Accounting Standards Board (AASB)* the *Corporations Act 2001*, and the *International Financial Reporting Standards (IFRS)* and interpretations published by the *International Accounting Standards Board (IASB)*.

The Company is a reporting entity under the *Corporations Act 2001*, and is not exempt from preparing consolidated financial statements. The financial statements for the Company have been prepared for the purpose of the Company fulfilling its financial reporting obligations under part 7.8 of the *Corporations Act 2001*, as required for Australian Financial Services Licensees.

The Company is the ultimate parent entity of the ANZ Group. The Company consists of the following operations undertaken in Australia and in its overseas branches:

- Retail and Commercial operations,
- Institutional operations, and
- Technology Services & Operations and Group Centre operations.

The consolidated financial statements of the Group can be found as part of the 2020 Annual Report at https://www.anz.com/shareholder/centre/reporting/annual-report-annual-review/ and copies are available from the Company's registered office and principal place of business.

We present these financial statements in Australian dollars, which is the Company's functional and presentation currency. We have rounded values to the nearest million dollars ($m), unless otherwise stated, as allowed under the *Australian Securities and Investments Commission (ASIC) Corporations (Rounding in Financial/Directors Report) Instrument 2016/191*.

BASIS OF MEASUREMENT

We have prepared the financial information in accordance with the historical cost basis - except the following assets and liabilities which we have stated at their fair value:

- derivative financial instruments and in the case of fair value hedging, a fair value adjustment made to the underlying hedging exposure;
- financial instruments held for trading;
- financial assets and liabilities designated at fair value through profit and loss; and
- financial assets at fair value through other comprehensive income.

In accordance with AASB 119 *Employee Benefits* defined benefit obligations are measured using the Projected Unit Credit Method.

1. ABOUT THE FINANCIAL STATEMENTS (continued)

FOREIGN CURRENCY TRANSLATION

TRANSACTIONS AND BALANCES

Foreign currency transactions are translated into the relevant functional currency at the exchange rate prevailing at the date of the transaction. At the reporting date, monetary assets and liabilities denominated in foreign currencies are translated into Australian dollars, being the functional currency, at the relevant spot rate. Any foreign currency translation gains or losses are included in profit or loss in the period they arise.

We measure translation differences on non-monetary items at fair value through profit or loss and report them as part of the fair value gain or loss on these items. For non-monetary items classified as investment securities measured at fair value through other comprehensive income the translation differences are included as part of the fair value gains or losses recorded in other comprehensive income.

KEY JUDGEMENTS AND ESTIMATES

In the process of applying the Company's accounting policies, management has made a number of judgements and applied estimates and assumptions about past and future events. Further information on the key judgements and estimates that we consider material to the financial statements are contained within the relevant note to the financial statements.

Coronavirus (COVID-19) pandemic

The COVID-19 pandemic and its effect on the global economy have impacted our customers, operations and Company performance. The outbreak necessitated governments to respond at unprecedented levels to protect the health of the population, local economies and livelihoods. It has affected different regions at different times and at varying degrees and there remains a risk of subsequent waves of infection. Thus the pandemic has significantly increased the estimation uncertainty in the preparation of these financial statements including:

- the extent and duration of the disruption to business arising from the actions of governments, businesses and consumers to contain the spread of the virus;
- the extent and duration of the expected economic downturn, and subsequent recovery. This includes the impacts on capital markets and liquidity, credit quality, increasing unemployment, declines in consumer spending, reductions in production, and other restructuring activities; and
- the effectiveness of government and central bank measures to support businesses and consumers through this disruption and economic downturn.

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

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

The impact of the COVID-19 pandemic on each of these estimates is discussed further in the relevant note of these financial statements. Readers should carefully consider these disclosures in light of the inherent uncertainty described above.

1. ABOUT THE FINANCIAL STATEMENTS (CONTINUED)

ACCOUNTING STANDARDS ADOPTED IN THE PERIOD

AASB 16 *Leases (AASB 16)*

AASB 16 became effective for the Company from 1 October 2019 and replaced the previous standard AASB 117 *Leases* (AASB 117). AASB 16 primarily impacts the Company's property and technology leases which were previously classified as operating leases. Under AASB 117, operating leases were not recognised on balance sheet and rent payments were expensed over the lease term.

Under AASB 16, the Company recognises all leases (except for leases of low value assets and short term leases) on balance sheet under a single accounting model. Accordingly, the Company recognises its right to use an underlying leased asset over the lease term as a right-of-use (ROU) asset, and its obligation to make lease payments as a lease liability. In the income statement, the Company recognises depreciation expense on the ROU asset and interest expense on the lease liability. As a result, lease expenses will be higher in the early periods of a lease and lower in the later periods of the lease compared to the previous standard where expenses were constant over the lease term. Cumulative expenses over the life of a lease will not change.

As permitted by the standard, the Company does not recognise ROU assets and lease liabilities for leases of low value items and short term leases (less than 12 months). Instead, the lease payments associated with these leases are recognised as an operating expense in the income statement on a straight-line basis over the lease term.

The Company has applied the modified retrospective transition approach whereby initial lease liabilities are recognised based on the present value of remaining lease payments as of the transition date. The initial ROU asset recognised for certain large commercial and retail leases was measured as if AASB 16 had always been applied to the leases. For all other leases, the initial ROU asset was measured as equal to the initial lease liability.

The implementation of AASB 16 requires management to make certain key judgements including the determination of lease terms, discount rates and identifying arrangements that contain a lease. Extension options are included in the lease term if the Company is reasonably certain the option will be exercised. This assessment includes consideration of facts and circumstances that create an economic incentive for the Company to exercise the option.

Based on the modified retrospective transition approach, the Company recognised lease liabilities of $2.1 billion presented within Payables and other liabilities and ROU assets of $2.1 billion presented within Premises and equipment. This resulted in a reduction to opening retained earnings of $72 million and an increase in deferred tax assets of $31 million as of 1 October 2019. Comparatives have not been restated.

In addition, the Company elected to apply the following practical expedients as permitted under the modified retrospective transition approach:

a) Impairment of ROU assets at the transition date was assessed by relying on onerous lease provisions previously recognised as of 30 September 2019 under AASB 117;
b) Initial direct costs associated with entering leases prior to the transition date were excluded from the carrying value of ROU assets recognised at transition;
c) No ROU assets or lease liabilities were recognised for certain leases with less than 12 months remaining as of the transition date; these leases were treated as short-term leases with all lease payments recognised in rent expense as incurred; and
d) Hindsight was used to determine the lease term of contracts that contained options to extend the lease.

1. ABOUT THE FINANCIAL STATEMENTS (continued)

ACCOUNTING STANDARDS ADOPTED IN THE PERIOD (continued)

The following table reconciles the operating lease commitments disclosed under AASB 117 as at 30 September 2019 to the opening lease liabilities recognised under AASB 16 as at 1 October 2019.

	$m
Operating Lease Commitments as at 30 September 2019	1,757
Increase in lease term for extension options	559
Exclusion of low value leases and leases of less than 12 months	(19)
Exclusion of service components	(8)
Other	(3)
Total Undiscounted Lease Payments	**2,286**
Effect of discounting at a weighted average incremental borrowing rate of 2.06%	(138)
Total lease liabilities under AASB 16 as at 1 October 2019	**2,148**

During the reporting period, ANZ recognised the following amounts in the income statement

	$m
Depreciation expense on ROU assets	353
Interest expense on lease liabilities	43
Interest expense on makegood provisions	1
Rent expense in relation to low value leases and leases of less than 12 months	13
Other income in relation to subleases	21

The Company's accounting policies with respect to lease arrangements where it acts as lessor have not changed under AASB 16 except where the Company subleases certain leased properties. Where the Company acts as intermediate lessor, it classifies the sublease as either a finance lease or operating lease by reference to the ROU asset of the head lease. Income from operating subleases is recognised in Other operating income in the Income Statement.

Interest Rate Benchmark Reform

Background

Interbank offered rates (IBORs), such as the London Interbank Offered Rate (LIBOR), play a critical role in global financial markets, serving as reference rates for derivatives, loans and securities, and as parameters in the valuation of financial instruments.

Uncertainty surrounding the integrity of IBOR rates has in recent years, led regulators, central banks and market participants to work towards a transition to alternative risk-free benchmark reference rates (RFRs) and market-led working groups in respective jurisdictions have recommended alternative risk-free reference rates, which are gradually being adopted. Progress in the transition to these new benchmarks has resulted in significant uncertainty in the future of IBOR benchmarks beyond 1 January 2022.

Accounting amendments

In response to the uncertainty about the long-term viability of these benchmark rates, and LIBOR in particular, the *International Accounting Standards Board (IASB)* has established a project to consider the financial reporting implications of the reform. The transition from IBORs is expected to have an impact on various elements of financial instrument accounting, including hedge accounting, as well as fair value methodologies and disclosures.

In October 2019, the AASB issued AASB 2019-3 *Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform*, which amends certain existing hedge accounting requirements to provide relief from potential effects of the uncertainty caused by the interest rate benchmark reform. The Company elected to early adopt the amendments from 1 October 2019 which have not had a significant impact on the Company. These amendments address the accounting effects of uncertainty in the period leading up to the reform arising from the Company's ability to satisfy the existing prospective hedge effectiveness requirements of AASB 139. This uncertainty arises as it is not known when the hedged items (such as debt issuances) and associated hedging instruments (such as interest rate swaps) will be changed to reference the RFRs, or if both the hedging item and the associated hedging instrument will move to the new rates at the same time. The Company has applied this amendment to all hedge accounted relationships (cash flow or fair value hedges) where the reform gives rise to uncertainties about the timing or amount of IBOR based cash flows of the hedged item or hedging instrument.

In September 2020, the AASB issued AASB 2020-8 *Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform – Phase 2* which is mandatory for the Company for the 2022 financial year. This standard addresses issues that may affect the Company at the point of transition from an existing IBOR rate to a RFR, including the effects of changes to contractual cash flows or hedging relationships. The standard includes amendments in respect of:

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. ABOUT THE FINANCIAL STATEMENTS (continued)

ACCOUNTING STANDARDS ADOPTED IN THE PERIOD (continued)

- Modification of a financial asset or a financial liability measured at amortised cost

  IBOR reform is expected to result in a change to the basis for determining contractual cash flows of impacted assets and liabilities of the Company. The amendments provide a practical expedient to account for a change in the basis for determining the contractual cash flows as a result of IBOR reform by updating the effective interest rate. As a result, no immediate gain or loss is recognised. This applies only when the change is necessary as a direct consequence of the reform, and the new basis for determining the contractual cash flows is economically equivalent to the previous basis.

- Additional relief for hedging relationships

  The Standard also amends a number of existing hedge accounting requirements that will assist the Company to maintain its existing hedge accounted relationships post IBOR transition. The Company will continue to record any ongoing hedge ineffectiveness, including that generated by changes as a result of interest rate reform, within the Income statement.

The Company is in the process of assessing the impact of the new standard on its financial statements.

Impact of IBOR reform

The Company has exposure to IBOR through its issuance of debt, the structural interest rate risk position, holdings of investment securities, products denominated in foreign currencies and associated hedging activities in our treasury and markets businesses within the TSO and Group Centre and Institutional divisions respectively.

The Company has established an enterprise-wide Benchmark Transition Program to manage the transition. The program includes the assessment and actions necessary to accommodate the transition to RFRs as they apply to internal processes and systems including pricing, risk management, documentation and hedge arrangements. The program includes management of the impact on customers.

Impact of IBOR reform on the Company's hedging relationships

Certain IBOR rates are subject to replacement by RFRs. The Company has hedge accounted relationships referencing IBORs, with the most significant interest rate benchmarks to which the Company's hedging relationships are exposed to are USD LIBOR, Euro Interbank Offered Rate (EURIBOR), Bank Bill Swap Rate (BBSW) and Bank Bill Market (BKBM).

Of these benchmarks the Company expects BBSW, BKBM and EURIBOR to exist as benchmark rates for the foreseeable future and therefore does not believe its BBSW, BKBM or EURIBOR benchmark fair value or cash flow hedges will be directly impacted by IBOR reform.

The table below details the carrying values of the Company's exposures designated in hedge accounting relationships that will be impacted by IBOR reform, principally USD LIBOR. The nominal value of the associated hedging instruments is also included:

			As at 30 September 2020
Hedged items			USD LIBOR exposures $m
Investment securities at FVOCI			15,002
Net loans and advances			111
Debt issuances			23,701
Hedging instruments	Notional designated up to 31 December 2021 $m	Notional designated beyond 31 December 2021 $m	Total Notional Amount $m
Fair value hedges	10,316	26,625	36,941
Cash flow hedges	-	1,055	1,055

As at 30 September 2020 the Company also has GBP LIBOR and JPY LIBOR exposures designated in hedge accounting relationships of $927 million and $2,131 million respectively.

In addition to hedge accounted relationships that will be impacted by IBOR reform, the Company has exposures to other financial instruments referencing an IBOR rate that are also subject to reform. The Company is continuing to monitor market developments in relation to the transition to RFRs from IBOR rates and their impact on the Company's financial assets and liabilities to ensure that there are no unexpected consequences or disruption from the transition.

AASB Interpretation 23 *Uncertainty over Income Tax Treatments* (AASB Interpretation 23)

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. ABOUT THE FINANCIAL STATEMENTS (continued)

ACCOUNTING STANDARDS NOT EARLY ADOPTED

A number of new standards, amendments to standards and interpretations have been published but are not mandatory for the financial statements for the year ended 30 September 2020, and have not been applied by the Company in preparing these financial statements. Further details of these are set out below.

GENERAL HEDGE ACCOUNTING

AASB 9 introduces new hedge accounting requirements which more closely align accounting with risk management activities undertaken when hedging financial and non-financial risks. AASB 9 provides the Company with an accounting policy choice to continue to apply the AASB 139 hedge accounting requirements until the *International Accounting Standards Board*'s ongoing project on macro hedge accounting is completed. The Company currently applies the hedge accounting requirements of AASB 139.

AASB 17 *Insurance Contracts* (AASB 17)

The final version of AASB 17 was issued in July 2017 and is not effective for the Company until 1 October 2023. It will replace AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*. AASB 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts.

The measurement, presentation and disclosure requirements under AASB 17 are significantly different from current accounting standards. Although the overall profit recognised in respect of insurance contracts will not change, it is expected that the timing of profit recognition will change.

AASB 17 is not expected to have a material impact on the Company.

REVISED CONCEPTUAL FRAMEWORK

In June 2019 the AASB issued a revised Conceptual Framework for Financial Reporting. The new Framework includes updated definitions and criteria for the recognition and derecognition of assets and liabilities. Additionally, it introduces new concepts on measurement, including factors to consider when selecting a measurement basis. The revised Conceptual Framework will apply to the Company from 1 October 2020 and is not expected to have a material impact on the Company.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. OPERATING INCOME

	2020 $m	2019 $m
Net interest income		
Interest income by type of financial asset		
Investment securities - FVOCI	883	1,329
Financial assets at amortised cost	17,349	22,349
Trading securities	429	627
Interest income - external	18,661	24,305
Interest income - controlled entities	3,078	3,294
Interest income	21,739	27,599
Interest expense by type of financial liability		
Financial liabilities at amortised cost	(7,602)	(13,191)
Securities sold short	(91)	(104)
Financial liabilities designated at fair value through profit or loss	(65)	(81)
Interest expense - external	(7,758)	(13,376)
Interest expense - controlled entities	(3,691)	(3,713)
Interest expense	(11,449)	(17,089)
Major bank levy	(406)	(363)
Net interest income	9,884	10,147
Other operating income		
i) Fee and commission income		
Lending fees[1]	532	546
Non-lending fees	2,087	2,241
Commissions	67	76
Funds management income	34	25
Fee and commission income - external	2,720	2,888
Fee and commission income - controlled entities	855	905
Fee and commission income	3,575	3,793
Fee and commission expense	(999)	(999)
Net fee and commission income	2,576	2,794
ii) Other income		
Net foreign exchange earnings and other financial instruments income[2]	1,443	896
Dividends received from controlled entities	195	873
Gain/(Loss) on divestments	(11)	69
Write down of investments	(2)	(147)
Dividend income on equity securities	26	28
Other	(23)	40
Other income[3]	1,628	1,759
Other operating income	4,204	4,553
Net income from insurance business	-	7
Share of associates' (loss) / profit	(1)	(1)
Operating income[4]	14,087	14,706

1. Lending fees excludes fees treated as part of the effective yield calculation in interest income.
2. Includes fair value movements (excluding realised and accrued interest) on derivatives not designated as accounting hedges entered into to manage interest rate and foreign exchange risk on funding instruments, ineffective portions of cash flow hedges, and fair value movements in financial assets and liabilities designated at fair value through profit or loss.
3. Total other income includes external dividend income from Bank of Tianjin of $26 million (2019: $27 million).
4. Includes charges to customer remediation of $286 million for 2020 (2019: $226 million).

2. OPERATING INCOME (continued)

RECOGNITION AND MEASUREMENT

NET INTEREST INCOME

Interest Income and Expense

We recognise interest income and expense for all financial instruments, including those classified as held for trading, assets measured at fair value through other comprehensive income or designated at fair value, through profit or loss in net interest income. The Company uses the effective interest rate method to calculate the amortised cost of assets held at amortised cost and to recognise interest income on financial assets measured at fair value through other comprehensive income. The effective interest rate is the rate that discounts the stream of estimated future cash receipts or payments over the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or liability. For assets subject to prepayment, we determine their expected life on the basis of historical behaviour of the particular asset portfolio - taking into account contractual obligations and prepayment experience.

We recognise fees and costs, which form an integral part of the financial instrument (for example loan origination fees and costs), using the effective interest method. This is presented as part of interest income or expense depending on whether the underlying financial instrument is a financial asset or financial liability.

Major Bank Levy

The *Major Bank Levy Act 2017* ('Levy' or 'Major bank levy') applies a rate of 0.06% to certain liabilities of the Company. The Company has determined that the levy represents a finance cost for the Company and $406 million (2019: $363 million) is presented in interest expense in the Income Statement.

OTHER OPERATING INCOME

Fee and Commission Revenue

We recognise fee and commission revenue arising from contracts with customers: (a) over time when the performance obligation is satisfied across more than one reporting period or (b) at a point in time when the performance obligation is satisfied immediately or is satisfied within one reporting period.

- lending fees exclude fees treated as part of the effective yield calculation of interest income. Lending fees include certain guarantee and commitment fees where the loan or guarantee is not likely to be drawn upon and other fees charged for providing customers a distinct good or service that are recognised separately from the underlying lending product (including annual package fees that provide benefits on other ANZ products).
- non-lending fees includes fees associated with deposit and credit card accounts, interchange fees and fees charged for specific customer transactions such as international money transfers. Where the Company provides multiple goods or services to a customer under the same contract, the Company allocates the transaction price of the contract to those performance obligations based on the relative stand-alone selling price of each performance obligation. Revenue is recognised as each performance obligation is satisfied.
- commissions represent fees from third parties where ANZ acts as an agent by arranging a third party (such as an insurance provider) to provide goods and services to a customer. In such cases, ANZ is not primarily responsible for providing the underlying good or service to the customer. If the Company collects funds on behalf of a third party when acting as an agent, the Company only recognises the net commission it retains as revenue. When the commission is variable based on factors outside the control of the Company (such as a trail commission), revenue is only recognised if it is highly probable that a significant reversal of the variable amount will not be required in future periods.
- funds management income represent fees earned from customers for providing financial advice and fees for asset management services and advice provided to investment funds. Revenue is recognised either at the point the financial advice is provided or over the period in which the asset management services are delivered. Performance fees associated with funds management activities are only recognised when it becomes highly probable the performance hurdle will be achieved.

Net Foreign Exchange Earnings and Other Financial Instruments Income

We recognise the following as net foreign exchange earnings and other financial instruments income:

- exchange rate differences arising on the settlement of monetary items and translation differences on monetary items translated at rates different to those at which they were initially recognised or included in a previous financial report;
- fair value movements (excluding realised and accrued interest) on derivatives that we use to manage interest rate and foreign exchange risk on funding instruments not designated as accounting hedges;

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. OPERATING INCOME (continued)

RECOGNITION AND MEASUREMENT (continued)

- the ineffective portions of fair value hedges, cash flow hedges and net investment hedges;
- immediately upon sale or repayment of a hedged item, the unamortised fair value adjustments in items designated as fair value hedges and amounts accumulated in equity related to designated cash flow hedges.
- fair value movements on financial assets and financial liabilities designated at fair value through profit or loss or held for trading;
- amounts released from the fair value through other comprehensive income (FVOCI) reserve when a debt instrument classified as measured at FVOCI is sold; and
- the gain or loss on derecognition of financial assets or liabilities measured at amortised cost.

Dividends Received from Controlled Entities

Dividends are recognised as revenue when the right to receive payment is established.

Gain or Loss on Disposal of Non-Financial Assets

The gain or loss on the disposal of assets is the difference between the carrying value of the asset and the proceeds of disposal net of costs. This is recognised in other income in the year in which the significant risks and rewards from the asset transfer to the buyer.

SHARE OF ASSOCIATES' PROFIT

The equity method is applied to accounting for associates. Under the equity method the Company's share of the after tax results of associates is included in the Income Statement and the Statement of Comprehensive Income.

3. OPERATING EXPENSES

	2020 $m	2019 $m
Personnel		
Salaries and related costs	3,147	3,141
Superannuation costs	277	252
Other	142	161
Personnel[1]	3,566	3,554
Premises		
Rent	58	383
Depreciation	427	99
Other	139	169
Premises[2]	624	651
Technology (excluding personnel)		
Depreciation and amortisation[2,3]	786	639
Subscription licences and outsourced services	586	477
Other	189	185
Technology (excluding personnel)[1]	1,561	1,301
Restructuring	127	56
Other		
Advertising and public relations	136	188
Professional fees	614	482
Freight, stationery, postage and communication	166	173
Royal Commission legal costs	-	15
Other[4]	994	1,364
Other [1]	1,910	2,222
Operating expenses[1]	7,788	7,784

1. Includes customer remediation expenses of $146 million in 2020 (2019: $380 million).
2. Following the adoption of AASB 16 on 1 October 2019, with the exception of low value leases and leases of less than 12 months, expenses associated with operating leases are shown as depreciation of the right-of-use asset and interest expense associated with the lease liability (comparatives not restated).
3. During the 2020 financial year, the Company amended the application of its software amortisation policy to reflect the shorter useful life of software caused by rapidly changing technology and business requirements. As a result of these changes, the Company recognised accelerated amortisation of $184 million during the year. Refer to Note 19 Goodwill and Other Intangible Assets for further details.
4. Includes goodwill write-off of $10 million in the September 2020 financial year.

RECOGNITION AND MEASUREMENT

OPERATING EXPENSES

Operating expenses are recognised as services are provided to the Company over the period in which an asset is consumed or once a liability is created.

SALARIES AND RELATED COSTS - ANNUAL LEAVE, LONG SERVICE LEAVE AND OTHER EMPLOYEE BENEFITS

Wages and salaries, annual leave, and other employee entitlements expected to be paid or settled within twelve months of employees rendering service are measured at their nominal amounts using remuneration rates that the Company expects to pay when the liabilities are settled.

We accrue employee entitlements relating to long service leave using an actuarial calculation. It includes assumptions regarding staff departures, leave utilisation and future salary increases. The result is then discounted using market yields at the reporting date. The market yields are determined from a blended rate of high quality corporate bonds with terms to maturity that closely match the estimated future cash outflows.

If we expect to pay short term cash bonuses, then a liability is recognised when the Company has a present legal or constructive obligation to pay this amount (as a result of past service provided by the employee) and the obligation can be reliably measured.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. OPERATING EXPENSES (continued)

RECOGNITION AND MEASUREMENT (continued)

Personnel expenses also include share-based payments which may be cash or equity settled. We calculate the fair value of equity settled remuneration at grant date, which is then amortised over the vesting period, with a corresponding increase in share capital or the share option reserve as applicable. When we estimate the fair value, we take into account market vesting conditions, such as share price performance conditions. We take non-market vesting conditions, such as service conditions, into account by adjusting the number of equity instruments included in the expense.

After the grant of an equity-based award, the amount we recognise as an expense is reversed when non-market vesting conditions are not met, for example an employee fails to satisfy the minimum service period specified in the award on resignation, termination or notice of dismissal for serious misconduct. However, we do not reverse the expense if the award does not vest due to the failure to meet a market-based performance condition.

Further information on share-based payment schemes operated by the Company during the current and prior year is included in Note 26 Employee Share and Option Plans.

4. INCOME TAX

INCOME TAX EXPENSE

Reconciliation of the prima facie income tax expense on pre-tax profit with the income tax expense recognised in profit or loss:

	2020 $m	2019 $m
Profit before income tax	3,962	6,208
Prima facie income tax expense at 30%	1,189	1,862
Tax effect of permanent differences:		
Tax provisions no longer required	-	(8)
Non-deductible interest on debt instruments	52	81
Overseas tax rate differential	(31)	(40)
Rebatable and non-assessable dividends	(58)	(262)
Provision for foreign tax on dividend repatriation	18	34
Wealth Australia divestment adjustments	8	74
Other	(2)	39
Subtotal	1,176	1,780
Income tax over provided in previous years	(20)	(19)
Income tax expense	1,156	1,761
Current tax expense	1,689	1,901
Adjustments recognised in the current year in relation to the current tax of prior years	(20)	(19)
Deferred tax expense/(income) relating to the origination and reversal of temporary differences	(513)	(121)
Income tax expense	1,156	1,761
Australia	1,028	1,583
Overseas	128	178
Income tax expense	1,156	1,761
Effective tax rate	29.2%	28.4%

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. INCOME TAX (continued)

TAX CONSOLIDATION

The Company and all its wholly owned Australian resident entities are part of a tax consolidated group under Australian taxation law. The Company is the head entity in the tax consolidated group. We recognise each of the following in the separate financial statements of members of the tax consolidated group on a 'group allocation' basis: tax expense/income, and deferred tax liabilities/assets that arise from temporary differences of the members of the tax consolidated group. The Company (as head entity in the tax consolidated group) recognises current tax liabilities and assets of the tax consolidated group.

Under a tax funding arrangement between the entities in the tax consolidated group, amounts are recognised as payable to or receivable by the Company and each member of the tax consolidated group in relation to the tax contribution amounts paid or payable between the Company and the other members of the tax consolidated group.

Members of the tax consolidated group have also entered into a tax sharing agreement that provides for the allocation of income tax liabilities between the entities were the head entity to default on its income tax payment obligations.

UNRECOGNISED DEFERRED TAX ASSETS AND LIABILITIES

Unrecognised deferred tax assets related to unused realised tax losses (on revenue account) total $5 million (2019: $6 million).

Unrecognised deferred tax liabilities related to additional potential foreign tax costs (assuming all retained earnings in offshore branches are repatriated) total $14 million (2019: $13 million).

RECOGNITION AND MEASUREMENT

INCOME TAX EXPENSE

Income tax expense comprises both current and deferred taxes and is based on the accounting profit adjusted for differences in the accounting and tax treatments of income and expenses (that is, taxable income). We recognise tax expense in profit or loss except to the extent to which it relates to items recognised directly in equity and other comprehensive income, in which case we recognise it directly in equity or other comprehensive income respectively.

CURRENT TAX EXPENSE

Current tax is the tax we expect to pay on taxable income for the year, based on tax rates (and tax laws) which are enacted at the reporting date. We recognise current tax as a liability (or asset) to the extent that it is unpaid (or refundable).

DEFERRED TAX ASSETS AND LIABILITIES

We account for deferred tax using the balance sheet method. Deferred tax arises because accounting income is not always the same as the taxable income. This creates temporary differences, which usually reverse over time. Until they reverse, we recognise a deferred tax asset, or liability, on the balance sheet. We measure deferred taxes at the tax rates that we expect will apply to the period(s) when the asset is realised, or the liability settled, based on tax rates (and tax laws) that have been enacted or substantially enacted at the reporting date.

We offset current and deferred tax assets and liabilities only to the extent that:

- they relate to income taxes imposed by the same taxation authority;
- there is a legal right and intention to settle on a net basis; and
- it is allowed under the tax law of the relevant jurisdiction.

KEY JUDGEMENTS AND ESTIMATES

Judgement is required in determining provisions held in respect of uncertain tax positions. The Company estimates its tax liabilities based on its understanding of the relevant law in each of the countries in which it operates and seeks independent advice where appropriate.

5. DIVIDENDS

ORDINARY SHARE DIVIDENDS

Dividends are provided for in the financial statements once determined, accordingly, the final dividend announced for the current financial year is provided for and paid in the following financial year.

Dividends	% of total	Amount per share	Total dividend $m
Financial Year 2019			
2018 final dividend paid[1,2]		80 cents	2,295
2019 interim dividend paid[1,2]		80 cents	2,267
Bonus option plan adjustment			(81)
Dividends paid during the year ended 30 September 2019			4,481
Cash	90.4%		4,049
Dividend reinvestment plan	9.6%		432
Dividends paid during the year ended 30 September 2019			4,481
Financial Year 2020			
2019 final dividend paid[2,3]		80 cents	2,268
2020 interim dividend paid[1,2]		25 cents	709
Bonus option plan adjustment			(55)
Dividends paid during the year ended 30 September 2020			2,922
Cash	93.7%		2,737
Dividend reinvestment plan	6.3%		185
Dividends paid during the year ended 30 September 2020			2,922

Dividends announced and to be paid after year-end	Payment date	Amount per share	Total dividend $m
2020 final dividend (fully franked for Australian tax, New Zealand imputation credit NZD 4 cents per share)	16 December 2020	35 cents	994

1. Fully franked for Australian tax purposes (30% tax rate).
2. Carries New Zealand imputation credits of NZD 3 cents for the 2020 interim dividend, NZD 9 cents for the 2019 final dividend, 2019 interim dividend and the 2018 final dividend.
3. Partially franked at 70% for Australian tax purposes (30% tax rate).

DIVIDEND REINVESTMENT PLAN AND BONUS OPTION PLAN

Eligible shareholders can elect to reinvest their dividend entitlement into ANZ ordinary shares under the Company's Dividend Reinvestment Plan (DRP). Eligible shareholders can elect to forgo their dividend entitlement and instead receive ANZ ordinary shares under the Company's Bonus Option Plan (BOP). For the 2020 final dividend, DRP participation and BOP participation will be satisfied by an issue of new ANZ ordinary shares. There will be no discount applied to the DRP and BOP price.

See Note 21 Shareholders' Equity for details of shares the Company issued or purchased in respect of the DRP and BOP.

DIVIDEND FRANKING ACCOUNT

	Currency	2020 $m	2019 $m
Australian franking credits available at 30% tax rate	AUD	477	35
New Zealand imputation credits available (which can be attached to our Australian dividends but may only be used by New Zealand resident shareholders)	NZD	4,583	4,068

The above amounts represent the balances of the franking accounts as at the end of the financial year, adjusted for:

- franking credits that will arise from the payment of income tax payable as at the end of the financial year; and
- franking credits/debits from the receipt/payment of dividends that have been recognised as tax receivables/payables as at the end of the financial year.

The proposed final 2020 dividend will utilise $426 million of the franking credits available at 30 September 2020.

NOTES TO THE FINANCIAL STATEMENTS (continued)

5. DIVIDENDS (continued)

RESTRICTIONS ON THE PAYMENT OF DIVIDENDS

APRA's written approval is required before paying dividends on ANZ ordinary shares:

- if the aggregate dividends exceed the Company's after tax earnings (in calculating those after tax earnings, we take into account any payments we made on senior capital instruments) in the financial year to which they relate; or
- if the Group's Common Equity Tier 1 capital ratio falls within capital range buffers specified by APRA.

If the Company fails to pay a dividend or distribution on its ANZ Capital Notes or ANZ Capital Securities on the scheduled payment date, it may (subject to a number of exceptions) be restricted from resolving to pay or paying any dividend on the ANZ ordinary shares.

In July 2020, APRA provided an update to their guidance on capital management. In the updated guidance, APRA acknowledged that the uncertainty in the economic outlook has reduced somewhat since April 2020 and APRA had the opportunity to review ADIs' financial projections and stress testing results. Taking these and other developments since April 2020 into account, APRA advised ADIs to maintain caution in planning capital distributions, including dividend payments and that for the remainder of the calendar year, the ADIs' Board should:

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

The Company's 2020 interim dividend of 25 cents per share (paid to shareholders on 30 September 2020) and 2020 final dividend of 35 cents per share took into account the updated regulatory guidance above.

6. SEGMENT REPORTING

No operating segment disclosures have been presented in these Company financial statements. Disaggregated information for the Company's segments is not information which is regularly provided to the Chief Executive Officer, who is the Chief Operating Decision Maker (CODM) of the Company.

Full details of the operating segments of the Group are provided in Note 7 Segment Reporting in the ANZ 2020 Group Annual Report located at https://www.anz.com/shareholder/centre/reporting/annual-report-annual-review/

FINANCIAL ASSETS

Outlined below is a description of how we classify and measure financial assets relevant to the subsequent note disclosures.

CLASSIFICATION AND MEASUREMENT

Financial assets - general

There are three measurement classifications for financial assets under AASB 9: amortised cost, fair value through profit or loss (FVTPL) and fair value through other comprehensive income (FVOCI). Financial assets are classified into these measurement classifications on the basis of two criteria:

- the business model within which the financial asset is managed; and
- the contractual cash flow characteristics of the financial asset (specifically whether the contractual cash flows represent solely payments of principal and interest).

The resultant financial asset classifications are as follows:

- Amortised cost: Financial assets with contractual cash flows that comprise solely payments of principal and interest and which are held in a business model whose objective is to collect their cash flows;
- FVOCI: Financial assets with contractual cash flows that comprise solely payments of principal and interest and which are held in a business model whose objective is to collect their cash flows or to sell the assets; and
- FVTPL: Any other financial assets not falling into the categories above are measured at FVTPL.

Fair Value Option for Financial Assets

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

7. CASH AND CASH EQUIVALENTS

	2020 $m	2019 $m
Coins, notes and cash at bank	1,084	934
Securities purchased under agreements to resell in less than 3 months	34,501	24,939
Balances with central banks	39,362	24,218
Settlement balances owed to ANZ within 3 months	23,136	27,858
Cash and cash equivalents	98,083	77,949

8. TRADING SECURITIES

	2020 $m	2019 $m
Government debt securities and notes[1]	27,917	24,789
Corporate and financial institution securities[1]	4,873	3,411
Commodities	5,464	5,920
Equity and other securities[1]	169	97
Trading securities	38,423	34,217

1. In 2020, ANZ reclassified trading securities issued by development banks and supra-nationals from Corporate and financial institution securities and Equity and other securities to Government debt securities and notes. Comparative information has been restated accordingly, with $1,796 million reclassified as Government debt securities and notes made up of $1,584 million from Corporate and financial institution securities and $212 million from Equities and other securities.

RECOGNITION AND MEASUREMENT

Trading securities are financial instruments we either:

- acquire principally for the purpose of selling in the short-term; or
- hold as part of a portfolio we manage for short-term profit making.

We recognise purchases and sales of trading securities on trade date:

- initially, we measure them at fair value; and
- subsequently, we measure them in the balance sheet at their fair value with any change in fair value recognised in the profit and loss.

KEY JUDGEMENTS AND ESTIMATES

Judgement is required when applying the valuation techniques used to determine the fair value of trading securities not valued using quoted market prices. Refer to Note 16 Fair Value of Financial Assets and Financial Liabilities for further details.

NOTES TO THE FINANCIAL STATEMENTS (continued)

9. DERIVATIVE FINANCIAL INSTRUMENTS

Fair Value	Assets 2020 $m	Liabilities 2020 $m	Assets 2019 $m	Liabilities 2019 $m
Derivative financial instruments - held for trading	126,561	(128,028)	113,369	(114,413)
Derivative financial instruments - designated in hedging relationships	3,991	(3,202)	3,175	(2,927)
Derivative financial instruments	130,552	(131,230)	116,544	(117,340)

FEATURES

Derivative financial instruments are contracts:

- whose value is derived from an underlying price index (or other variable) defined in the contract – sometimes the value is derived from more than one variable;
- that require little or no initial net investment; and
- that are settled at a future date.

Movements in the price of the underlying variables, which cause the value of the contract to fluctuate, are reflected in the fair value of the derivative.

PURPOSE

The Company's derivative financial instruments have been categorised as following:

Trading	Derivatives held in order to: • Meet customer needs for managing their own risks. • Manage risks in the Company that are not in a designated hedge accounting relationship (balance sheet management). • Undertake market making and positioning activities to generate profits from short-term fluctuations in prices or margins.
Designated in Hedging Relationships	Derivatives designated into hedge accounting relationships in order to minimise profit or loss volatility by matching movements to underlying positions relating to: • Hedges of the Company's exposures to interest rate risk and currency risk. • Hedges of other exposures relating to non-trading positions.

TYPES

The Company offers and uses four different types of derivative financial instruments:

Forwards	A contract documenting the rate of interest, or the currency exchange rate, to be paid or received on a notional principal amount at a future date.
Futures	An exchange traded contract in which the parties agree to buy or sell an asset in the future for a price agreed on the transaction date, with a net settlement in cash paid on the future date without physical delivery of the asset.
Swaps	A contract in which two parties exchange a series of cash flows for another.
Options	A contract in which the buyer of the contract has the right - but not the obligation - to buy (known as a "call option") or to sell (known as a "put option") an asset or instrument at a set price on a future date. The seller has the corresponding obligation to fulfil the transaction to sell or buy the asset or instrument if the buyer exercises the option.

RISKS MANAGED

The Company offers and uses the instruments described above to manage fluctuations in the following market factors:

Foreign Exchange	Currencies at current or determined rates of exchange.
Interest Rate	Fixed or variable interest rates applying to money lent, deposited or borrowed.
Commodity	Soft commodities (that is, agricultural products such as wheat, coffee, cocoa and sugar) and hard commodities (that is, mined products such as gold, oil and gas).
Credit	Counterparty risk in the event of default.

9. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

DERIVATIVE FINANCIAL INSTRUMENTS – HELD FOR TRADING

The majority of the Company's derivative financial instruments are held for trading. The fair values of derivative financial instruments held for trading are:

Fair Value	Assets 2020 $m	Liabilities 2020 $m	Assets 2019 $m	Liabilities 2019 $m
Interest rate contracts				
Forward rate agreements	92	(91)	80	(84)
Futures contracts	23	(124)	32	(99)
Swap agreements	102,260	(100,765)	82,258	(81,074)
Options purchased	1,673	-	1,451	-
Options sold	-	(2,609)	-	(2,317)
Total	104,048	(103,589)	83,821	(83,574)
Foreign exchange contracts				
Spot and forward contracts	10,525	(10,105)	13,723	(13,599)
Swap agreements	9,008	(12,002)	13,591	(15,151)
Options purchased	378	-	394	-
Options sold	-	(476)	-	(501)
Total	19,911	(22,583)	27,708	(29,251)
Commodity contracts	2,571	(1,834)	1,806	(1,555)
Credit default swaps				
Structured credit derivatives purchased	18	-	16	-
Other credit derivatives purchased	4	(3)	4	(10)
Credit derivatives purchased	22	(3)	20	(10)
Structured credit derivatives sold	-	(18)	-	(19)
Other credit derivatives sold	9	(1)	14	(4)
Credit derivatives sold	9	(19)	14	(23)
Total	31	(22)	34	(33)
Derivative financial instruments - held for trading	126,561	(128,028)	113,369	(114,413)

NOTES TO THE FINANCIAL STATEMENTS (continued)

9. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

DERIVATIVE FINANCIAL INSTRUMENTS – DESIGNATED IN HEDGING RELATIONSHIPS

There are three types of hedge accounting relationships the Company utilises:

	Fair value hedge	Cash flow hedge	Net investment hedge
Objective of this hedging arrangement	To hedge our exposure to changes to the fair value of a recognised asset or liability or unrecognised firm commitment caused by interest rate or foreign currency movements.	To hedge our exposure to variability in cash flows of a recognised asset or liability, a firm commitment or a highly probable forecast transaction caused by interest rate, foreign currency and other price movements.	To hedge our exposure to exchange rate differences arising from the translation of our foreign operations from their functional currency to Australian dollars.
Recognition of effective hedge portion	The following are recognised in profit or loss at the same time: • all changes in the fair value of the underlying item relating to the hedged risk; and • the change in the fair value of derivatives.	We recognise the effective portion of changes in the fair value of derivatives designated as a cash flow hedge in the cash flow hedge reserve.	We recognise the effective portion of changes in the fair value of the hedging instrument in the foreign currency translation reserve (FCTR).
Recognition of ineffective hedge portion	Recognised immediately in Other operating income.		
If a hedging instrument expires, or is sold, terminated, or exercised; or no longer qualifies for hedge accounting	When we recognise the hedged item in profit or loss, we recognise the related unamortised fair value adjustment in profit or loss. This may occur over time if the hedged item is amortised to profit or loss as part of the effective yield over the period to maturity.	Only when we recognise the hedged item in profit or loss is the amount previously deferred in the cash flow hedge reserve transferred to profit or loss.	The amount we defer in the foreign currency translation reserve remains in equity and is transferred to profit or loss only when we dispose of, or partially dispose of, the foreign operation.
Hedged item sold or repaid	We recognise the unamortised fair value adjustment immediately in profit or loss.	Amounts accumulated in equity are transferred immediately to profit or loss.	The gain or loss, or applicable proportion, we have recognised in equity is transferred to profit or loss on disposal or partial disposal of a foreign operation.

Under the policy choice provided by AASB 9 *Financial Instruments*, the Company has continued to apply the hedge accounting requirements of AASB 139 *Financial Instruments: Recognition and Measurement.*

The fair value of derivative financial instruments designated in hedging relationships are:

	Nominal amount $m	Assets 2020 $m	Liabilities 2020 $m	Nominal amount $m	Assets 2019 $m	Liabilities 2019 $m
Fair value hedges						
Foreign exchange swap agreements	-	-	-	21	1	-
Foreign exchange spot and forward contracts	558	-	(9)	581	-	(9)
Interest rate swap agreements	79,416	2,272	(2,773)	84,195	1,752	(2,479)
Interest rate futures contracts	9,380	-	(103)	3,139	-	(27)
Cash flow hedges						
Interest rate swap agreements	59,037	1,643	(261)	49,409	1,347	(311)
Foreign exchange swap agreements	2,943	63	(54)	2,934	75	(91)
Foreign exchange spot and forward contracts	153	-	-	159	-	(1)
Net investment hedges						
Foreign exchange spot and forward contracts	404	13	(2)	540	-	(9)
Derivative financial instruments - designated in hedging relationships	151,891	3,991	(3,202)	140,978	3,175	(2,927)

9. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The maturity profile of the nominal amounts of our hedging instruments held as at 30 September 2020 is:

Nominal Amount		Average rate	Less than 3 months $m	3 to 12 months $m	1 to 5 years $m	After 5 years $m	Total $m
Fair value hedges							
Interest rate	Interest Rate	1.57%	3,475	7,852	53,250	24,219	88,796
Foreign exchange	HKD/AUD FX Rate	5.59	558	-	-	-	558
Cash flow hedges							
Interest rate	Interest Rate	1.65%	4,253	12,692	40,013	2,079	59,037
Foreign exchange[1]	AUD/USD FX Rate USD/EUR FX Rate	0.72 0.91	38	613	1,157	1,288	3,096
Net investment hedges							
Foreign exchange	TWD/AUD FX Rate	20.29	258	146	-	-	404

The maturity profile of the nominal amounts of our hedging instruments held at 30 September 2019 is:

Nominal Amount		Average rate	Less than 3 months $m	3 to 12 months $m	1 to 5 years $m	After 5 years $m	Total $m
Fair value hedges							
Interest rate	Interest Rate	1.97%	3,195	14,463	48,727	20,949	87,334
Foreign exchange	HKD/AUD FX Rate	5.38	602	-	-	-	602
Cash flow hedges							
Interest rate	Interest Rate	2.10%	596	7,429	39,630	1,754	49,409
Foreign exchange[1]	AUD/USD FX Rate USD/EUR FX Rate	0.72 0.91	40	120	1,652	1,281	3,093
Net investment hedges							
Foreign exchange	TWD/AUD FX Rate	21.41	111	429	-	-	540

1. Hedges of foreign exchange risk cover multiple currency pairs. The table reflects the larger currency pairs only.

NOTES TO THE FINANCIAL STATEMENTS (continued)

9. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The impact of ineffectiveness from our designated hedge relationships by type of hedge relationship and type of risk being hedged are:

	Ineffectiveness			
2020	Change in value of hedging instrument $m	Change in value of hedged item $m	Hedge ineffectiveness recognised in profit and loss $m	Amount reclassified from the cash flow hedge reserve or FCTR to profit and loss $m
Fair value hedges[1]				
Interest rate	166	(154)	12	-
Foreign exchange	23	(23)	-	-
Cash flow hedges[1]				
Interest rate	352	(351)	1	(5)
Foreign exchange	(15)	15	-	(2)
Net investment hedges[1]				
Foreign exchange	16	(16)	-	(15)

	Ineffectiveness			
2019	Change in value of hedging instrument $m	Change in value of hedged item $m	Hedge ineffectiveness recognised in profit and loss $m	Amount reclassified from the cash flow hedge reserve or FCTR to profit and loss $m
Fair value hedges[1]				
Interest rate	158	(155)	3	-
Foreign exchange	(36)	36	-	-
Cash flow hedges[1]				
Interest rate	850	(840)	10	1
Foreign exchange	20	(20)	-	2
Net investment hedges[1]				
Foreign exchange	(35)	35	-	-

1. All hedging instruments are held within Derivative Financial Instruments.

Hedge ineffectiveness recognised is classified within Other operating income. Reclassification adjustments to the Statement of Comprehensive Income are recognised within Net interest income and Other operating income.

9. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Hedged items in relation to the Company's fair value hedges at 30 September 2020 are as follows:

	Balance sheet presentation	Hedged risk	Carrying amount Assets $m	Carrying amount Liabilities $m	Accumulated fair value hedge adjustments on the hedged item Assets $m	Accumulated fair value hedge adjustments on the hedged item Liabilities $m
Fixed rate loans and advances	Net loans and advances	Interest rate	5,946	-	43	-
Fixed rate debt issuance	Debt issuances	Interest rate	-	(44,159)	-	(1,923)
Fixed rate investment securities (FVOCI)[1]	Investment securities	Interest rate	46,747	-	1,958	-
Equity securities at FVOCI[1]	Investment securities	Foreign exchange	558	-	29	-
Total			53,251	(44,159)	2,030	(1,923)

Hedged items in relation to the Company's fair value hedges at 30 September 2019 are as follows:

	Balance sheet presentation	Hedged risk	Carrying amount Assets $m	Carrying amount Liabilities $m	Accumulated fair value hedge adjustments on the hedged item Assets $m	Accumulated fair value hedge adjustments on the hedged item Liabilities $m
Fixed rate loans and advances	Net loans and advances	Interest rate	1,242	-	12	-
Fixed rate debt issuance	Debt issuances	Interest rate	-	(49,928)	-	(1,412)
Fixed rate investment securities (FVOCI)[1]	Investment securities	Interest rate	41,362	-	1,662	-
Equity securities at FVOCI[1]	Investment securities	Foreign exchange	581	-	52	-
Total			43,185	(49,928)	1,726	(1,412)

1. The carrying amount of debt and equity instruments at fair value through other comprehensive income does not include the fair value hedge adjustment as the hedge assets are measured at fair value. The accounting for the hedge relationship results in transfer of the hedge adjustment out of other comprehensive income into the Income Statement.

The cumulative amount of fair value hedge adjustments relating to ceased hedge relationships remaining on the Balance Sheet is nil (2019: $5 million).

NOTES TO THE FINANCIAL STATEMENTS (continued)

9. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Hedged items in relation to the Company's cash flow and net investment hedges for 30 September 2020 are as follows:

		Cash flow hedge reserve		Foreign currency translation reserve	
	Hedged risk	Continuing hedges $m	Discontinued hedges $m	Continuing hedges $m	Discontinued hedges $m
Cash Flow hedges					
Floating rate loans and advances	Interest rate	1,508	30	-	-
Floating rate customer deposits	Interest rate	(193)	(15)	-	-
Foreign currency debt issuance	Foreign exchange	(2)	-	-	-
Foreign currency investment securities	Foreign exchange	10	-	-	-
Highly probable forecast transactions	Foreign exchange	(1)	-	-	-
Net investment hedges					
Foreign operations	Foreign exchange	-	-	36	(149)

Hedged items in relation to the Company's cash flow and net investment hedges for 30 September 2019 are as follows:

		Cash flow hedge reserve		Foreign currency translation reserve	
	Hedged risk	Continuing hedges $m	Discontinued hedges $m	Continuing hedges $m	Discontinued hedges $m
Cash Flow hedges					
Floating rate loans and advances	Interest rate	1,252	33	-	-
Floating rate customer deposits	Interest rate	(274)	(24)	-	-
Foreign currency debt issuance	Foreign exchange	14	-	-	-
Foreign currency investment securities	Foreign exchange	6	-	-	-
Highly probable forecast transactions	Foreign exchange	3	-	-	-
Net investment hedges					
Foreign operations	Foreign exchange	-	-	35	(149)

The table below details the reconciliation of the cash flow hedge reserve by risk type:

	Interest Rate $m	Foreign Currency $m	Total $m
Balance at 1 October 2018	106	-	106
Fair value gains	840	20	860
Transferred to income statement	1	2	3
Income taxes and others	(257)	(5)	(262)
Balance at 30 September 2019	690	17	707
Fair value gains	351	(15)	336
Transferred to income statement	(5)	(2)	(7)
Income taxes and others	(105)	4	(101)
Balance at 30 September 2020	931	4	935

Hedges from net investments in a foreign operation resulted in a $16 million increase in the foreign currency translation reserve during the year (2019: -$35 million). Of that, $15 million (2019: nil) was reclassified from FCTR to the income statement during the year.

9. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

RECOGNITION AND MEASUREMENT

Recognition	Initially and at each reporting date, we recognise all derivatives at fair value. If the fair value of a derivative is positive, then we carry it as an asset, but if its value is negative, then we carry it as a liability. Valuation adjustments are integral in determining the fair value of derivatives. This includes: • a credit valuation adjustment (CVA) to reflect the counterparty risk and/or event of default; and • a funding valuation adjustment (FVA) to account for funding costs and benefits in the derivatives portfolio.
Derecognition of assets and liabilities	We remove derivative assets from our balance sheet when the contracts expire or we have transferred substantially all the risks and rewards of ownership. We remove derivative liabilities from our balance sheet when the Company's contractual obligations are discharged, cancelled or expired.
Impact on the Income Statement	How we recognise gains or losses on derivative financial instruments depends on whether the derivative is held for trading or is designated into a hedging relationship. For derivative financial instruments held for trading, gains or losses from changes in the fair value are recognised in profit or loss. For an instrument designated into a hedging relationship the recognition of gains or losses depends on the nature of the item being hedged. Refer to the table on page 24 for profit or loss treatment depending on the hedge type. Sources of hedge ineffectiveness may arise from basis risk and differences in discounting between the hedged items and the hedging instruments. The hedging instruments are discounted using Overnight Index Swaps discount curves which are not applied to the hedged items.
Hedge effectiveness	To qualify for hedge accounting a hedge is expected to be highly effective. A hedge is highly effective only if the following conditions are met: • the hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated (prospective effectiveness); and • the actual results of the hedge are within the range of 80-125% (retrospective effectiveness). The Company monitors hedge effectiveness on a regular basis but at a minimum at least at each reporting date.

KEY JUDGEMENTS AND ESTIMATES

Judgement is required when we select the valuation techniques used to determine the fair value of derivatives, particularly the selection of valuation inputs that are not readily observable, and the application of valuation adjustments to certain derivatives. Refer to Note 16 Fair Value of Financial Assets and Financial Liabilities for further details.

NOTES TO THE FINANCIAL STATEMENTS (continued)

10. INVESTMENT SECURITIES

	2020 $m	2019 $m
Investment securities measured at fair value through other comprehensive income		
Debt securities	73,936	67,400
Equity securities	994	1,168
Investment securities measured at amortised cost		
Debt securities[1]	5,354	4,787
Total	80,284	73,355

2020 Investment securities	Less than 3 months $m	3 to 12 months $m	1 to 5 years $m	After 5 years $m	No maturity $m	Total $m
Government securities[2]	5,770	12,763	30,887	17,600	-	67,020
Corporate and financial institution securities[2]	633	1,700	7,104	71	-	9,508
Other securities[2]	-	-	532	2,230	-	2,762
Equity securities	-	-	-	-	994	994
Total	6,403	14,463	38,523	19,901	994	80,284
2019 Investment securities						
Government securities[2]	7,359	13,863	29,306	11,711	-	62,239
Corporate and financial institution securities[2]	247	1,069	6,121	21	-	7,458
Other securities[2]	-	-	773	1,717	-	2,490
Equity securities	-	-	-	-	1,168	1,168
Total	7,606	14,932	36,200	13,449	1,168	73,355

1. Includes allowance for expected credit losses of $1 million (2019: $1 million).
2. In 2020, ANZ reclassified investment securities issued by development banks and supra-nationals from Corporate and financial institution securities to Government securities. Comparative information has been restated accordingly, with $9,185 million reclassified as Government securities from Corporate and financial institution securities. In addition, ANZ reclassified certain investment securities from Government securities to Other securities and comparative information was restated with $577 million reclassified.

During the year, the Company recognised a net gain (before tax) in Other operating income from the recycling of gains previously deferred in equity of $21 million (2019: $26 million) in respect of investment securities.

The carrying value of equity securities classified as FVOCI securities is $994 million (2019: $1,168 million). This includes the Company's $934 million (2019: $1,106 million) investment in the Bank of Tianjin (BoT).

10. INVESTMENT SECURITIES (continuing)

RECOGNITION AND MEASUREMENT

Investment securities are those financial assets in security form (i.e. transferable debt or equity instruments) that are not held for trading purposes. By way of exception, bills of exchange (a form of security/transferable instrument) which are used to facilitate the Bank's customer lending activities are classified as Loans and advances (rather than Investment securities) to better reflect the substance of the arrangement.

Non-traded equity investments may be designated at FVOCI on an instrument by instrument basis. If this election is made, gains or losses are not reclassified from other comprehensive income to profit or loss on disposal of the investment. However, gains or losses may be reclassified within equity.

Assets disclosed as investment securities are subject to the general classification and measurement policy for Financial Assets outlined at the commencement of the Company's financial asset disclosures on page 22. Additionally, expected credit losses associated with "Investment securities - debt securities at amortised cost" and "Investment securities - debt securities at fair value through comprehensive income" are recognised and measured in accordance with the accounting policy outlined in Note 12. For "Investment securities – debt securities at fair value through other comprehensive income" the allowance for Expected Credit Loss (ECL) is recognised in the FVOCI reserve in equity with a corresponding charge to profit or loss.

KEY JUDGEMENTS AND ESTIMATES

Judgement is required when we select valuation techniques used to determine the fair value of assets not valued using quoted market prices, particularly the selection of valuation inputs that are not readily observable. Refer to Note 16 Fair Value of Financial Assets and Financial Liabilities for further details.

NOTES TO THE FINANCIAL STATEMENTS (continued)

11. NET LOANS AND ADVANCES

	2020 $m	2019 $m
Overdrafts	4,466	6,265
Credit cards	5,990	7,788
Commercial bills	6,383	6,159
Term loans – housing	275,579	265,810
Term loans – non-housing	197,117	199,659
Other	2,133	1,454
Subtotal	491,668	487,135
Unearned income	(19)	(144)
Capitalised brokerage/mortgage origination fees	572	585
Gross loans and advances (including assets classified as held for sale)	492,221	487,576
Allowance for expected credit losses (refer to Note 12)	(4,219)	(2,921)
Net loans and advances	488,002	484,655
Residual contractual maturity:		
Within one year	98,736	83,848
After more than one year	389,266	400,807
Net loans and advances	488,002	484,655
Carried on Balance Sheet at:		
Amortised cost	483,986	483,858
Fair value through profit or loss (designated on initial recognition)[1]	4,016	797
Net loans and advances	488,002	484,655

1. From 1 October 2019, the Company changed its accounting treatment for certain gold loan and deposit products which are now designated as at fair value through the profit and loss.

RECOGNITION AND MEASUREMENT

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are facilities the Company provides directly to customers or through third party channels.

Loans and advances are initially recognised at fair value plus transaction costs directly attributable to the issue of the loan or advance, which are primarily brokerage/mortgage origination fees which we amortise over the estimated life of the loan. Subsequently, we then measure loans and advances at amortised cost using the effective interest rate method, net of any provision for credit impairment, or at fair value when they are specifically designated on initial recognition as fair value through profit or loss or when held for trading.

We classify contracts to lease assets and hire purchase agreements as finance leases if they transfer substantially all the risks and rewards of ownership of the asset to the customer or an unrelated third party. We include these facilities in 'Other' in the table above.

The Company enters into transactions in which it transfers financial assets that are recognised on its balance sheet. When the Company retains substantially all of the risks and rewards of the transferred assets then the transferred assets remain on the Company's balance sheet, however, if substantially all the risks and rewards are transferred then the Company derecognises the asset.

If the risks and rewards are partially retained and control over the asset is lost, then the Company derecognises the asset. If control over the asset is not lost, the Company continues to recognise the asset to the extent of its continuing involvement.

We separately recognise the rights and obligations retained, or created, in the transfer as assets and liabilities as appropriate.

Assets disclosed as net loans and advances are subject to the general classification and measurement policy for Financial Assets outlined at the commencement of the Company's Financial Asset disclosures on page 22. Additionally, expected credit losses associated with loans and advances at amortised cost are recognised and measured in accordance with the accounting policy outlined in Note 12.

12. ALLOWANCE FOR EXPECTED CREDIT LOSSES

The following tables present the movement in the allowance for ECL for the year. The total allowance for ECL at 30 September 2020 was $4,951 million (30 September 2019: $3,479 million).

Net loans and advances - at amortised cost

Allowance for ECL is included in Net loans and advances.

			Stage 3[1]		
	Stage 1 $m	Stage 2 $m	Collectively assessed $m	Individually assessed $m	Total $m
As at 1 October 2018	**729**	**1,199**	**308**	**695**	**2,931**
Transfer between stages	139	(270)	(90)	221	-
New and increased provisions (net of releases)	(136)	246	143	995	1,248
Write-backs	-	-	-	(331)	(331)
Bad debts written off (excluding recoveries)	-	-	-	(953)	(953)
Foreign currency translation and other movements[2]	14	6	-	6	26
As at 30 September 2019	**746**	**1,181**	**361**	**633**	**2,921**
Transfer between stages	168	(258)	(122)	212	-
New and increased provisions (net of releases)	122	1,198	135	1,171	2,626
Write-backs	-	-	-	(286)	(286)
Bad debts written off (excluding recoveries)	-	-	-	(1,003)	(1,003)
Foreign currency translation and other movements[2]	(8)	(7)	(1)	(23)	(39)
As at 30 September 2020	**1,028**	**2,114**	**373**	**704**	**4,219**

1. The Company's credit exposures that are purchased or originated credit-impaired financial assets are insignificant.
2. Other movements include the impact of discount unwind on individually assessed allowance for ECL.

Investment securities - debt securities at amortised cost

Allowance for ECL is included in Investment securities.

			Stage 3		
	Stage 1 $m	Stage 2 $m	Collectively assessed $m	Individually assessed $m	Total $m
As at 1 October 2018	**1**	**-**	**-**	**-**	**1**
New and increased provisions (net of releases)	-	-	-	-	-
Foreign currency translation	-	-	-	-	-
As at 30 September 2019	**1**	**-**	**-**	**-**	**1**
New and increased provisions (net of releases)	1	-	-	-	1
Foreign currency translation	(1)	-	-	-	(1)
As at 30 September 2020	**1**	**-**	**-**	**-**	**1**

NOTES TO THE FINANCIAL STATEMENTS (continued)

12. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)

Investment securities - debt securities at FVOCI

As FVOCI assets are measured at fair value there is no separate allowance for ECL. Instead, the allowance for ECL is recognised in Other Comprehensive Income (OCI), with a corresponding charge to profit or loss.

			Stage 3		
	Stage 1 $m	Stage 2 $m	Collectively assessed $m	Individually assessed $m	Total $m
As at 1 October 2018	**4**	**-**	**-**	**-**	**4**
New and increased provisions (net of releases)	1	-	-	-	1
Foreign currency translation	-	-	-	-	-
As at 30 September 2019	**5**	**-**	**-**	**-**	**5**
New and increased provisions (net of releases)	2	-	-	-	2
Foreign currency translation	-	-	-	-	-
As at 30 September 2020	**7**	**-**	**-**	**-**	**7**

Off-balance sheet commitments - undrawn and contingent facilities

Allowance for ECL is included in Other provisions.

			Stage 3[1]		
	Stage 1 $m	Stage 2 $m	Collectively assessed $m	Individually assessed $m	Total $m
As at 1 October 2018	**408**	**141**	**8**	**18**	**575**
Transfer between stages	21	(23)	1	1	-
New and increased provisions (net of releases)	(33)	7	5	-	(21)
Write-backs	-	-	-	(1)	(1)
Foreign currency translation	9	1	-	(6)	4
As at 30 September 2019	**405**	**126**	**14**	**12**	**557**
Transfer between stages	15	(20)	(2)	7	-
New and increased provisions (net of releases)	100	78	3	13	194
Write-backs	-	-	-	(12)	(12)
Foreign currency translation	(7)	(1)	-	-	(8)
As at 30 September 2020	**513**	**183**	**15**	**20**	**731**

1. The Company's credit exposures that are purchased or originated credit-impaired financial assets are insignificant.

12. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)

CREDIT IMPAIRMENT CHARGE - INCOME STATEMENT

Credit impairment charge/(release)

	2020 $m	2019 $m
New and increased provisions (net of releases)[1]		
- Collectively assessed	1,420	11
- Individually assessed	1,403	1,217
Write-backs	(298)	(332)
Recoveries of amounts previously written-off	(188)	(182)
Total credit impairment charge	2,337	714

1. Includes the impact of transfers between collectively assessed and individually assessed.

The contractual amount outstanding on financial assets that were written off during the period ended 30 September 2020 and that are still subject to enforcement activity is $321 million (2019: $141 million).

COVID-19 REPAYMENT DEFERRAL PACKAGES OFFERED TO CUSTOMERS[1]

Since March 2020, the Company has offered various forms of assistance to customers to counteract the impact of COVID-19 on the ability of customers to meet their loan obligations. The assistance provided has included arrangements such as temporary deferral of principal and interest repayments, replacing principal and interest with interest only repayments, and extension of loan maturity dates. Refer to Key Judgements and Estimates in this Note for details on the impact of deferrals when determining if there has been a Significant Increase in Credit Risk (SICR).

The loan repayment deferral package is considered to be a loan modification under AASB 9. This either results in the loan being derecognised and replaced with a new loan (substantial modification) or the existing loan continuing to be recognised (non-substantial modification). The table below shows the outstanding balance as at 30 September 2020 of all loans that have been modified (both substantial and non-substantial modifications):

Assistance package category	Total loan outstanding At 30 September 2020 $m
Loan deferral package	
Retail	26,117
Commercial and other	8,989
Interest only	
Retail	126
Commercial and other	33
Term extensions	
Retail	3
Commercial and other	24
Total[2]	35,292
Retail	26,246
Commercial and other	9,046
Total[2]	35,292

1. COVID-19 loan deferral packages are available to customers if either their loan repayments are less than 30 days past due, or if their repayments are less than 90 days past due but were up to date at 1 March 2020.
2. The gross carrying amount of loans at the date of modification that were considered non-substantial modifications and had loss allowances based on lifetime expected losses was $9,462 million. No gain or loss was recognised as a result of the modification and none of the loans have subsequently changed to a 12 month expected loss allowance.

NOTES TO THE FINANCIAL STATEMENTS (continued)

12. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)

RECOGNITION AND MEASUREMENT

EXPECTED CREDIT LOSS IMPAIRMENT MODEL

The measurement of expected credit losses reflects an unbiased, probability weighted prediction which evaluates a range of scenarios and takes into account the time value of money, past events, current conditions and forecasts of future economic conditions.

Expected credit losses are either measured over 12 months or the expected lifetime of the financial asset, depending on credit deterioration since origination, according to the following three-stage approach:

- Stage 1: At the origination of a financial asset, and where there has not been a Significant Increase in Credit Risk (SICR) since origination, an allowance equivalent to 12 months ECL is recognised reflecting the expected credit losses resulting from default events that are possible within the next 12 months from the reporting date. For instruments with a remaining maturity of less than 12 months, expected credit losses are estimated based on default events that are possible over the remaining time to maturity.
- Stage 2: Where there has been a SICR since origination, an allowance equivalent to lifetime ECL is recognised reflecting expected credit losses resulting from all possible default events over the expected life of a financial instrument. If credit risk were to improve in a subsequent period such that the increase in credit risk since origination is no longer considered significant, the exposure returns to a Stage 1 classification and a 12 month ECL applies.
- Stage 3: Where there is objective evidence of impairment, an allowance equivalent to lifetime ECL is recognised.

Expected credit losses are estimated on a collective basis for exposures in Stage 1 and Stage 2, and on either a collective or individual basis when transferred to Stage 3.

MEASUREMENT OF EXPECTED CREDIT LOSS

ECL is calculated as the product of the following credit risk factors at a facility level, discounted to incorporate the time value of money:

- Probability of default (PD) - the estimate of the likelihood that a borrower will default over a given period;
- Exposure at default (EAD) - the expected balance sheet exposure at default taking into account repayments of principal and interest, expected additional drawdowns and accrued interest; and
- Loss given default (LGD) - the expected loss in the event of the borrower defaulting, expressed as a percentage of the facility's EAD, taking into account direct and indirect recovery costs.

These credit risk factors are adjusted for current and forward-looking information through the use of macro-economic variables.

EXPECTED LIFE

When estimating ECL for exposures in Stage 2 and 3, the Company considers the expected lifetime over which it is exposed to credit risk.

For non-retail portfolios, the Company uses the maximum contractual period as the expected lifetime for non-revolving credit facilities. For non-retail revolving credit facilities, such as corporate lines of credit, the expected life reflects the Company’s contractual right to withdraw a facility as part of a contractually agreed annual review, after taking into account the applicable notice period.

For retail portfolios, the expected lifetime is determined using a behavioural term, taking into account expected prepayment behaviour and substantial modifications.

DEFINITION OF DEFAULT, CREDIT IMPAIRED AND WRITE-OFFS

The definition of default used in measuring expected credit losses is aligned to the definition used for internal credit risk management purposes across all portfolios. This definition is also in line with the regulatory definition of default. Default occurs when there are indicators that a debtor is unlikely to fully satisfy contractual credit obligations to the Company, or the exposure is 90 days past due.

Financial assets, including those that are well secured, are considered credit impaired for financial reporting purposes when they default.

When there is no realistic probability of recovery, loans are written off against the related impairment allowance on completion of the Company’s internal processes and when all reasonably expected recoveries have been collected. In subsequent periods, any recoveries of amounts previously written-off are credited to credit impairment charge in the income statement.

12. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)

RECOGNITION AND MEASUREMENT (continued)

MODIFIED FINANCIAL ASSETS

If the terms of a financial asset are modified or an existing financial asset is replaced with a new one for either credit or commercial reasons, an assessment is made to determine if the changes to the terms of the existing financial asset are considered substantial. This assessment considers both changes in cash flows arising from the modified terms as well as changes in the overall instrument risk profile; for example, changes in the principal (credit limit), term, or type of underlying collateral. Where a modification is considered non-substantial, the existing financial asset is not derecognised and its date of origination continues to be used to determine SICR. Where a modification is considered substantial, the existing financial asset is derecognised and a new financial asset is recognised at its fair value on the modification date, which also becomes the date of origination used to determine SICR for this new asset.

SIGNIFICANT INCREASE IN CREDIT RISK (SICR)

Stage 2 assets are those that have experienced a Significant Increase in Credit Risk (SICR) since origination. In determining what constitutes a SICR, the Company considers both qualitative and quantitative information:

i. Internal credit rating grade

For the majority of portfolios, the primary indicator of a SICR is a significant deterioration in the internal credit rating grade of a facility since origination and is measured by application of thresholds.

For non-retail portfolios, a SICR is determined by comparing the Customer Credit Rating (CCR) applicable to a facility at reporting date to the CCR at origination of that facility. A CCR is assigned to each borrower which reflects the probability of default of the borrower and incorporates both borrower and non-borrower specific information, including forward-looking information. CCRs are subject to review at least annually or more frequently when an event occurs which could affect the credit risk of the customer.

For retail portfolios, a SICR is determined, depending on the type of facility, by either comparing the scenario weighted lifetime probability of default at the reporting date to that at origination, or by reference to customer behavioural score thresholds. The scenario weighted lifetime probability of default may increase significantly if:

- there has been a deterioration in the economic outlook, or an increase in economic uncertainty; or
- there has been a deterioration in the customer's overall credit position, or ability to manage their credit obligations.

ii. Backstop criteria

The Company uses 30 days past due arrears as a backstop criteria for both non-retail and retail portfolios. For retail portfolios only, facilities are required to demonstrate three to six months of good payment behaviour prior to being allocated back to Stage 1.

iii. COVID-19 initiatives

For facilities subject to the COVID-19 repayment deferral arrangements noted above, an assessment of SICR has been determined based on various measures of the customer's current financial position and earnings capacity from which the facilities are categorised into risk categories. SICR is then determined based on the resulting risk categorisation. Customers in high risk categories, and those who have requested a deferral extension have been classified as having a SICR.

FORWARD-LOOKING INFORMATION

Forward-looking information is incorporated into both our assessment of whether a financial asset has experienced a SICR since its initial recognition and in our estimate of ECL. In applying forward-looking information for estimating ECL, the Company considers four probability-weighted forecast economic scenarios as follows:

i. Base case scenario

The base case scenario is ANZ's view of the most likely future macro-economic conditions. It reflects management's assumptions used for strategic planning and budgeting, and also informs ANZ's Internal Capital Adequacy Assessment Process (ICAAP) which is the process ANZ applies in strategic and capital planning over a 3-year time horizon;

ii. Upside and iii. Downside scenarios

The upside and downside scenarios are fixed by reference to average economic cycle conditions (that is, they are not based on the economic conditions prevailing at balance date) and are based on a combination of more optimistic (in the case of the upside) and pessimistic (in the case of the downside) economic events and uncertainty over long term horizons; and

iv. Severe downside scenario

The severe downside scenario is fixed by reference to average economic cycle conditions and accounts for the potentially severe impact of less likely extremely adverse economic conditions. It reflects macro-economic conditions of a downturn economic event with a probability of occurrence once every 25 years.

NOTES TO THE FINANCIAL STATEMENTS (continued)

12. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)

RECOGNITION AND MEASUREMENT (continued)

FORWARD-LOOKING INFORMATION (continued)

The four scenarios are described in terms of macro-economic variables used in the PD, LGD and EAD models (collectively the ECL models) depending on the portfolio and country of the borrower. Examples of the variables include unemployment rates, GDP growth rates, house price indices, commercial property price indices and consumer price indices.

Probability weighting of each scenario is determined by management considering the risks and uncertainties surrounding the base case economic scenario, as well as specific portfolio considerations where required.

The Group Asset and Liability Committee (GALCO) is responsible for reviewing and approving the base case economic forecast scenario and the Credit and Market Risk Committee (CMRC) approves the probability weights applied to each scenario.

Where applicable, temporary adjustments may be made to account for situations where known or expected risks have not been adequately addressed in the modelling process. CMRC is responsible for approving such adjustments.

KEY JUDGEMENTS AND ESTIMATES

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

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

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

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

Judgement/ Assumption	Description	Considerations for the year ended 30 September 2020
Determining when a Significant Increase in Credit (SICR) Risk has occurred	In the measurement of ECL, judgement is involved in setting the rules and trigger points to determine whether there has been a SICR since initial recognition of a loan, which would result in the financial asset moving from 'Stage 1' to 'Stage 2'. This is a key area of judgement since transition from Stage 1 to Stage 2 increases the ECL from an allowance based on the probability of default in the next 12 months, to an allowance for lifetime expected credit losses. Subsequent decreases in credit risk resulting in transition from Stage 2 to Stage 1 may similarly result in significant changes in the ECL allowance. The setting of precise trigger points requires judgement which may have a material impact upon the size of the ECL allowance. The Company monitors the effectiveness of SICR criteria on an ongoing basis.	In response to the impacts of COVID-19, various packages, such as repayment deferrals, have been offered to eligible retail and commercial customers in Australia. The Company does not consider that when a customer is first provided assistance, all other things being equal, that there has been a SICR and a consequent impact on ECL when assessing provisions. Subsequent to take-up, customers have been contacted to discuss available options once the packages reach their end date. This additional information on the customer's financial position and ability to recommence their loan repayments is used to assist in classification of customers into risk categories. Customers in higher risk categories, and those who have requested a deferral extension, have been classified as having a SICR.

12. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)

KEY JUDGEMENTS AND ESTIMATES (continued)

Judgement/ Assumption	Description	Considerations for the year ended 30 September 2020
Measuring both 12-month and lifetime credit losses	The PD, LGD and EAD credit risk parameters used in determining ECL are point-in-time measures reflecting the relevant forward-looking information determined by management. Judgement is involved in determining which forward-looking information variables are relevant for particular lending portfolios and for determining each portfolio's point-in-time sensitivity.	The PD, EAD and LGD models are subject to the Company's model risk policy that stipulates periodic model monitoring, periodic re-validation and defines approval procedures and authorities according to model materiality. There were no material changes to the policies during the year ended 30 September 2020.
	In addition, judgement is required where behavioural characteristics are applied in estimating the lifetime of a facility to be used in measuring ECL.	There were no changes to behavioural lifetime estimates during the year ended 30 September 2020.
Base case economic forecast	The Company derives a forward-looking "base case" economic scenario which reflects ANZ's view of the most likely future macro-economic conditions.	There have been no changes to the types of forward-looking variables (key economic drivers) used as model inputs in the current year. As at 30 September 2020, the base case assumptions have been updated to reflect the rapidly evolving situation with respect to COVID-19. This includes an assessment of the impact of central bank policies, governments' actions, the response of business, and institution specific responses (such as repayment deferrals). These are considered in determining the length and severity of the forecast economic downturn. The expected outcomes of key economic drivers for the base case scenario as at 30 September 2020 are described below under the heading "Base case economic forecast assumptions".
Probability weighting of each economic scenario (base case, upside, downside and severe downside scenarios)[1,2]	Probability weighting of each economic scenario is determined by management considering the risks and uncertainties surrounding the base case economic scenario at each measurement date.	The key consideration for probability weightings in the current period is the continuing impact of COVID-19. The Company considers these weightings in each geography to provide the best estimate of the possible loss outcomes and has analysed inter-relationships and correlations (over both the short and long term) within the Company's credit portfolios in determining them. In addition to the base case forecast which reflects the negative economic consequences of COVID-19, greater weighting has been applied to the downside scenario given the Company's assessment of downside risks. The assigned probability weightings in Australia and Rest of world are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

12. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)

KEY JUDGEMENTS AND ESTIMATES (continued)

Judgement/ Assumption	Description	Considerations for the year ended 30 September 2020
Management temporary adjustments	Management temporary adjustments to the ECL allowance are used in circumstances where it is judged that our existing inputs, assumptions and model techniques do not capture all the risk factors relevant to our lending portfolios. Emerging local or global macroeconomic, microeconomic or political events, and natural disasters that are not incorporated into our current parameters, risk ratings, or forward-looking information are examples of such circumstances. The use of management temporary adjustments may impact the amount of ECL recognised. The uncertainty associated with the COVID-19 pandemic, and the extent to which the actions of governments, businesses and consumers mitigate against potentially adverse credit outcomes are not fully incorporated into existing ECL models. Accordingly, management overlays have been applied to ensure credit provisions are appropriate.	Management have applied a number of adjustments to the modelled ECL primarily due to the uncertainty associated with COVID-19. Management overlays (including COVID-19 overlays) which add to the modelled ECL provision have been made for risks particular to small business and commercial banking in Australia, for retail, commercial and agri banking in New Zealand and for tourism in the Pacific.

Base case economic forecast assumptions

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

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

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

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

12. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)

KEY JUDGEMENTS AND ESTIMATES (CONTINUED)

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

Probability weightings

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

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

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

	2020	2019
The Company		
Base	50.0%	50.0%
Upside	10.9%	15.7%
Downside	33.4%	29.3%
Severe Downside	5.7%	5.0%

ECL - Sensitivity analysis

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

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

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

	ECL $m	Impact $m
If 1% of Stage 1 facilities were included in Stage 2	4,272	45
If 1% of Stage 2 facilities were included in Stage 1	4,218	(9)
100% upside scenario	1,566	(2,661)
100% base scenario	3,501	(726)
100% downside scenario	4,423	196
100% severe downside scenario	5,374	1,147

NOTES TO THE FINANCIAL STATEMENTS (continued)

FINANCIAL LIABILITIES

Outlined below is a description of how we classify and measure financial liabilities relevant to the subsequent note disclosures.

CLASSIFICATION AND MEASUREMENT

Financial liabilities

Financial liabilities are measured at amortised cost, or fair value through profit or loss when they are held for trading. Additionally, financial liabilities can be designated at FVTPL where:

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

  a) the embedded derivative does not significantly modify the cash flows that otherwise would be required by the contract, or

  b) the embedded derivative is closely related to the host financial liability.

Where financial liabilities are designated as measured at fair value, gains or losses relating to changes in the entity's own credit risk are included in other comprehensive income, except where doing so would create or enlarge an accounting mismatch in profit or loss.

13. DEPOSITS AND OTHER BORROWINGS

The table below presents our total deposits and other borrowings by type:

	2020 $m	2019 $m
Certificates of deposit	30,574	34,952
Term deposits	148,839	173,641
On demand and short term deposits	262,236	214,002
Deposits not bearing interest	22,016	15,765
Deposits from banks and securities sold under repurchase agreements[1]	86,947	76,468
Commercial paper	7,524	9,413
Deposits and other borrowings	558,136	524,241
Residual contractual maturity:		
- to be settled within 1 year	544,324	522,125
- to be settled after 1 year	13,812	2,116
Deposits and other borrowings	558,136	524,241
Carried on Balance Sheet at:		
Amortised cost	556,676	524,220
Fair value through profit or loss (designated on initial recognition)[2]	1,460	21
Deposits and other borrowings	558,136	524,241

1. Includes $12 billion of funds drawn under the RBA's Term Funding Facility (TFF). TFF is initially recognised at fair value and is subsequently measured at amortised cost using the effective interest rate method.
2. From 1 October 2019, the Company changed its accounting treatment for certain gold and loan deposit products which are now designated as at fair value through profit and loss.

RECOGNITION AND MEASUREMENT

For deposits and other borrowings that are:

- not designated at fair value through profit or loss on initial recognition, we measure them at amortised cost and recognise their interest expense using the effective interest rate method; and
- managed on a fair value basis, reduce or eliminate an accounting mismatch or contain an embedded derivative, we designate them as measured at fair value through profit or loss.

Refer to Note 16 Fair Value of Financial Assets and Financial Liabilities for further details.

For deposits and other borrowings designated at fair value we recognise the amount of fair value gain or loss attributable to changes in the Company's own credit risk in other comprehensive income in retained earnings. Any remaining amount of fair value gain or loss we recognise directly in profit or loss. Once we have recognised an amount in other comprehensive income, we do not later reclassify it to profit and loss.

Securities sold under repurchase agreements represent a liability to repurchase the financial assets that remain on our balance sheet since the risks and rewards of ownership remain with the Company. Over the life of the repurchase agreement, we recognise the difference between the sale price and the repurchase price and charge it to interest expense in the profit and loss.

14. DEBT ISSUANCES

The Company uses a variety of funding programmes to issue senior debt (including covered bonds) and subordinated debt. The difference between senior debt and subordinated debt is that holders of senior debt take priority over holders of subordinated debt owed by the Company. In the winding up of the Company, the subordinated debt will be repaid by the Company, only after the repayment of claims of depositors, other creditors and the senior debt holders.

	2020 $m	2019 $m
Senior debt	64,591	71,767
Covered bonds	11,761	16,826
Total unsubordinated debt	**76,352**	88,593
Subordinated debt		
- Additional Tier 1 capital	7,833	7,838
- Tier 2 capital	12,865	8,415
Total subordinated debt	**20,698**	16,253
Total debt issued	**97,050**	104,846

For further information relating to debt issuances, refer to the ANZ 2020 Group Annual Report (Note 15 Debt Issuances) available at https://www.anz.com/shareholder/centre/reporting/annual-report-annual-review/.

15. FINANCIAL RISK MANAGEMENT

RISK MANAGEMENT FRAMEWORK AND MODEL

INTRODUCTION

The use of financial instruments is fundamental to the Company's businesses of providing banking and other financial services to our customers. The associated financial risks (primarily credit, market, and liquidity risks) are a significant portion of the Company's key material risks.

We disclose details of all key material risks impacting the Company, and further information on the Company's risk management activities, in the Governance and Risk Management section in the ANZ 2020 Group Annual Report available at https://www.anz.com/shareholder/centre/reporting/annual-report-annual-review/.

This note details the Company's financial risk management policies, processes and quantitative disclosures in relation to the key financial risks.

Key material financial risks	Key sections applicable to this risk
Overview	• An overview of our Risk Management Framework
Credit risk The risk of financial loss resulting from: • a counterparty failing to fulfil its obligations; or • a decrease in credit quality of a counterparty resulting in a financial loss. Credit risk incorporates the risks associated with us lending to customers who could be impacted by climate change or by changes to laws, regulations, or other policies adopted by governments or regulatory authorities, including carbon pricing and climate change adaptation or mitigation policies.	• Credit risk overview, management and control responsibilities • Maximum exposure to credit risk • Credit quality • Concentrations of credit risk • Collateral management
Market risk The risk to the Company's earnings arising from: • changes in interest rates, foreign exchange rates, credit spreads, volatility and correlations; or • fluctuations in bond, commodity or equity prices.	• Market risk overview, management and control responsibilities • Measurement of market risk • Traded and non-traded market risk • Equity securities designated at FVOCI • Foreign currency risk – structural exposures
Liquidity and funding risk The risk that the Company is unable to meet payment obligations as they fall due, including: • repaying depositors or maturing wholesale debt; or • the Company having insufficient capacity to fund increases in assets.	• Liquidity risk overview, management and control responsibilities • Key areas of measurement for liquidity risk • Liquidity risk outcomes • Residual contractual maturity analysis of the Company's liabilities

NOTES TO THE FINANCIAL STATEMENTS (continued)

15. FINANCIAL RISK MANAGEMENT (continued)

OVERVIEW

AN OVERVIEW OF OUR RISK MANAGEMENT FRAMEWORK

This overview is provided to aid the users of the financial statements to understand the context of the financial disclosures required under AASB 7 *Financial Instruments: Disclosures*. It should be read in conjunction with the Governance and Risk Management section in the ANZ 2020 Group Annual Report available at https://www.anz.com/shareholder/centre/reporting/annual-report-annual-review/.

The Board is responsible for establishing and overseeing the Company's Risk Management Framework (RMF). The Board has delegated authority to the Board Risk Committee (BRC) to develop and monitor compliance with the Company's risk management policies. The BRC reports regularly to the Board on its activities.

The Board approves the strategic objectives of the Company including:

- the Risk Appetite Statement (RAS), which sets out the Board's expectations regarding the degree of risk that the Company is prepared to accept in pursuit of its strategic objectives and business plan; and
- the Risk Management Strategy (RMS), which describes the Company's strategy for managing risks and the key elements of the RMF that gives effect to this strategy. This includes a description of each material risk, and an overview of how the RMF addresses each risk, with reference to the relevant policies, standards and procedures. It also includes information on how the Company identifies, measures, evaluates, monitors, reports and controls or mitigates material risks.

The Company, through its training and management standards and procedures, aims to maintain a disciplined and robust control environment in which all employees understand their roles and obligations. At the Company, risk is everyone's responsibility.

The Company has an independent risk management function, headed by the Chief Risk Officer who:

- is responsible for overseeing the risk profile and the risk management framework;
- can effectively challenge activities and decisions that materially affect the Company's risk profile; and
- has an independent reporting line to the BRC to enable the appropriate escalation of issues of concern.

The Company's Internal Audit Function reports directly to the Board Audit Committee (BAC). Internal Audit provides:

- an independent evaluation of the Company's RMF annually that seeks to ensure compliance with, and the effectiveness of, the risk management framework;
- facilitation of a comprehensive review every three years that seeks to ensure the appropriateness, effectiveness and adequacy of the risk management framework; and
- recommendations to improve the framework and/or work practices to strengthen the effectiveness of day to day operations.

CREDIT RISK

CREDIT RISK OVERVIEW, MANAGEMENT AND CONTROL RESPONSIBILITIES

Granting credit facilities to customers is one of the Company's major sources of income. As this activity is also a principal risk, the Company dedicates considerable resources to its management. The Company assumes credit risk in a wide range of lending and other activities in diverse markets and in many jurisdictions. Credit risks arise from traditional lending to customers as well as from inter-bank, treasury, trade finance and capital markets activities around the world.

Our credit risk management framework ensures we apply a consistent approach across the Company when we measure, monitor and manage the credit risk appetite set by the Board. The Board is assisted and advised by the BRC in discharging its duty to oversee credit risk. The BRC:

- sets the credit risk appetite and credit strategies; and
- approves credit transactions beyond the discretion of executive management.

15. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK (continued)

We quantify credit risk through an internal credit rating system (masterscales) to ensure consistency across exposure types and to provide a consistent framework for reporting and analysis. The system uses models and other tools to measure the following for customer exposures:

Probability of Default (PD)	Expressed by a Customer Credit Rating (CCR), reflecting the Company's assessment of a customer's ability to service and repay debt.
Exposure at Default (EAD)	The expected balance sheet exposure at default taking into account repayments of principal and interest, expected additional drawdowns and accrued interest at the time of default.
Loss Given Default (LGD)	Expressed by a Security Indicator (SI) ranging from A to G. The SI is calculated by reference to the percentage of loan covered by security which the Company can realise if a customer defaults. The A-G scale is supplemented by a range of other SIs which cover factors such as cash cover and sovereign backing. For retail and some small business customers, we group exposures into large homogenous pools – and the LGD is assigned at the pool level.

Our specialist credit risk teams develop and validate the Company's PD and LGD rating models. The outputs from these models drive our day-to-day credit risk management decisions including origination, pricing, approval levels, regulatory capital adequacy, economic capital allocation, and credit provisioning.

All customers with whom the Company has a credit relationship are assigned a CCR at origination via either of the following assessment approaches:

Large and more complex lending	Retail and some small business lending
Rating models provide a consistent and structured assessment, with judgement required around the use of out-of-model factors. We handle credit approval on a dual approval basis, jointly with the business writer and an independent credit officer.	Automated assessment of credit applications using a combination of scoring (application and behavioural), policy rules and external credit reporting information. If the application does not meet the automated assessment criteria, then it is referred out for manual assessment.

We use the Company's internal CCRs to manage the credit quality of financial assets. To enable wider comparisons, the Company's CCRs are mapped to external rating agency scales as follows:

Credit Quality Description	Internal CCR	ANZ Customer Requirements	Moody's Rating	Standard & Poor's Rating
Strong	CCR 0+ to 4-	Demonstrated superior stability in their operating and financial performance over the long-term, and whose earnings capacity is not significantly vulnerable to foreseeable events.	Aaa – Baa3	AAA – BBB-
Satisfactory	CCR 5+ to 6-	Demonstrated sound operational and financial stability over the medium to long-term, even though some may be susceptible to cyclical trends or variability in earnings.	Ba1 – B1	BB+ – B+
Weak	CCR 7+ to 8=	Demonstrated some operational and financial instability, with variability and uncertainty in profitability and liquidity projected to continue over the short and possibly medium term.	B2 - Caa	B - CCC
Defaulted	CCR 8- to 10	When doubt arises as to the collectability of a credit facility, the financial instrument (or "the facility") is classified as defaulted.	N/A	N/A

MAXIMUM EXPOSURE TO CREDIT RISK

For financial assets recognised on the balance sheet, the maximum exposure to credit risk is the carrying amount. In certain circumstances there may be differences between the carrying amounts reported on the balance sheet and the amounts reported in the tables below. Principally, these differences arise in respect of financial assets that are subject to risks other than credit risk, such as equity instruments which are primarily subject to market risk, or bank notes and coins.

For undrawn facilities, this maximum exposure to credit risk is the full amount of the committed facilities. For contingent exposures, the maximum exposure to credit risk is the maximum amount the Company would have to pay if the instrument is called upon.

The table below shows our maximum exposure to credit risk of on-balance sheet and off-balance sheet positions before taking account of any collateral held or other credit enhancements.

NOTES TO THE FINANCIAL STATEMENTS (continued)

15. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK (continued)

	Reported		Excluded[1]		Maximum exposure to credit risk	
	2020 $m	2019 $m	2020 $m	2019 $m	2020 $m	2019 $m
On-balance sheet positions						
Net loans and advances	488,002	484,655	-	-	488,002	484,655
Other financial assets:						
Cash and cash equivalents	98,083	77,949	1,084	934	96,999	77,015
Settlement balances owed to ANZ	7,116	3,442	7,116	3,442	-	-
Collateral paid	13,012	13,461	-	-	13,012	13,461
Trading securities	38,423	34,217	5,465	5,922	32,958	28,295
Derivative financial instruments	130,552	116,544	-	-	130,552	116,544
Investment securities						
- debt securities at amortised costs	5,354	4,787	-	-	5,354	4,787
- debt securities at FVOCI	73,936	67,400	-	-	73,936	67,400
- equity securities at FVOCI	994	1,168	994	1,168	-	-
Regulatory deposits	199	215	-	-	199	215
Due from controlled entities	100,654	88,874	-	-	100,654	88,874
Other financial assets[2]	1,460	2,167	-	-	1,460	2,167
Total other financial assets	469,783	410,224	14,659	11,466	455,124	398,758
Subtotal	957,785	894,879	14,659	11,466	943,126	883,413
Off-balance sheet positions						
Undrawn and contingent facilities[3]	226,714	211,796	-	-	226,714	211,796
Total	1,184,499	1,106,675	14,659	11,466	1,169,840	1,095,209

1. Bank notes and coins and cash at bank within Cash and cash equivalents; Trade dated assets within Settlement balances owed to ANZ; Equity securities and precious metal exposures within Trading securities; Equity securities within Investment securities were excluded as they do not have credit risk exposure.
2. Other financial assets mainly comprise accrued interest and acceptances.
3. Undrawn and contingent facilities include guarantees, letters of credit and performance related contingencies, net of collectively assessed and individually assessed allowance for expected credit losses.

15. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK (continued)

CREDIT QUALITY

An analysis of the Company's credit risk exposure is presented in the following tables based on the Company's internal rating by stage without taking account of the effects of any collateral or other credit enhancements:

Net loans and advances

	2020				
			Stage 3		
	Stage 1 $m	Stage 2 $m	Collectively assessed $m	Individually assessed $m	Total $m
Strong	300,174	12,692	-	-	312,866
Satisfactory	115,745	30,200	-	-	145,945
Weak	8,348	14,740	-	-	23,088
Defaulted	-	-	3,936	1,817	5,753
Gross loans and advances at amortised cost	424,267	57,632	3,936	1,817	487,652
Allowance for ECL	(1,028)	(2,114)	(373)	(704)	(4,219)
Net loans and advances at amortised cost	423,239	55,518	3,563	1,113	483,433
Coverage ratio	0.24%	3.67%	9.48%	38.75%	0.87%
Loans and advances at fair value through profit or loss					4,016
Unearned income					(19)
Capitalised brokerage/mortgage origination fees					572
Net carrying amount					488,002

	2019				
			Stage 3		
	Stage 1 $m	Stage 2 $m	Collectively assessed $m	Individually assessed $m	Total $m
Strong	330,531	16,720	-	-	347,251
Satisfactory	95,286	23,717	-	-	119,003
Weak	6,462	7,770	-	-	14,232
Defaulted	-	-	4,248	1,604	5,852
Gross loans and advances at amortised cost	432,279	48,207	4,248	1,604	486,338
Allowance for ECL	(746)	(1,181)	(361)	(633)	(2,921)
Net loans and advances at amortised cost	431,533	47,026	3,887	971	483,417
Coverage ratio	0.17%	2.45%	8.50%	39.46%	0.60%
Loans and advances at fair value through profit or loss					797
Unearned income					(144)
Capitalised brokerage/mortgage origination fees					585
Net carrying amount					484,655

NOTES TO THE FINANCIAL STATEMENTS (continued)

15. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK (continued)

Investment securities - debt securities at amortised cost

	2020				
			Stage 3		
	Stage 1 $m	Stage 2 $m	Collectively assessed $m	Individually assessed $m	Total $m
Strong	5,271	-	-	-	5,271
Satisfactory	84	-	-	-	84
Weak	-	-	-	-	-
Defaulted	-	-	-	-	-
Gross investment securities - debt securities at amortised cost	5,355	-	-	-	5,355
Allowance for ECL	(1)	-	-	-	(1)
Net investment securities - debt securities at amortised cost	5,354	-	-	-	5,354
Coverage ratio	0.02%	-	-	-	0.02%

	2019				
			Stage 3		
	Stage 1 $m	Stage 2 $m	Collectively assessed $m	Individually assessed $m	Total $m
Strong	4,714	-	-	-	4,714
Satisfactory	74	-	-	-	74
Weak	-	-	-	-	-
Defaulted	-	-	-	-	-
Gross investment securities - debt securities at amortised cost	4,788	-	-	-	4,788
Allowance for ECL	(1)	-	-	-	(1)
Net investment securities - debt securities at amortised cost	4,787	-	-	-	4,787
Coverage ratio	0.02%	-	-	-	0.02%

15. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK (continued)

Investment securities - debt securities at FVOCI

	2020				
			Stage 3		
	Stage 1 $m	Stage 2 $m	Collectively assessed $m	Individually assessed $m	Total $m
Strong	73,936	-	-	-	73,936
Satisfactory	-	-	-	-	-
Weak	-	-	-	-	-
Defaulted	-	-	-	-	-
Investment securities - debt securities at FVOCI	73,936	-	-	-	73,936
Allowance for ECL recognised in other comprehensive income	(7)	-	-	-	(7)
Coverage ratio	0.01%	-	-	-	0.01%

	2019				
			Stage 3		
	Stage 1 $m	Stage 2 $m	Collectively assessed $m	Individually assessed $m	Total $m
Strong	67,400	-	-	-	67,400
Satisfactory	-	-	-	-	-
Weak	-	-	-	-	-
Defaulted	-	-	-	-	-
Investment securities - debt securities at FVOCI	67,400	-	-	-	67,400
Allowance for ECL recognised in other comprehensive income	(5)	-	-	-	(5)
Coverage ratio	0.01%	-	-	-	0.01%

NOTES TO THE FINANCIAL STATEMENTS (continued)

15. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK (continued)

Other financial assets

	2020 $m	2019 $m
Strong	365,532	317,051
Satisfactory	9,724	9,138
Weak	577	382
Defaulted	1	-
Total carrying amount	375,834	326,571

Off-balance sheet commitments - undrawn and contingent facilities

	2020				
			Stage 3		
	Stage 1 $m	Stage 2 $m	Collectively assessed $m	Individually assessed $m	Total $m
Strong	159,158	2,984	-	-	162,142
Satisfactory	18,874	2,944	-	-	21,818
Weak	1,107	915	-	-	2,022
Defaulted	-	-	102	165	267
Gross undrawn and contingent facilities subject to ECL	179,139	6,843	102	165	186,249
Allowance for ECL included in Provisions	(513)	(183)	(15)	(20)	(731)
Net undrawn and contingent facilities subject to ECL	178,626	6,660	87	145	185,518
Coverage ratio	0.29%	2.67%	14.71%	12.12%	0.39%
Undrawn and contingent facilities not subject to ECL[1]					41,196
Net undrawn and contingent facilities					226,714

	2019				
			Stage 3		
	Stage 1 $m	Stage 2 $m	Collectively assessed $m	Individually assessed $m	Total $m
Strong	139,051	1,816	-	-	140,867
Satisfactory	19,546	2,923	-	-	22,469
Weak	271	793	-	-	1,064
Defaulted	-	-	96	38	134
Gross undrawn and contingent facilities subject to ECL	158,868	5,532	96	38	164,534
Allowance for ECL included in Provisions	(405)	(126)	(14)	(12)	(557)
Net undrawn and contingent facilities subject to ECL	158,463	5,406	82	26	163,977
Coverage ratio	0.25%	2.28%	14.58%	31.58%	0.34%
Undrawn and contingent facilities not subject to ECL[1]					47,819
Net undrawn and contingent facilities					211,796

1. Commitments that can be unconditionally cancelled at any time without notice.

15. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK (continued)

CONCENTRATIONS OF CREDIT RISK

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

Composition of financial instruments that give rise to credit risk by industry group are presented below:

	Loans and advances		Other financial assets		Off-balance sheet credit related commitments		Total	
	2020 $m	2019 $m	2020 $m	2019 $m	2020 $m	2019 $m	2020 $m	2019 $m
Agriculture, forestry, fishing and mining	19,555	20,163	946	860	15,837	16,117	36,338	37,140
Business services	7,544	7,063	105	112	5,747	6,075	13,396	13,250
Construction	4,649	4,859	19	33	5,331	5,140	9,999	10,032
Electricity, gas and water supply	4,842	5,293	1,843	1,543	6,841	5,226	13,526	12,062
Entertainment, leisure and tourism	11,477	11,170	560	652	3,522	2,877	15,559	14,699
Financial, investment and insurance	49,254	52,333	364,478	321,569	44,678	39,107	458,410	413,009
Government and official institutions	3,347	2,002	75,554	62,886	1,224	1,637	80,125	66,525
Manufacturing	21,452	19,338	1,661	2,196	33,716	36,319	56,829	57,853
Personal lending	279,899	274,357	697	1,072	49,421	42,246	330,017	317,675
Property services	37,605	34,196	1,024	1,009	14,526	15,126	53,155	50,331
Retail trade	9,023	10,771	164	131	7,279	5,737	16,466	16,639
Transport and storage	11,599	11,955	1,016	966	7,412	6,844	20,027	19,765
Wholesale trade	9,973	12,665	2,237	2,784	17,151	16,347	29,361	31,796
Other	21,449	20,970	4,821	2,946	14,760	13,555	41,030	37,471
Gross total	491,668	487,135	455,125	398,759	227,445	212,353	1,174,238	1,098,247
Provision for credit impairment	(4,219)	(2,921)	(1)	(1)	(731)	(557)	(4,951)	(3,479)
Subtotal	487,449	484,214	455,124	398,758	226,714	211,796	1,169,287	1,094,768
Unearned income	(19)	(144)	-	-	-	-	(19)	(144)
Capitalised brokerage/mortgage origination fees	572	585	-	-	-	-	572	585
Maximum exposure to credit risk	488,002	484,655	455,124	398,758	226,714	211,796	1,169,840	1,095,209

NOTES TO THE FINANCIAL STATEMENTS (continued)

15. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK (continued)

COLLATERAL MANAGEMENT

We use collateral for on and off-balance sheet exposures to mitigate credit risk if a counterparty cannot meet its repayment obligations. Where there is sufficient collateral, an expected credit loss is not recognised. This is largely the case for certain lending products that are secured by corresponding investment for which the margin loans are utilised and for reverse repurchase agreements. For some products, the collateral provided by customers is fundamental to the product's structuring, so it is not strictly the secondary source of repayment - for example, lending secured by trade receivables is typically repaid by the collection of those receivables. During the period there was no change in our collateral policies.

The nature of collateral or security held for the relevant classes of financial assets is as follows:

Net loans and advances	
Loans - housing and personal	Housing loans are secured by mortgage(s) over property and additional security may take the form of guarantees and deposits. Personal lending (including credit cards and overdrafts) is predominantly unsecured. If we take security, then it is restricted to eligible vehicles, motor homes and other assets.
Loans - business	Business loans may be secured, partially secured or unsecured. Typically, we take security by way of a mortgage over property and/or a charge over the business or other assets. If appropriate, we may take other security to mitigate the credit risk, for example: guarantees, standby letters of credit or derivative protection.
Other financial assets	
Trading securities, Investment securities, Derivatives and Other financial assets	For trading securities, we do not seek collateral directly from the issuer or counterparty. However, the collateral may be implicit in the terms of the instrument (for example, with an asset-backed security). The terms of debt securities may include collateralisation. For derivatives, we typically terminate all contracts with the counterparty and settle on a net basis at market levels current at the time of a counterparty default under International Swaps and Derivatives Association (ISDA) Master Agreements. Our preferred practice is to use a Credit Support Annex (CSA) to the ISDA so that open derivative positions with the counterparty are aggregated and cash collateral (or other forms of eligible collateral) is exchanged daily. The collateral is provided by the counterparty when their position is out of the money (or provided to the counterparty by the Company when our position is out of the money).
Off-balance sheet positions	
Undrawn and contingent facilities.	Collateral for off-balance sheet positions is mainly held against undrawn facilities, and they are typically performance bonds or guarantees. Undrawn facilities that are secured include housing loans secured by mortgages over residential property and business lending secured by commercial real estate and/or charges over business assets.

The table below shows the estimated value of collateral we hold and the net unsecured portion of credit exposures:

	Credit exposure		Total value of collateral		Unsecured portion of credit exposure	
	2020 $m	2019 $m	2020 $m	2019 $m	2020 $m	2019 $m
Net loans and advances	488,002	484,655	393,548	374,041	94,454	110,614
Other financial assets	455,124	398,758	42,000	29,998	413,124	368,760
Off-balance sheet positions	226,714	211,796	36,372	33,984	190,342	177,812
Total	1,169,840	1,095,209	471,920	438,023	697,920	657,186

15. FINANCIAL RISK MANAGEMENT (continued)

MARKET RISK

MARKET RISK OVERVIEW, MANAGEMENT AND CONTROL RESPONSIBILITIES

Market risk stems from the Company's trading and balance sheet management activities, the impact of changes and correlation between interest rates, foreign exchange rates, credit spreads and volatility in bond, commodity or equity prices.

The BRC delegates responsibility for day-to-day management of both market risks and compliance with market risk policies to the Credit & Market Risk Committee (CMRC) and the Group Asset & Liability Committee (GALCO).

Within overall strategies and policies established by the BRC, business units and risk management have joint responsibility for the control of market risk at the Company level. The Market Risk team (a specialist risk management unit independent of the business) allocates market risk limits at various levels and monitors and reports on them daily. This detailed framework allocates individual limits to manage and control exposures using risk factors and profit and loss limits.

Management, measurement and reporting of market risk is undertaken in two broad categories:

Traded Market Risk	Non-Traded Market Risk
Risk of loss from changes in the value of financial instruments due to movements in price factors for both physical and derivative trading positions. Principal risk categories monitored are: 1. Currency risk – potential loss arising from changes in foreign exchange rates or their implied volatilities. 2. Interest rate risk – potential loss from changes in market interest rates or their implied volatilities. 3. Credit spread risk – potential loss arising from a movement in margin or spread relative to a benchmark. 4. Commodity risk – potential loss arising from changes in commodity prices or their implied volatilities. 5. Equity risk – potential loss arising from changes in equity prices.	Risk of loss associated with the management of non-traded interest rate risk, liquidity risk and foreign exchange exposures. This includes interest rate risk in the banking book. This risk of loss arises from adverse changes in the overall and relative level of interest rates for different tenors, differences in the actual versus expected net interest margin, and the potential valuation risk associated with embedded options in financial instruments and bank products.

MEASUREMENT OF MARKET RISK

We primarily manage and control market risk using Value at Risk (VaR), sensitivity analysis and stress testing.

VaR gauges the Company's possible daily loss based on historical market movements.

The Company's VaR approach for both traded and non-traded risk is historical simulation. We use historical changes in market rates, prices and volatilities over:

- the previous 500 business days, to calculate standard VaR; and
- a 1-year stressed period, to calculate stressed VaR.

We calculate traded and non-traded VaR using one-day and ten-day holding periods. For stressed VaR, we use a ten-day period. Back testing is used to ensure our VaR models remain accurate.

The Company measures VaR at a 99% confidence interval which means there is a 99% chance that a loss will not exceed the VaR for the relevant holding period.

NOTES TO THE FINANCIAL STATEMENTS (continued)

15. FINANCIAL RISK MANAGEMENT (continued)

MARKET RISK (continued)

TRADED AND NON-TRADED MARKET RISK

Traded market risk

The table below shows the traded market risk VaR on a diversified basis by risk categories:

	30 September 2020				30 September 2019			
	As at $m	High for year $m	Low for year $m	Average for year $m	As at $m	High for year $m	Low for year $m	Average for year $m
Traded value at risk 99% confidence								
Foreign exchange	2.0	5.6	1.0	2.8	1.3	9.0	1.2	3.6
Interest rate	7.2	10.6	2.9	5.8	2.8	9.5	2.8	5.3
Credit	13.6	16.9	1.6	8.2	4.8	4.8	1.1	2.8
Commodity	2.7	4.3	1.3	2.2	1.5	4.0	1.1	1.8
Equity	-	-	-	-	-	-	-	-
Diversification benefit[1]	(10.5)	n/a	n/a	(7.9)	(4.9)	n/a	n/a	(5.9)
Total VaR	15.0	24.5	5.3	11.1	5.5	13.1	5.3	7.6

1. The diversification benefit reflects the historical correlation between the regions. The high and low VaR figures reported for the region did not necessarily occur on the same day as the high and low VaR reported for the Company as a whole. Consequently, a diversification benefit for high and low would not be meaningful and is therefore omitted from the table.

Non-traded market risk

Balance sheet risk management

The principal objectives of balance sheet risk management are to maintain acceptable levels of interest rate and liquidity risk to mitigate the negative impact of movements in interest rates on the earnings and market value of the Company's banking book, while ensuring the Company maintains sufficient liquidity to meet its obligations as they fall due.

Interest rate risk management

Non-traded interest rate risk relates to the potential adverse impact of changes in market interest rates on the Company's future net interest income. This risk arises from two principal sources, namely mismatches between the repricing dates of interest bearing assets and liabilities; and the investment of capital and other non-interest bearing liabilities and assets. Interest rate risk is reported using VaR and scenario analysis (based on the impact of a 1% rate shock). The table below shows VaR figures for non-traded interest rate risk for the combined Company as well as Australia, New Zealand and Asia Pacific, Europe and Americas (APEA) geographies which are calculated separately.

	30 September 2020				30 September 2019			
	As at $m	High for year $m	Low for year $m	Average for year $m	As at $m	High for year $m	Low for year $m	Average for year $m
Non-traded value at risk 99% confidence								
Australia	60.8	60.8	18.8	33.4	22.7	22.7	16.4	18.9
New Zealand	0.0	0.1	0.0	0.0	0.0	0.1	0.0	0.0
Asia Pacific, Europe & America	28.5	30.9	17.7	24.1	17.6	17.6	12.7	16.1
Diversification benefit[1]	(43.3)	n/a	n/a	(21.4)	(10.7)	n/a	n/a	(11.0)
Total VaR	46.0	47.6	25.5	36.1	29.6	29.6	21.2	24.0

1. The diversification benefit reflects the historical correlation between the regions. The high and low VaR figures reported for the region did not necessarily occur on the same day as the high and low VaR reported for the Company as a whole. Consequently, a diversification benefit for high and low would not be meaningful and is therefore omitted from the table.

15. FINANCIAL RISK MANAGEMENT (continued)

MARKET RISK (continued)

We undertake scenario analysis to stress test the impact of extreme events on the Company's market risk exposures. We model a 1% overnight parallel positive shift in the yield curve to determine the potential impact on our net interest income over the next 12 months. This is a standard risk measure which assumes the parallel shift is reflected in all wholesale and customer rates.

The table below shows the outcome of this risk measure for the current and previous financial years, expressed as a percentage of reported net interest income. A positive number signifies that a rate increase is positive for net interest income over the next 12 months.

	2020	2019[1]
Impact of 1% rate shock		
As at period end	0.78%	1.01%
Maximum exposure	1.78%	1.01%
Minimum exposure	0.06%	0.02%
Average exposure (in absolute terms)	0.78%	0.42%

1. Prior period numbers have been restated to reflect IRR model enhancements

EQUITY SECURITIES DESIGNATED AT FVOCI

Our investment securities contain equity investment holdings which predominantly comprise investments we hold for longer-term strategic reasons. The market risk impact on these equity investments is not captured by the Company's VaR processes for traded and non-traded market risks. Therefore, the Company regularly reviews the valuations of the investments within the portfolio and assesses whether the investments are impaired based on the recognition and measurement policies set out in Note 10 Investment securities.

FOREIGN CURRENCY RISK – STRUCTURAL EXPOSURES

Our investment of capital in foreign operations — for example, branches, subsidiaries or associates with functional currencies other than the Australian Dollar — exposes the Company to the risk of changes in foreign exchange rates. Variations in the value of these foreign operations arising as a result of exchange differences are reflected in the foreign currency translation reserve in equity.

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

LIQUIDITY AND FUNDING RISK

LIQUIDITY RISK AND FUNDING POSITION

For information related to the liquidity risk and funding position refer to the ANZ 2020 Group Annual Report (Note 16 Financial Risk Management), available at https://www.anz.com/shareholder/centre/reporting/annual-report-annual-review/.

RESIDUAL CONTRACTUAL MATURITY ANALYSIS OF THE COMPANY'S LIABILITIES

The table below provides residual contractual maturity analysis of financial liabilities at 30 September within relevant maturity groupings. The table below excludes "Due to controlled entities" liabilities of $100.9 billion (2019: $89.7 billion) as the contractual maturity is linked to the repayment of underlying assets which are managed on a pool basis which is continuously reviewed. All outstanding Debt Issuance and Subordinated Debt is profiled on the earliest date on which the Company may be required to pay. All at-call liabilities are reported in the "Less than 3 months" category. Any other items without a specified maturity date are included in the "After 5 years" category. The amounts represent principal and interest cash flows - so they may differ from equivalent amounts reported on balance sheet. It should be noted that this is not how the Company manages its liquidity risk. The management of this risk is detailed in the ANZ 2020 Group Annual Report (Note 16 Financial Risk Management), available at https://www.anz.com/shareholder/centre/reporting/annual-report-annual-review/.

NOTES TO THE FINANCIAL STATEMENTS (continued)

15. FINANCIAL RISK MANAGEMENT (continued)

LIQUIDITY AND FUNDING RISK (continued)

2020	Less than 3 months $m	3 to 12 months $m	1 to 5 years $m	After 5 years $m	Total $m
Settlement balances owed by ANZ	19,556	-	-	-	19,556
Collateral received	8,074	-	-	-	8,074
Deposits and other borrowings	479,498	65,779	14,419	158	559,854
Liability for acceptances	224	-	-	-	224
Debt issuances[1]	4,627	21,483	64,102	12,775	102,987
Derivative liabilities (excluding those held for balance sheet management)[2]	124,027				124,027
Lease liabilities[3]	66	234	855	1,114	2,269
Derivative assets and liabilities (balance sheet management)[4]					
- Funding					
Receive leg	(8,430)	(14,025)	(51,487)	(13,620)	(87,562)
Pay leg	8,038	12,930	49,365	12,942	83,275
- Other balance sheet management					
Receive leg	(74,219)	(40,186)	(8,321)	(8,343)	(131,069)
Pay leg	74,097	39,327	8,048	7,029	128,501

2019	Less than 3 months $m	3 to 12 months $m	1 to 5 years $m	After 5 years $m	Total $m
Settlement balances owed by ANZ	9,313	29	-	-	9,342
Collateral received	7,005	-	-	-	7,005
Deposits and other borrowings	447,479	74,646	3,818	97	526,040
Liability for acceptances	293	-	-	-	293
Debt issuances[1]	7,579	13,958	79,370	13,207	114,114
Derivative liabilities (excluding those held for balance sheet management)[2]	108,457	-	-	-	108,457
Derivative assets and liabilities (balance sheet management)[4]					
- Funding					
Receive leg	(24,570)	(22,462)	(62,851)	(15,524)	(125,407)
Pay leg	23,832	20,392	58,629	14,668	117,521
- Other balance sheet management					
Receive leg	(84,339)	(24,538)	(8,350)	(1,583)	(118,810)
Pay leg	84,525	25,088	9,373	1,972	120,958

1. Any callable wholesale debt instruments have been included at their next call date. Balance includes subordinated debt instruments that may be settled in cash or in equity, at the option of the Company, and perpetual debt instruments after 5 years.
2. The full mark-to-market of derivative liabilities not held for balance sheet management purposes is included in the "less than 3 months" category.
3. On adoption of AASB 16 on 1 October 2019, the Company recognised a Lease liability of $2.1 billion presented within Payables and other liabilities. Comparative information has not been restated. Refer to Note 1 for further details.
4. Includes derivatives designated into hedging relationships of $3,202 million (2019: $2,927 million) and $4,001 million (2019: $5,956 million) categorised as held for trading but form part of the Company's balance sheet management.

At 30 September 2020 $191,300 million (2019: $171,881 million) of the Company's undrawn facilities and $36,146 million (2019: $40,472 million) of its issued guarantees mature in less than 1 year, based on the earliest date on which the Company may be required to pay.

16. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Company carries a significant number of financial instruments on the balance sheet at fair value. The fair value is the best estimate of the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date.

VALUATION

The Company has an established control framework, including appropriate segregation of duties, to ensure that fair values are accurately determined, reported and controlled. The framework includes the following features:

- products are approved for transacting with external customers and counterparties only where fair values can be appropriately determined;
- quoted market prices used to value financial instruments are independently verified with information from external pricing providers;
- fair value methodologies and inputs are evaluated and approved by a function independent of the party that undertakes the transaction;
- movements in fair values are independently monitored and explained by reference to underlying factors relevant to the fair value; and
- valuation adjustments (such as funding valuation adjustments, credit valuation adjustments and bid-offer adjustments) are independently validated and monitored.

If the Company holds offsetting risk positions, then the Company uses the portfolio exemption in AASB 13 *Fair Value Measurement* (AASB 13) to measure the fair value of such groups of financial assets and financial liabilities. We measure the portfolio based on the price that would be received to sell a net long position (an asset) for a particular risk exposure, or to transfer a net short position (a liability) for a particular risk exposure.

Fair value designation

We designate certain loans and advances and certain deposits and other borrowings and debt issuances as fair value through profit or loss:

- where they contain a separable embedded derivative which significantly modifies the instruments' cash flow; or
- in order to eliminate an accounting mismatch which would arise if the asset or liabilities were otherwise carried at amortised cost. This mismatch arises as we measure the derivative financial instruments (which we acquired to mitigate interest rate risk of the assets or liabilities) at fair value through profit or loss.

Our approach ensures that we recognise the fair value movements on the assets or liabilities in profit or loss in the same period as the movement on the associated derivatives.

We may also designate certain loans and advances and certain deposits and other borrowings and debt issuances as fair value through profit or loss where they are managed on a fair value basis to align the measurement with how the instruments are managed.

FAIR VALUE APPROACH AND VALUATION TECHNIQUES

We use valuation techniques to estimate the fair value of assets and liabilities for recognition, measurement and disclosure purposes where no quoted price in an active market exists for that asset or liability. This includes the following:

Asset or Liability	Fair Value Approach
Financial instruments classified as: - Trading securities - Securities sold short - Derivative financial assets and liabilities - Investment securities	Valuation techniques are used that incorporate observable market inputs for financial instruments with similar credit risk, maturity and yield characteristics. Equity instruments that are not traded in active markets may be measured using comparable company valuation multiples.
Financial instruments classified as: - Net loans and advances - Deposits and other borrowings - Debt issuances	Discounted cash flow techniques are used whereby contractual future cash flows of the instruments are discounted using wholesale market interest rates, or market borrowing rates for debt with similar maturities or yield curve appropriate for the remaining term to maturity.

NOTES TO THE FINANCIAL STATEMENTS (continued)

16. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The following tables set out the classification of financial asset and liability categories according to measurement bases together with their carrying amounts as reported on the balance sheet.

		2020			2019		
	Note	At amortised cost $m	At fair value $m	Total $m	At amortised cost $m	At fair value $m	Total $m
Financial assets							
Cash and cash equivalents	7	98,083	-	98,083	77,949	-	77,949
Settlement balances owed to ANZ		7,116	-	7,116	3,442	-	3,442
Collateral paid		13,012	-	13,012	13,461	-	13,461
Trading securities	8	-	38,423	38,423	-	34,217	34,217
Derivative financial assets and liabilities	9	-	130,552	130,552	-	116,544	116,544
Investment securities	10	5,354	74,930	80,284	4,787	68,568	73,355
Net loans and advances	11	483,986	4,016	488,002	483,858	797	484,655
Regulatory deposits		199	-	199	215	-	215
Due from controlled entities		98,726	1,928	100,654	86,907	1,967	88,874
Other financial assets		1,460	-	1,460	2,167	-	2,167
Total		707,936	249,849	957,785	672,786	222,093	894,879
Financial liabilities							
Settlement balances owed by ANZ		19,556	-	19,556	9,342	-	9,342
Collateral received		8,074	-	8,074	7,005	-	7,005
Deposits and other borrowings	13	556,676	1,460	558,136	524,220	21	524,241
Derivative financial instruments	9	-	131,230	131,230	-	117,340	117,340
Due to controlled entities		100,932	-	100,932	89,683	-	89,683
Payables and other liabilities		4,377	3,693	8,070	4,231	2,390	6,621
Debt issuances	14	92,832	4,218	97,050	100,199	4,647	104,846
Total		782,447	140,601	923,048	734,680	124,398	859,078

FAIR VALUE HIERARCHY

The Company categorises assets and liabilities carried at fair value into a fair value hierarchy as required by AASB 13 based on the observability of inputs used to measure the fair value:

- Level 1 - valuations based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - valuations using inputs other than quoted prices included within Level 1 that are observable for a similar asset or liability, either directly or indirectly; and
- Level 3 - valuations where significant unobservable inputs are used to measure the fair value of the asset or liability.

16. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

FAIR VALUE HIERARCHY (continued)

The following table presents assets and liabilities carried at fair value in accordance with the fair value hierarchy:

	Fair value measurements							
	Quoted price in active markets (Level 1)		Using observable inputs (Level 2)		Using unobservable inputs (Level 3)		Total	
	2020 $m	2019 $m	2020 $m	2019 $m	2020 $m	2019 $m	2020 $m	2019 $m
Assets								
Trading securities[1]	35,170	29,439	3,253	4,778	-	-	38,423	34,217
Derivative financial instruments	662	351	129,832	116,137	58	56	130,552	116,544
Investment securities[1]	73,838	67,182	105	228	987	1,158	74,930	68,568
Net loans and advances[2]	-	-	4,016	797	-	-	4,016	797
Due from controlled entities	-	-	1,928	1,967	-	-	1,928	1,967
Total	109,670	96,972	139,134	123,907	1,045	1,214	249,849	222,093
Liabilities								
Deposits and other borrowings[2]	-	-	1,460	21	-	-	1,460	21
Derivative financial instruments	1,109	868	130,066	116,421	55	51	131,230	117,340
Payables and other liabilities[3]	3,680	2,352	13	38	-	-	3,693	2,390
Debt issuances (designated at fair value)	996	1,009	3,222	3,638	-	-	4,218	4,647
Total	5,785	4,229	134,761	120,118	55	51	140,601	124,398

1. During the year, $127 million of assets were transferred from Level 2 to Level1 (2019: nil) following increased trading activity to support quoted prices. There were no other material transfers during the year. Transfers into and out of levels are measured at the beginning of the reporting period in which the transfer occurred.
2. From 1 October 2019, the Company changed its accounting treatment for certain gold loan and deposit products which are now designated as at fair value through profit and loss.
3. Payables and other liabilities relates to securities sold short, which we classify as held for trading and measured at fair value through profit or loss.

FAIR VALUE MEASUREMENT INCORPORATING UNOBSERVABLE MARKET DATA

Level 3 fair value measurements

The net balance of Level 3 is an asset of $990 million (2019: $1,163million). The assets and liabilities which incorporate significant unobservable inputs primarily include:

- equities for which there is no active market or traded prices cannot be observed;
- structured credit products for which credit spreads and default probabilities relating to the reference assets and derivative counterparties cannot be observed;
- other derivatives referencing market rates that cannot be observed primarily due to lack of market activity.

Movement in the Level 3 balance is mainly due to the revaluation of the Company's investment in Bank of Tianjin.

There were no other material transfers in or out of Level 3 during the period.

Bank of Tianjin (BoT)

The investment is valued based on comparative price-to-book (P/B) multiples (a P/B multiple is the ratio of the market value of equity to the book value of equity). The extent of judgement applied in determining the appropriate multiple and comparator group from which the multiple is derived are non-observable inputs which have resulted in the Level 3 classification.

NOTES TO THE FINANCIAL STATEMENTS (continued)

16. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

FAIR VALUE MEASUREMENT INCORPORATING UNOBSERVABLE MARKET DATA (continued)

Sensitivity to Level 3 data inputs

When we make assumptions due to significant inputs not being directly observable in the market place (Level 3 inputs), then changing these assumptions changes the Company's estimate of the instrument's fair value. Favourable and unfavourable changes are determined by changing the primary unobservable parameter used to derive the valuation.

Bank of Tianjin (BoT)

The valuation of the BoT investment is sensitive to the selected unobservable input, being the P/B multiple. If the P/B multiple was increased or decreased by 10% it would result in a $93 million (Sep 19: $111 million) increase or decrease to the fair value of the investment, which would be recognised in shareholders' equity.

Other

The remaining Level 3 balance is immaterial and changes in the Level 3 inputs have a minimal impact on net profit and net assets of the Company.

Deferred fair value gains and losses

Where fair values are determined using unobservable inputs, the Company does not immediately recognise the difference between the transaction price and the amount we determine based on the valuation technique (day one gain or loss) in profit or loss. After initial recognition, we recognise the deferred amount in profit or loss on a straight line basis over the life of the transaction or until all inputs become observable.

The day one gains and losses deferred are not material.

FINANCIAL ASSETS AND FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE

The following table sets out the Company's basis of estimating fair values of financial instruments carried at amortised cost:

Financial Asset and Liability	Fair Value Approach
Investment securities – debt securities at amortised cost	Calculated based on quoted market prices or observable inputs as applicable. If quoted market prices are not available, we use a discounted cash flow model using a yield curve appropriate for the remaining term to maturity of the debt instrument. The fair value reflects adjustments to credit spreads applicable for that instrument.
Net loans and advances to banks	Discounted cash flows using prevailing market rates for loans with similar credit quality.
Net loans and advances to customers	Present value of future cash flows, discounted using a curve that incorporates changes in wholesale market rates, the Company's cost of wholesale funding and the customer margin, as appropriate.
Deposit liability without a specified maturity or at call	The amount payable on demand at the reporting date. We do not adjust the fair value for any value we expect the Company to derive from retaining the deposit for a future period.
Interest bearing fixed maturity deposits and other borrowings and acceptances with quoted market rates	Market borrowing rates of interest for debt with a similar maturity are used to discount contractual cash flows to derive the fair value.
Debt issuances	Calculated based on quoted market prices or observable inputs as applicable. If quoted market prices are not available, we use a discounted cash flow model using a yield curve appropriate for the remaining term to maturity of the debt instrument. The fair value reflects adjustments to credit spreads applicable to the Company for that instrument.

16. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

FINANCIAL ASSETS AND FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE (continued)

The financial assets and financial liabilities listed in the table below are carried at amortised cost on the Company's balance sheet. While this is the value at which we expect the assets will be realised and the liabilities settled, the Company provides an estimate of the fair value of the financial assets and financial liabilities at balance date in the table below.

	At amortised cost		Categorised into fair value hierarchy						Fair value (total)	
			Quoted price in active markets (Level 1)		Using observable inputs (Level 2)		With significant non-observable inputs (Level 3)			
	2020 $m	2019 $m	2020 $m	2019 $m	2020 $m	2019 $m	2020 $m	2019 $m	2020 $m	2019 $m
Financial assets										
Net loans and advances	483,986	483,858	-	-	16,056	21,425	468,367	462,909	484,423	484,334
Investment securities	5,354	4,787	-	-	5,352	4,790	-	-	5,352	4,790
Due from controlled entities	98,726	86,907	-	-	-	-	98,726	86,907	98,726	86,907
Total	588,066	575,552	-	-	21,408	26,215	567,093	549,816	588,501	576,031
Financial liabilities										
Deposits and other borrowings	556,676	524,220	-	-	556,805	524,383		-	556,805	524,383
Debt issuances	92,832	100,199	23,214	39,620	71,133	61,832	-	-	94,347	101,452
Due to controlled entities	100,932	89,683		-	-	-	100,932	89,683	100,932	89,683
Total	750,440	714,102	23,214	39,620	627,938	586,215	100,932	89,683	752,084	715,518

KEY JUDGEMENTS AND ESTIMATES

The Company evaluates the material accuracy of the valuations incorporated in the financial statements as they can involve a high degree of judgement and estimation in determining the carrying values of financial assets and liabilities at the balance sheet date.

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

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

When establishing the fair value of a financial instrument using a valuation technique, the Company considers valuation adjustments in determining the fair value. We may apply adjustments (such as bid/offer spreads, credit valuation adjustments and funding valuation adjustments – refer Note 9 Derivative Financial Instruments) to reflect the Company's assessment of factors that market participants would consider in setting fair value.

NOTES TO THE FINANCIAL STATEMENTS (continued)

17. ASSETS CHARGED AS SECURITY FOR LIABILITIES AND COLLATERAL ACCEPTED AS SECURITY FOR ASSETS

The following disclosure excludes the amounts presented as collateral paid and received in the Balance Sheet that relate to derivative liabilities and derivative assets respectively. The terms and conditions of those collateral agreements are included in the standard Credit Support Annex that forms part of the International Swaps and Derivatives Association Master Agreement.

ASSETS CHARGED AS SECURITY FOR LIABILITIES

Assets charged as security for liabilities include the following types of instruments:

- Securities provided as collateral for repurchase transactions. These transactions are governed by standard industry agreements;
- Specified residential mortgages provided as security for notes and bonds issued to investors as part of the Company's covered bond programs;
- Collateral provided to central banks; and
- Collateral provided to clearing houses.

The carrying amount of assets pledged as security are as follows:

	2020 $m	2019 $m
Securities sold under arrangements to repurchase[1]	60,612	42,640
Residential mortgages provided as security for covered bonds	17,937	20,052
Other	4,921	4,421

1. The amounts disclosed as securities sold under arrangements to repurchase include both:
   - assets pledged as security which continue to be recognised on the Company's balance sheet; and
   - assets repledged, which are included in the disclosure below.

COLLATERAL ACCEPTED AS SECURITY FOR ASSETS

The Company has received collateral associated with various financial instruments. Under certain transactions the Company has the right to sell, or to repledge, the collateral received. These transactions are governed by standard industry agreements.

The fair value of collateral we have received and that which we have sold or repledged is as follows:

	2020 $m	2019 $m
Fair value of assets which can be sold or repledged	53,118	37,526
Fair value of assets sold or repledged	32,308	29,384

18. OFFSETTING

We offset financial assets and financial liabilities on the balance sheet (in accordance with AASB 132 *Financial Instruments: Presentation*) when there is:

- a current legally enforceable right to set off the recognised amounts in all circumstances; and
- an intention to settle the asset and liability on a net basis, or to realise the asset and settle the liability simultaneously.

If the above conditions are not met, the financial assets and liabilities are presented on a gross basis.

The Company does not have any arrangements that satisfy the conditions necessary to offset financial assets and financial liabilities within the balance sheet. The following table identifies financial assets and financial liabilities which have not been offset but are subject to enforceable master netting agreements (or similar arrangements) and the related amounts not offset in the balance sheet. We have not taken into account the effect of over-collateralisation.

			Amount subject to master netting agreement or similar			
2020	Total amounts recognised in the Balance Sheet $m	Amounts not subject to master netting agreement or similar $m	Total $m	Financial instruments $m	Financial collateral (received)/ pledged $m	Net amount $m
Derivative financial assets	130,552	(2,531)	128,021	(117,039)	(5,625)	5,357
Reverse repurchase, securities borrowing and similar agreements[1]	52,322	(4,810)	47,512	(1,566)	(45,946)	-
Total financial assets	182,874	(7,341)	175,533	(118,605)	(51,571)	5,357
Derivative financial liabilities	(131,230)	1,567	(129,663)	117,039	9,402	(3,222)
Repurchase, securities borrowing and similar agreements[2]	(54,951)	13,589	(41,362)	1,566	39,796	-
Total financial liabilities	(186,181)	15,156	(171,025)	118,605	49,198	(3,222)

			Amount subject to master netting agreement or similar			
2019	Total amounts recognised in the Balance Sheet $m	Amounts not subject to master netting agreement or similar $m	Total $m	Financial instruments $m	Financial collateral (received)/ pledged $m	Net amount $m
Derivative financial assets	116,544	(2,323)	114,221	(102,761)	(6,232)	5,228
Reverse repurchase, securities borrowing and similar agreements[1]	36,648	(4,845)	31,803	(1,414)	(30,389)	-
Total financial assets	153,192	(7,168)	146,024	(104,175)	(36,621)	5,228
Derivative financial liabilities	(117,340)	1,648	(115,692)	102,761	9,803	(3,128)
Repurchase, securities borrowing and similar agreements[2]	(40,826)	17,240	(23,586)	1,414	22,172	-
Total financial liabilities	(158,166)	18,888	(139,278)	104,175	31,975	(3,128)

1. Reverse repurchase agreements:
   - with less than 90 days to maturity are presented on the Balance Sheet within cash and cash equivalents; or
   - with 90 days or more to maturity are presented on the Balance Sheet within net loans and advances.
2. Repurchase agreements are presented on the Balance Sheet within deposits and other borrowings.

NOTES TO THE FINANCIAL STATEMENTS (continued)

19. GOODWILL AND OTHER INTANGIBLE ASSETS

	Goodwill[1]		Software		Other Intangibles		Total	
	2020 $m	2019 $m	2020 $m	2019 $m	2020 $m	2019 $m	2020 $m	2019 $m
Balance at start of year	82	73	1,285	1,373	-	-	1,367	1,446
Additions	-	10	372	412	6	-	378	422
Amortisation expense[2]	-	-	(625)	(497)	(1)	-	(626)	(497)
Impairment expense[3]	(10)	-	(2)	(4)	-	-	(12)	(4)
Written off on disposal	(10)	-	-	-	-	-	(10)	-
Foreign currency exchange difference	-	(1)	-	1	-	-	-	-
Balance at end of year	62	82	1,030	1,285	5	-	1,097	1,367
Cost[4]	72	82	7,006	6,767	6	-	7,084	6,849
Accumulated amortisation/impairment	(10)	n/a	(5,976)	(5,482)	(1)	-	(5,987)	(5,482)
Carrying amount	62	82	1,030	1,285	5	-	1,097	1,367

1. Goodwill excludes notional goodwill in equity accounted investments.
2. During the second half of the 2020 financial year, the Company amended the application of its software amortisation policy. The Company recognised accelerated amortisation of $184 million.
3. During the September 2020 year, the Company recognised an impairment charge of $10 million to fully write off the goodwill relating to its business in the Pacific.
4. Includes impact of foreign currency translation differences.

RECOGNITION AND MEASUREMENT

The table below details how we recognise and measure different intangible assets:

	Goodwill	Software	Other Intangible Assets
Definition	Excess amount the Company has paid in acquiring a business over the fair value of the identifiable assets and liabilities acquired.	Purchases of "off the shelf" software assets are capitalised as assets. Internal and external costs incurred in building software and computer systems costing greater than $20 million are capitalised as assets. Those less than $20 million are expensed in the year in which the costs are incurred.	Intangible asset arising from contractual rights.
Carrying value	Cost less any accumulated impairment losses. Allocated to the cash generating unit to which the acquisition relates.	Initially, measured at cost. Subsequently, carried at cost less accumulated amortisation and impairment losses. Costs incurred in planning or evaluating software proposals or in maintaining systems after implementation are not capitalised.	Initially measured at fair value at acquisition. Subsequently carried at cost less accumulated amortisation and impairment losses.

19. GOODWILL AND OTHER INTANGIBLE ASSETS (continued)

RECOGNITION AND MEASUREMENT (continued)

	Goodwill	Software	Other Intangible Assets
Useful life	Indefinite. Goodwill is reviewed for impairment at least annually or when there is an indication of impairment.	Except for major core infrastructure, amortised over periods between 2-5 years; however major core infrastructure may be amortised up to 7 years subject to approval by the Audit Committee. Purchased software is amortised over 2 years unless it is considered integral to other assets with a longer useful life.	Useful life of 3 years.
Depreciation method	Not applicable.	Straight-line method.	Straight-line method.

KEY JUDGEMENTS AND ESTIMATES

Management judgement is used to assess the recoverable value of goodwill, and other intangible assets, and the useful economic life of an asset, or if an asset has an indefinite life. We reassess the recoverability of the carrying value at each reporting date.

At each reporting date, software and other intangible assets are assessed for indicators of impairment and, where such indicators are identified, an impairment assessment is performed. In the event that an asset's carrying amount is determined to be greater than its recoverable amount, the carrying value of the asset is written down immediately. Those assets not yet ready for use are tested for impairment annually.

In addition, the expected useful lives of intangible assets are assessed at each reporting date. The assessment requires management judgement, and in relation to our software assets, a number of factors can influence the expected useful lives. These factors include changes to business strategy, significant divestments and the underlying pace of technological change.

During the Financial year the Company amended the application of the software policy to reflect the shorter lives of various types of software, including regulatory and compliance focused assets and purchased assets. These changes better reflect the Company's rapidly changing technology and business needs and ongoing reinvestment in purchased and internally developed software to ensure assets remain fit for purpose.

NOTES TO THE FINANCIAL STATEMENTS (continued)

20. OTHER PROVISIONS

	2020 $m	2019 $m
ECL allowance on undrawn and contingent facilities[1]	731	557
Customer remediation	969	967
Restructuring costs	70	37
Non-lending losses, frauds and forgeries	57	63
Other	330	281
Total other provisions	**2,157**	**1,905**

1. Refer to Note 12 Allowance for Expected Credit Losses for movement analysis.

	Customer remediation $m	Restructuring costs $m	Non-lending losses, frauds and forgeries $m	Other $m
Balance as at 1 October 2018	**556**	**94**	**75**	**113**
New and increased provisions made during the year	608	46	1	308
Provisions used during the year	(150)	(91)	(5)	(40)
Unused amounts reversed during the year	(47)	(12)	(8)	(100)
Balance at 30 September 2019	**967**	**37**	**63**	**281**
New and increased provisions made during the year	673	105	5	376
Provisions used during the year	(303)	(65)	(8)	(191)
Unused amounts reversed during the year[1]	(368)	(7)	(3)	(136)
Balance at end of year	**969**	**70**	**57**	**330**

1. Customer remediation includes a $72 million transfer to the purchaser on completion of divestment of part of Wealth Australia discontinued operations.

Customer remediation

Customer remediation includes provisions for expected refunds to customers, remediation project costs and related customer and regulatory claims, penalties and litigation outcomes.

Restructuring costs

Provisions for restructuring costs arise from activities related to material changes in the scope of business undertaken by the Company or the manner in which that business is undertaken and include employee termination benefits. Costs relating to on-going activities are not provided for and are expensed as incurred.

Non-lending losses, frauds and forgeries

Non-lending losses include losses arising from certain legal actions not directly related to amounts of principal outstanding for loans and advances and losses arising from forgeries, frauds and the correction of operational issues. The amounts recognised are the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties that surround the events and circumstances that affect the provision.

Other

Other provisions comprise various other provisions including workers compensation, make-good provisions associated with leased premises and contingent liabilities recognised as part of a business combination.

20. OTHER PROVISIONS (continued)

RECOGNITION AND MEASUREMENT

The Company recognises provisions when there is a present obligation arising from a past event, an outflow of economic resources is probable, and the amount of the provision can be measured reliably.

The amount recognised is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the estimated cash flows required to settle the present obligation, its carrying amount is the present value of those cash flows.

KEY JUDGEMENTS AND ESTIMATES

The Company holds provisions for various obligations including customer remediation, restructuring costs and surplus lease space, non-lending losses, fraud and forgeries and litigation related claims. These provisions involve judgements regarding the timing and outcome of future events, including estimates of expenditure required to satisfy such obligations. Where relevant, expert legal advice has been obtained and, in light of such advice, provisions and/or disclosures as deemed appropriate have been made.

In relation to customer remediation, determining the amount of the provisions, which represent management's best estimate of the cost of settling the identified matters, requires the exercise of significant judgement. It will often be necessary to form a view on a number of different assumptions, including, the number of impacted customers, the average refund per customer, the associated remediation project costs, and the implications of regulatory exposures and customer claims having regard to their specific facts and circumstances. Consequently, the appropriateness of the underlying assumptions is reviewed on a regular basis against actual experience and other relevant evidence including expert legal advice and adjustments are made to the provisions where appropriate.

NOTES TO THE FINANCIAL STATEMENTS (continued)

21. SHAREHOLDERS' EQUITY

SHAREHOLDERS' EQUITY

	2020 $m	2019 $m
Ordinary share capital	26,454	26,413
Reserves:		
Foreign currency translation reserve	(131)	(21)
Share option reserve	85	89
FVOCI reserve	129	65
Cash flow hedge reserve	935	707
Total reserves	1,018	840
Retained earnings	25,800	25,961
Total shareholders' equity	53,272	53,214

ORDINARY SHARE CAPITAL

The table below details the movement in ordinary shares and share capital for the period.

	2020		2019	
	Number of shares	$m	Number of shares	$m
Balance at start of the year	2,834,584,923	26,413	2,873,618,118	27,533
Bonus option plan[1]	2,412,280	-	2,999,796	-
Dividend reinvestment plan[2]	3,373,022	61	-	-
Group employee share acquisition scheme	-	(20)	-	-
Share buy-back[3]	-	-	(42,032,991)	(1,120)
Balance at end of year	2,840,370,225	26,454	2,834,584,923	26,413

1. The Company issued 0.8 million shares under the Bonus Option Plan (BOP) for the 2020 interim dividend and 1.6 million shares for the 2019 final dividend (1.4 million shares for the 2019 interim dividend and 1.6 million shares for the 2018 final dividend).
2. 3.4 million shares were issued under the Dividend Reinvestment Plan (DRP) for the 2020 interim dividend (nil shares for the 2019 final dividend, nil shares for the 2019 interim dividend as the shares were purchased on-market and provided directly to shareholders participating in the DRP).
3. The Company completed a $3.0 billion on-market share buy-back of ANZ ordinary shares purchasing $1,120 million in the September 2019 full year resulting in 42.0 million ANZ ordinary shares being cancelled in the September 2019 full year.

21. SHAREHOLDERS' EQUITY (continued)

RECOGNITION AND MEASUREMENT

Ordinary shares	Ordinary shares have no par value. They entitle holders to receive dividends, or proceeds available on winding up of the Company, in proportion to the number of fully paid ordinary shares held. They are recognised at the amount paid per ordinary share net of directly attributable costs. Every holder of fully paid ordinary shares present at a meeting in person, or by proxy, is entitled to: • on a show of hands, one vote; and • on a poll, one vote, for each share held.
Treasury shares	Treasury shares are shares in the Company which: • the ANZ Employee Share Acquisition Plan purchases on market and have not yet distributed, or • the Company issues to the ANZ Employee Share Acquisition Plan and have not yet been distributed. Treasury shares are deducted from share capital and excluded from the weighted average number of ordinary shares used in the earnings per share calculations.
Reserves:	
Foreign currency translation reserve	Includes differences arising on translation of assets and liabilities into Australian dollars when the functional currency of a foreign operation (including subsidiaries and branches) is not Australian dollars. In this reserve, we reflect any offsetting gains or losses on hedging these exposures, together with any tax effect.
Cash flow hedge reserve	Includes fair value gains and losses associated with the effective portion of designated cash flow hedging instruments together with any tax effect.
FVOCI reserve	Includes changes in the fair value of certain debt securities and equity securities included within Investment Securities together with any tax effect. In respect of debt securities classified as measured at FVOCI, the FVOCI reserve records accumulated changes in fair value arising subsequent to initial recognition, except for those relating to allowance for expected credit losses, interest income and foreign currency exchange gains and losses which are recognised in profit or loss. As debt securities at FVOCI are recorded at fair value, the balance of the FVOCI reserve is net of the ECL allowance associated with such assets. When a debt security measured at FVOCI is derecognised, the cumulative gain or loss recognised in the FVOCI reserve in respect of that security is reclassified to profit or loss and presented in Other operating income. In respect of the equity securities classified as measured at FVOCI, the FVOCI reserve records accumulated changes in fair value arising subsequent to initial recognition (including any related foreign exchange gains or losses). When an equity security measured at FVOCI is derecognised, the cumulative gain or loss recognised in the FVOCI reserve in respect of that security is not recycled to profit or loss.
Share option reserve	Includes amounts which arise on the recognition of share-based compensation expense.

NOTES TO THE FINANCIAL STATEMENTS (continued)

22. CAPITAL MANAGEMENT

CAPITAL MANAGEMENT STRATEGY

ANZ's capital management strategy aims to protect the interests of depositors, creditors and shareholders. We achieve this through an Internal Capital Adequacy Assessment Process (ICAAP) whereby ANZ conducts detailed strategic and capital planning over a 3 year time horizon. The process involves:

- forecasting economic variables, financial performance of ANZ's divisions and the financial impact of new strategic initiatives to be implemented during the planning period;
- performing stress tests under different economic scenarios to determine the level of additional capital ('stress capital buffer') needed to absorb losses that may be experienced under an economic downturn;
- reviewing capital ratios and targets across various classes of capital against ANZ's risk profile; and
- developing a capital plan, taking into account capital ratio targets, current and future capital issuances requirements and options around capital products, timing and markets to execute the capital plan under differing market and economic conditions.

The capital plan is approved by the Board and updated as required. The Board and senior management are provided with regular updates of ANZ's capital position. Any material actions required to ensure ongoing prudent capital management are submitted to the Board for approval. Throughout the year, ANZ maintained compliance with all the regulatory requirements related to Capital Adequacy in the jurisdictions in which it operates.

REGULATORY ENVIRONMENT

As ANZ is an Authorised Deposit-taking Institution (ADI) in Australia, it is regulated by APRA under the *Banking Act 1959 (Cth)*. ANZ must comply with the minimum regulatory capital requirements, prudential capital ratios and specific reporting levels that APRA sets and which are consistent with the global Basel III capital framework. This is the common framework for determining the appropriate level of bank regulatory capital as set by the Basel Committee on Banking Supervision (BCBS).

For reporting purposes as part of the ANZ 2020 Annual Report, Capital Adequacy Ratios are presented for the Level 2 ADI and are not presented for the Company as a standalone entity. Refer to Note 23 Capital Management in the ANZ 2020 Group Annual Report for details of the Capital Adequacy Ratios, which can be found at https://www.anz.com/shareholder/centre/reporting/annual-report-annual-review/.

23. SHARES IN CONTROLLED ENTITIES

	Incorporated in	Nature of business	2020 $m	2019 $m
ACN 003 042 082 Ltd (in liquidation)	Australia	Holding Company	-	5
ANZ (Lao) Sole Company Ltd	Laos	Finance	26	26
ANZ Bank (Vietnam) Ltd	Vietnam	Banking	205	205
ANZ Capel Court Ltd	Australia	Securitisation Manager	18	18
ANZ Centre Chattels Trust	Australia	Property	167	167
ANZ Centre Trust	Australia	Property	550	550
ANZ Funds Pty Ltd	Australia	Holding Company	11,862	11,870
ANZ Lenders Mortgage Insurance Pty Ltd	Australia	Mortgage Insurance	398	398
ANZ Properties (Australia) Pty Ltd	Australia	Property	7	7
ANZ Rewards No.2 Pty Ltd	Australia	Credit Card Loyalty Program	40	40
ANZ Securities (Holdings) Pty Ltd	Australia	Holding Company	39	39
ANZ Support Services India Private Ltd	India	IT Services	25	25
ANZ Wealth Australia Ltd[1]	Australia	Holding Company	37	538
ANZi Holdings Pty Ltd	Australia	Holding Company	132	56
Australia and New Zealand Bank (China) Company Ltd	China	Banking	1,121	1,121
Australia and New Zealand Banking Group (PNG) Ltd	Papua New Guinea	Banking	40	40
Chongqing Liangping ANZ Rural Bank Company Ltd	China	Banking	-	5
Citizens Bancorp[2]	Guam	Holding Company	41	41
E S & A Holdings Pty Ltd	Australia	Non-operating	43	43
Esanda Finance Corporation Ltd	Australia	Non-operating	5	5
Looking Together Pty Ltd	Australia	Non-operating	-	6
PT Bank ANZ Indonesia (99% ownership)	Indonesia	Banking	262	262
Share Investing Ltd	Australia	Trustee	4	-
Shares in controlled entities			15,022	15,467

1. ANZ Wealth Australia Ltd returned $501 million of capital following the sale of its OnePath funds management business in January 2020.
2. Comparative amount has been updated to reclassify $17 million previously classified as ANZ Guam, Inc.

RECOGNITION AND MEASUREMENT

The Company's subsidiaries are those entities it controls through being exposed to, or having rights to, variable returns from the entity and being able to affect those returns through its power over the entity. The Company assesses whether it has power over those entities by examining the Company's existing rights to direct the relevant activities of the entity. Investments in controlled entities are carried at cost less any accumulated impairment losses.

At least at each reporting date, the Company reviews investments in controlled entities for any indication of impairment. If an indication of impairment exists, then the Company determines the recoverable amount of the controlled entity using the higher of:

- the controlled entity's fair value less cost of disposal; and
- its value-in-use.

We use a discounted cash flow methodology, and other methodologies (such as capitalisation of earnings methodology), to determine the recoverable amount.

NOTES TO THE FINANCIAL STATEMENTS (continued)

24. TRANSFERS OF FINANCIAL ASSETS

In the normal course of business, the Company enters into transactions where it transfers financial assets directly to third parties or to Structured Entities (SEs). These transfers may give rise to the Company fully, or partially derecognising those financial assets depending on the Company's exposure to the risks and rewards or control over the transferred assets. If the Company retains substantially all of the risk and rewards of a transferred asset, the transfer does not qualify for derecognition and the asset remains on the Company's balance sheet in its entirety.

SECURITISATIONS

Net loans and advances include residential mortgages securitised under the Company's securitisation programs which are assigned to bankruptcy remote SEs to provide security for obligations payable on the notes issued by the SEs. The holders of the issued notes have full recourse to the pool of residential mortgages which have been securitised and the Company cannot otherwise pledge or dispose of the transferred assets.

In some instances, the Company is also the holder of the securitised notes. In addition, the Company is entitled to any residual income of the SEs and sometimes enters into derivatives with the SEs. The Company retains the risks and rewards of the residential mortgages and continues to recognise the mortgages as financial assets. The obligation to pay this amount to the SE is recognised as a financial liability of the Company.

The Company is exposed to variable returns from its involvement with these securitisation SEs and has the ability to affect those returns through its power over the SEs activities. The SEs are therefore consolidated by the Company when preparing consolidated Group financial statements.

COVERED BONDS

The Company operates various global covered bond programs to raise funding in its primary markets. Net loans and advances include residential mortgages assigned to bankruptcy remote SEs associated with these covered bond programs. The mortgages provide security for the obligations payable on the issued covered bonds.

The covered bond holders have dual recourse to the issuer and the cover pool of assets. The issuer cannot otherwise pledge or dispose of the transferred assets, however, subject to legal arrangements it may repurchase and substitute assets as long as the required cover is maintained.

The Company is required to maintain the cover pool at a level sufficient to cover the bond obligations. In addition, the Company is entitled to any residual income of the covered bond SEs and enters into derivatives with the SEs. The Company retains the majority of the risks and rewards of the residential mortgages and continues to recognise the mortgages as financial assets. The obligation to pay this amount to the SEs is recognised as a financial liability of the Company.

The Company is exposed to variable returns from its involvement with the covered bond SEs and has the ability to affect those returns through its power over the SEs activities. The SEs are therefore consolidated by the Company when preparing consolidated Group financial statements. The covered bonds issued externally are included within debt issuances.

REPURCHASE AGREEMENTS

When the Company sells securities subject to repurchase agreements under which we retain substantially all the risks and rewards of ownership, then those assets do not qualify for derecognition. An associated liability is recognised for the consideration received from the counterparty.

The table below sets out the balance of assets transferred that do not qualify for derecognition, along with the associated liabilities:

	Securitisations[1,2]		Covered bonds		Repurchase agreements	
	2020 $m	2019 $m	2020 $m	2019 $m	2020 $m	2019 $m
Current carrying amount of assets transferred	78,793	65,947	17,937	20,052	60,612	42,640
Carrying amount of associated liabilities	78,793	65,947	17,937	20,052	54,951	40,826

1. The balances relate to transfers to internal structured entities.
2. The securitisation noteholders have recourse only to the pool of residential mortgages which have been securitised. The carrying value of securitised assets and the associated liabilities approximates their fair value.

25. SUPERANNUATION AND POST EMPLOYMENT BENEFIT OBLIGATIONS

Set out below is a summary of amounts recognised in the Balance Sheet in respect of the defined benefit superannuation schemes:

	2020 $m	2019 $m
Defined benefit obligation and scheme assets		
Present value of funded defined benefit obligation	(1,282)	(1,353)
Fair value of scheme assets	1,541	1,591
Net defined benefit asset	259	238
As represented in the Balance Sheet		
Net liabilities arising from defined benefit obligations included in payables and other liabilities	(15)	(17)
Net assets arising from defined benefit obligations included in other assets	274	255
Net defined benefit asset	259	238
Weighted average duration of the benefit payments reflected in the defined benefit obligation (years)	14.9	14.9

As at the most recent reporting dates of the schemes, the aggregate surplus of net market value of assets over the value of accrued benefits on a funding basis was $93 million (2019: surplus of $38 million). In 2020, the Company made defined benefit contributions totalling $2 million (2019: $2 million). It expects to make contributions of around $2 million next financial year.

GOVERNANCE OF THE SCHEMES AND FUNDING OF THE DEFINED BENEFIT SECTIONS

The main defined benefit superannuation schemes in which the Company participates operate under trust law and are managed and administered on behalf of the members in accordance with the terms of the relevant trust deed and rules and all relevant legislation. These schemes have corporate trustees, which are wholly owned subsidiaries of the Company. The trustees are the legal owners of the assets, which are held separately from the assets of the Company and are responsible for setting investment policy and agreeing funding requirements with the employer through the triennial actuarial valuation process.

The defined benefit section of the ANZ Australian Staff Superannuation Scheme and ANZ UK Staff Pension Scheme are the two largest defined benefit plans and have been closed to new members since 1987 and 2004 respectively. These plans did not have a material deficit, or surplus, at the last funding valuations. The Company has no present liability under the schemes' trust deeds to fund a deficit (measured on a funding basis). A contingent liability of the Company may arise if any of these schemes were wound up.

RECOGNITION AND MEASUREMENT

Defined benefit superannuation schemes

For the Company's defined benefit schemes, an independent actuary calculates the liability and expenses related to providing benefits to employees under each defined benefit scheme. They use the Projected Unit Credit Method to value the liabilities. The balance sheet includes:

- a defined benefit liability if the obligation is greater than the fair value of the schemes assets; and
- an asset (capped to its recoverable amount) if the fair value of the assets is greater than the obligation.

In each reporting period, the movements in the net defined benefit liability are recognised as follows:

- the net movement relating to the current period's service cost, net interest on the defined benefit liability, past service costs and other costs (such as the effects of any curtailments and settlements) as operating expenses;
- remeasurements of the net defined benefit liability (which comprise actuarial gains and losses and return on scheme assets, excluding interest income included in net interest) directly in retained earnings through other comprehensive income; and
- contributions of the Company directly against the net defined benefit position.

Defined contribution superannuation schemes

The Company operates a number of defined contribution schemes. It also contributes (according to local law, in the various countries in which it operates) to Government and other plans that have the characteristics of defined contribution plans. The Company's contributions to these schemes are recognised as personnel expenses when they are incurred.

NOTES TO THE FINANCIAL STATEMENTS (continued)

25. SUPERANNUATION AND POST EMPLOYMENT BENEFIT OBLIGATIONS (continued)

KEY JUDGEMENTS AND ESTIMATES

The main assumptions we use in valuing defined benefit obligations are listed in the table below. A change to any assumptions, or applying different assumptions, could affect the Statement of Other Comprehensive Income and Balance Sheet.

Assumptions	2020	2019	Sensitivity analysis change in significant assumptions	Increase/(decrease) in defined benefit obligation 2020 $m	2019 $m
Discount rate (% p.a.)	1.55 - 1.7	1.7 – 2.0	0.5% increase	(91)	(101)
Future salary increases (% p.a.)	2.95	3.15			
Future pension indexation					
In payment (% p.a.)/In deferment (% p.a)	1.5 – 2.8/2.15	1.75 - 3.0/2.35	0.5% increase	73	74
Life expectancy at age 60 for current pensioners			1 year increase	65	65
– Males (years)	26.0 - 28.7	25.6 – 28.6			
– Females (years)	28.9 - 30.4	28.8 – 30.3			

26. EMPLOYEE SHARE AND OPTION PLANS

The Company operates a number of employee share and option schemes under the ANZ Employee Share Acquisition Plan and the ANZ Share Option Plan.

ANZ EMPLOYEE SHARE ACQUISITION PLAN

ANZ Employee Share Acquisition Plan schemes that operated during the 2020 and 2019 years were the Employee Share Offer and the Deferred Share Plan.

Employee Share Offer	
Eligibility	Most permanent employees employed in either Australia or New Zealand with three years continuous service for the most recent financial year.
Grant	Up to AUD 1,000 in Australia (and AUD 800 in New Zealand) of ANZ shares, subject to Board approval.
Allocation value	One week Volume Weighted Average Price (VWAP) of ANZ shares traded on the ASX in the week leading up to and including the date of grant.
Australia	ANZ ordinary shares are granted to eligible employees for nil consideration. The shares vest on grant and are held in trust for three years from grant date, after which time they may remain in trust, be transferred to the employee's name or sold. Dividends are automatically reinvested in the Dividend Reinvestment Plan.
New Zealand	Shares are granted to eligible employees on payment of NZD one cent per share. Shares vest subject to satisfaction of a three-year service period, after which they may remain in trust, be transferred to the employee's name or sold. Unvested shares are forfeited if the employee resigns or is dismissed for serious misconduct. Dividends are either paid in cash or reinvested into the Dividend Reinvestment Plan.
Expensing value (fair value)	In Australia, the fair value of the shares is expensed in the year shares are granted, as they are not subject to forfeiture. In New Zealand, the fair value is expensed on a straight-line basis over the three year vesting period. The expense is recognised as a share-based compensation expense with a corresponding increase in equity.
2020 and 2019 grants	698,862 shares were granted on 2 December 2019 at an issue price of $24.96, noting this is the final Employee Share Offer in its current form following changes to variable remuneration (effective financial year 2020) as part of the Reimagining Reward initiative. 656,738 shares were granted on 3 December 2018 at an issue price of $26.91.

26. EMPLOYEE SHARE AND OPTION PLANS (continued)

Deferred Share Plan

i) ANZ Incentive Plan (ANZIP) - Chief Executive Officer (CEO), Group Executive Committee (ExCo) and other Banking Executive Accountability Regime (BEAR) Accountable Executives	
Eligibility	Group CEO, ExCo and Group General Manager Internal Audit (GGM IA).
Grant	50% of the CEO's Annual Variable Remuneration (AVR), 25% of ExCo's Variable Remuneration (VR) (except for the Chief Risk Officer (CRO)), and 33% of the CRO and GGM IA's VR, is received as deferred shares.
Conditions	Deferred over at least one to four years from the date the Board approved the variable remuneration award.
ii) ANZIP (all employees excluding the CEO, ExCo and other BEAR Accountable Executives[1]) and Business Unit Incentive Plans (BUIPs)	
Eligibility	All employees excluding the CEO, ExCo and GGM IA (i.e. other BEAR Accountable Executive).
Grant	If VR is at or exceeds AUD 150,000, then 60% of VR amounts exceeding AUD 80,000 (subject to a minimum deferral amount of AUD 42,000) is deferred as shares.
Conditions	Deferred over three years from grant date.
iii) Long Term Incentives (LTIs)	
Eligibility	Selected employees (excludes the CEO, ExCo and GGM IA (i.e. other BEAR Accountable Executive).
Grant	100% deferred shares.
Conditions	Vest three years from grant date.
iv) Exceptional circumstances	
Remuneration foregone	In exceptional circumstances, we grant deferred shares to certain employees when they start with the Company to compensate them for remuneration they have foregone from their previous employer. The vesting period generally aligns with the remaining vesting period of the remuneration they have foregone, and therefore varies between grants.
Retention	We may grant deferred shares to high performing employees who are regarded as a significant retention risk to the Company.
v) Further information	
Cessation	Unless the Board decides otherwise, employees forfeit their unvested deferred shares if they resign, are terminated on notice, or are dismissed for serious misconduct. The deferred shares may be held in trust beyond the deferral period.
Dividends	Dividends are paid in cash or reinvested in the Dividend Reinvestment Plan.
Instrument	Deferred share rights may be granted instead of deferred shares in some countries as locally appropriate (see deferred share rights section).
Allocation value	All deferred shares are issued based on the VWAP of ANZ shares traded on the ASX in the week leading up to and including the date of grant.
Expensing value (fair value)	We expense the fair value of deferred shares on a straight-line basis over the relevant vesting period and we recognise the expense as a share-based compensation expense with a corresponding increase in equity.
2020 and 2019 grants	During the 2020 year, we granted 2,259,897 deferred shares (2019: 1,945,668) with a weighted average grant price of $24.94 (2019: $25.39).
Malus (downward adjustment)	Deferred shares remain at risk and the Board has the discretion to adjust the number of deferred shares downwards, including to zero at any time before the vesting date. ANZ's malus (downward adjustment) provisions are detailed in section 5.3 of the 2020 Remuneration Report. Board discretion was not exercised to adjust downward any deferred shares in 2020 (2019: 9,810).

1. Specific deferral arrangements also exist under ANZIP for roles defined as United Kingdom Material Risk Takers and China Material Risk Takers, in line with local regulatory requirements.

Expensing of the ANZ Employee Share Acquisition Plan

Expensing value (fair value)	The fair value of shares we granted during 2020 under the Employee Share Offer and the Deferred Share Plan, measured as at the date of grant of the shares, is $73.4 million (2019: $67.7 million) based on 2,958,759 shares (2019: 2,602,406) at VWAP of $24.81 (2019: $26.01).

NOTES TO THE FINANCIAL STATEMENTS (continued)

26. EMPLOYEE SHARE AND OPTION PLANS (continued)

ANZ SHARE OPTION PLAN

Allocation	We may grant selected employees options/rights which entitle them to acquire fully paid ordinary ANZ shares at a fixed price at the time the options/rights vest. Voting and dividend rights will be attached to the ordinary shares allocated on exercise of the options/rights. Each option/right entitles the holder to one ordinary share subject to the terms and conditions imposed on grant. Exercise price of options, determined in accordance with the rules of the plan, is generally based on the VWAP of the shares traded on the ASX in the week leading up to and including the date of grant. For rights, the exercise price is nil.
Rules	Prior to the exercise of the option/right if the Company changes its share capital due to a bonus share issue, pro-rata new share issue or reorganisation the following adjustments are required: • Issue of bonus shares - When the holder exercises their option, they are also entitled to be issued the number of bonus shares they would have been entitled to had they held the underlying shares at the time of the bonus issue; • Pro-rata share offer - We will adjust the exercise price of the option in the manner set out in the ASX Listing Rules; and • Reorganisation - In respect of rights, if there is a bonus issue or reorganisation of the Company's share capital, then the Board may adjust the number of rights or the number of underlying shares so that there is no advantage or disadvantage to the holder. Holders otherwise have no other entitlements to participate: • in any new issue of the Company's securities before they exercise their options/rights; or • in a share issue of a body corporate other than ANZ (such as a subsidiary). Any portion of the award which vests may, at the Board's discretion, be satisfied by a cash equivalent payment rather than shares.
Expensing	We expense the fair value of options/rights on a straight-line basis over the relevant vesting period and we recognise the expense as a share-based compensation expense with a corresponding increase in equity.
Cessation	The provisions that apply if the employee's employment ends are in section 8.2.3 of the 2020 Remuneration Report.
Malus (downward adjustment)	The Company's malus (downward adjustment) provisions are detailed in section 5.3 of the 2020 Remuneration Report.

Option Plans that operated during 2020 and 2019

i) Performance Rights

Allocation	We grant performance rights to the CEO and ExCo, and have granted performance rights to selected employees, as part of ANZ's variable remuneration plans. Performance rights provide the holder with the right to acquire ANZ shares at nil cost, subject to a four-year vesting period[1] and Total Shareholder Return (TSR) performance hurdles. Further details on the performance hurdles are in section 5.2.3a of the 2020 Remuneration Report.
Satisfying vesting	Any portion of the award of performance rights (that have met the performance hurdles) may be satisfied by a cash equivalent payment rather than shares at the Board's discretion. In 2020, all performance rights lapsed due to not meeting the performance hurdles. In 2019, the performance rights that vested were satisfied through a share allocation, other than 47,195 performance rights for which a cash payment was made.
2020 and 2019 grants	During the 2020 year, we granted 520,172 performance rights (2019: 885,810).
Malus (downward adjustment)	Board discretion was not exercised to adjust downward any performance rights in 2020 (2019: 59,012).

1. gThree years for grants during 2019.

26. EMPLOYEE SHARE AND OPTION PLANS (continued)

ii) Deferred Share Rights (no performance hurdles)	
Allocation	Deferred share rights provide the holder with the right to acquire ANZ shares at nil cost after a specified vesting period. We adjust the fair value of rights for the absence of dividends during the restriction period.
Satisfying vesting	Any portion of the award of share rights may be satisfied by a cash equivalent payment rather than shares at the Board's discretion. All share rights were satisfied through a share allocation, other than 99,891 deferred share rights (2019: 68,357) for which a cash payment was made.
2020 and 2019 grants	During the 2020 year, 2,393,424 deferred share rights (no performance hurdles) were granted (2019: 2,078,427).
Malus (downward adjustment)	Board discretion was not exercised to adjust downward any deferred share rights in 2020 (2019: 11,824).

Options, Deferred Share Rights and Performance Rights on Issue

As at 4 November 2020, there were 543 holders of 4,489,045 deferred share rights on issue and 125 holders of 2,216,062 performance rights on issue.

Options/Rights Movements

This table shows the options/rights over unissued ANZ shares and their related weighted average (WA) exercise prices as at the beginning and end of 2020 and the movements during 2020:

	Opening balance 1 Oct 2019	Options/ rights granted	Options/ rights forfeited[1]	Options/ rights expired	Options/ rights exercised	Closing balance 30 Sep 2020
Number of options/rights	6,688,538	2,913,596	(976,468)	0	(1,901,109)	6,724,557
WA exercise price	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
WA closing share price						$19.94
WA remaining contractual life						1.9 years
WA exercise price of all exercisable options/rights outstanding						$0.00
Outstanding exercisable options/rights						151,829

This table shows the options/rights over unissued ANZ shares and their related weighted average exercise prices as at the beginning and end of 2019 and the movements during 2019:

	Opening balance 1 Oct 2018	Options/ rights granted	Options/ rights forfeited[1]	Options/ rights expired	Options/ rights exercised	Closing balance 30 Sep 2019
Number of options/rights	7,148,573	2,964,237	(1,589,109)	0	(1,835,163)	6,688,538
WA exercise price	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
WA closing share price						$26.66
WA remaining contractual life						1.9 years
WA exercise price of all exercisable options/rights outstanding						$0.00
Outstanding exercisable options/rights						181,581

1. Refers to any circumstance where equity can be forfeited (for example on cessation, downward adjustment or performance conditions not met).

All of the shares issued as a result of the exercise of options/rights during 2020 and 2019, were issued at a nil exercise price.

As at the date of the signing of the Directors' Report on 4 November 2020:

- no options/rights over ordinary shares have been granted since the end of 2020; and
- 15,592 shares issued as a result of the exercise of options/rights since the end of 2020, all with nil exercise prices.

NOTES TO THE FINANCIAL STATEMENTS (continued)

26. EMPLOYEE SHARE AND OPTION PLANS (continued)

Fair Value Assumptions

When determining the fair value, we apply the standard market techniques for valuation, including Monte Carlo and/or Black Scholes pricing models. We do so in accordance with the requirements of AASB 2 *Share-based Payments*. The models take into account early exercise of vested equity, non-transferability and internal/external performance hurdles (if any).

The table below shows the significant assumptions we used as inputs into our fair value calculation of instruments granted during the period. We present the values as weighted averages, but the specific values we use for each allocation are the ones we use for the fair value calculation.

	2020		2019	
	Deferred share rights	Performance rights	Deferred share rights	Performance rights
Exercise price ($)	0.00	0.00	0.00	0.00
Share closing price at grant date ($)	24.78	24.93	25.83	25.52
Expected volatility of ANZ share price (%)[1]	20.0	20.0	20.0	20.0
Equity term (years)	2.5	6.0	2.5	4.8
Vesting period (years)	2.1	4.0	2.1	3.0
Expected life (years)	2.1	4.0	2.1	3.0
Expected dividend yield (%)	6.0	6.0	6.0	6.0
Risk free interest rate (%)	0.77	0.74	1.96	2.05
Fair value ($)	21.95	9.07	22.87	9.40

1. Expected volatility represents a measure of the amount by which ANZ's share price is expected to fluctuate over the life of the rights. The measure of volatility used in the model is the annualised standard deviation of the continuously compounded rates of return on the historical share price over a deferred period of time preceding the date of grant. This historical average annualised volatility is then used to estimate a reasonable expected volatility over the expected life of the rights.

SATISFYING EQUITY AWARDS

All shares underpinning equity awards may be purchased on market, reallocated or be newly issued shares, or a combination.

The equity we purchased on market during the 2020 financial year (either under the ANZ Employee Share Acquisition Plan and the ANZ Share Option Plan, or to satisfy options or rights) for all employees amounted to 4,882,936 shares at an average price of $25.06 per share (2019: 4,317,094 shares at an average price of $25.99 per share).

27. RELATED PARTY DISCLOSURES

KEY MANAGEMENT PERSONNEL COMPENSATION

Key Management Personnel (KMP) are defined as all directors and those personnel with a key responsibility for the strategic direction and management of the Company and report directly to the CEO. KMP compensation included within total personnel expenses in Note 3 Operating Expenses as follows:

	2020 $000	2019 $000[1]
Short-term benefits	19,260	15,784
Post-employment benefits	414	415
Other long-term benefits	397	213
Termination benefits	-	2,112
Share-based payments	8,198	6,184
Total	28,269	24,708

1. Includes former disclosed KMP until the end of their employment.

KEY MANAGEMENT PERSONNEL LOAN TRANSACTIONS

Loans made to KMP are made in the ordinary course of business and on normal commercial terms and conditions that are no more favourable than those given to other employees or customers, including: the term of the loan, security required and the interest rate. Details of the terms and conditions of lending products can be found on ANZ.com. No amounts have been written off during the period, or individual provisions raised in respect of these balances. The aggregate of loans made, guaranteed or secured to KMP, including their related parties, were as follows:

	2020 $000	2019 $000
Loans advanced[1,2]	18,519	13,551
Interest charged	518	285

1. Prior period balance has been restated to reflect minor timing variances and omissions.
2. Balances are as at the balance sheet date (for KMP in office at balance sheet date) or at the date of cessation of former KMP.

KEY MANAGEMENT PERSONNEL HOLDINGS OF ANZ SECURITIES

KMP, including their related parties, held subordinated debt, shares, share rights and options over shares in the Company directly, indirectly or beneficially as shown below:

	2020 Number[1]	2019 Number[1]
Shares, options and rights	2,211,879	1,892,754
Subordinated debt	21,052	11,802

1 Balances are at the balance sheet date (for KMP in office at balance sheet date) or at the date of cessation of former KMP.

OTHER TRANSACTIONS OF KEY MANAGEMENT PERSONNEL AND THEIR RELATED PARTIES

The aggregate of deposits with the Bank of KMP and their related parties was $37 million (2019: $42 million).

Other transactions with KMP and their related parties included amounts paid to the Company in respect of investment management service fees, brokerage and bank fees and charges. The Company has reimbursed KMP for the costs incurred for security and secretarial services associated with the performance of their duties. These transactions are conducted on normal commercial terms and conditions and no more favourable than those given to other employees or customers.

NOTES TO THE FINANCIAL STATEMENTS (continued)

27. RELATED PARTY DISCLOSURES (continued)

ASSOCIATES

During the course of the financial year, the Company conducted transactions with all associates on terms equivalent to those made on an arm's length basis as shown below:

	2020 $000	2019 $000
Amounts payable to associates	746	697
Other expenses paid to associates	7,706	7,624

There have been no material guarantees given or received. No amounts have been written-off during the period, or individual provisions raised in respect of these balances.

SUBSIDIARIES

We disclose material controlled entities in Note 23 Shares in Controlled Entities. During the financial year, subsidiaries conducted transactions with each other and with associates on terms equivalent to those on an arm's length basis. As of 30 September 2020, we consider all outstanding amounts on these transactions to be fully collectible.

Transactions between the Company and its subsidiaries include providing a wide range of banking and other financial facilities. Details of amounts paid to, or received from, related parties, in the form of dividends or interest, are set out in Note 2 Operating Income.

Other intragroup transactions include providing management and administrative services, staff training, data processing facilities, transfer of tax losses, and the leasing of Premises and equipment.

28. COMMITMENTS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

CREDIT RELATED COMMITMENTS AND CONTINGENCIES

	2020 $m	2019 $m
Contract amount of:		
Undrawn facilities	191,300	171,881
Guarantees and letters of credit	20,640	20,375
Performance related contingencies	15,505	20,097
Total	227,445	212,353

UNDRAWN FACILITIES

The majority of undrawn facilities are subject to customers maintaining specific credit and other requirements or conditions. Many of these facilities are expected to be only partially used, and others may never be used at all. As such, the total of the nominal principal amounts is not necessarily representative of future liquidity risks or future cash requirements. Based on the earliest date on which the Company may be required to pay, the total undrawn facilities of $191,300 million (2019: $171,881 million) mature within 12 months.

GUARANTEES, LETTERS OF CREDIT AND PERFORMANCE CONTINGENCIES

Guarantees and contingent liabilities relate to transactions that the Company has entered into as principal – including: guarantees, standby letters of credit and documentary letters of credit.

Documentary letters of credit involve the Company issuing letters of credit guaranteeing payment in favour of an exporter. They are secured against an underlying shipment of goods or backed by a confirmatory letter of credit from another bank.

Performance related contingents are liabilities that oblige the Company to make payments to a third party if the customer fails to fulfil its non-monetary obligations under the contract.

To reflect the risk associated with these transactions, we apply the same credit origination, portfolio management and collateral requirements that we apply to loans. The contract amount represents the maximum potential amount that we could lose if the counterparty fails to meet its financial obligations. As the facilities may expire without being drawn upon, the notional amounts do not necessarily reflect future cash requirements. Based on the earliest date on which the Company may be required to pay, the total guarantees and letters of credit of $20,640 million (2019: $20,375 million) and total performance related contingencies of $15,505 million (2019: $20,097 million) mature within 12 months.

NOTES TO THE FINANCIAL STATEMENTS (continued)

28. COMMITMENTS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS (continued)

OTHER CONTINGENT LIABILITIES

As at 30 September 2020, the Company had contingent liabilities in respect of the matters outlined below. Where relevant, expert legal advice has been obtained and, in the light of such advice, provisions (refer to note 20) and/or disclosures as deemed appropriate have been made. In some instances we have not disclosed the estimated financial impact of the individual items either because it is not practicable to do so or because such disclosure may prejudice the interests of the Company.

REGULATORY AND CUSTOMER EXPOSURES

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

BENCHMARK/RATE ACTIONS

In July and August 2016, class action complaints were brought in the United States District Court against local and international banks, including the Company – one action relating to the bank bill swap rate (BBSW), and one action relating to the Singapore Interbank Offered Rate (SIBOR) and the Singapore Swap Offer Rate (SOR). The class actions are expressed to apply to persons and entities that engaged in US-based transactions in financial instruments that were priced, benchmarked, and/or settled based on BBSW or SIBOR. The claimants seek damages or compensation in amounts not specified, and allege that the defendant banks, including the Company, violated US anti-trust laws and (in the BBSW case only) anti-racketeering laws, the Commodity Exchange Act, and unjust enrichment principles. The Company is defending the proceedings.

In February 2017, the South African Competition Commission commenced proceedings against local and international banks including the Company alleging breaches of the cartel provisions of the South African Competition Act in respect of trading in the South African rand. The potential civil penalty or other financial impact is uncertain.

CAPITAL RAISING ACTIONS

In June 2018, the Commonwealth Director of Public Prosecutions commenced criminal proceedings against the Company and a senior employee alleging that they were knowingly concerned in cartel conduct by the joint lead managers of the Company's August 2015 underwritten institutional equity placement of approximately 80.8 million ordinary shares. The Company and its senior employee are defending the allegations.

In September 2018, the Australian Securities and Investments Commission (ASIC) commenced civil penalty proceedings against the Company alleging failure to comply with continuous disclosure obligations in connection with the Company's August 2015 underwritten institutional equity placement. ASIC alleges the Company should have advised the market that the joint lead managers took up approximately 25.5 million ordinary shares of the placement. The Company is defending the allegations.

CONSUMER CREDIT INSURANCE LITIGATION

In February 2020, a class action was brought against the Company alleging breaches of financial advice obligations, misleading or deceptive conduct and unconscionable conduct in relation to the distribution of consumer credit insurance products. The issuers of the insurance products, QBE and OnePath Life, are also defendants to the claim. The Company is defending the allegations.

ESANDA DEALER CAR LOAN LITIGATION

In August 2020, a class action was brought against the Company alleging unfair conduct, misleading or deceptive conduct and equitable mistake in relation to the use of flex commissions in dealer arranged Esanda car loans. The Company is defending the allegations.

ROYAL COMMISSION

The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry released its final report on 4 February 2019. The findings and recommendations of the Commission are resulting in additional costs and may lead to further exposures, including exposures associated with further regulator activity or potential customer exposures such as class actions, individual claims or customer remediation or compensation activities. The outcomes and total costs associated with these possible exposures remain uncertain.

SECURITY RECOVERY ACTIONS

Various claims have been made or are anticipated, arising from security recovery actions taken to resolve impaired assets. These claims will be defended.

28. COMMITMENTS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS (continued)

WARRANTIES AND INDEMNITIES

The Company has provided warranties, indemnities and other commitments in favour of the purchaser and other persons in connection with various disposals of businesses and assets and other transactions, covering a range of matters and risks. It is exposed to claims under those warranties, indemnities and commitments.

CLEARING AND SETTLEMENT OBLIGATIONS

The Company has a commitment to comply with rules governing various clearing and settlement arrangements which could result in a credit risk exposure and loss if another member institution fails to settle its payment clearing activities. The Company's potential exposure arising from these arrangements is unquantifiable in advance.

The Company holds memberships of central clearing houses, including ASX Clear (Futures), London Clearing House (LCH) SwapClear and RepoClear, Korea Exchange (KRX), Hong Kong Exchange (HKEX) and the Clearing Corporation of India. These memberships allow the Company to centrally clear derivative instruments in line with cross-border regulatory requirements. Common to all of these memberships is the requirement for Company to make default fund contributions. In the event of a default by another member, the Company could potentially be required to commit additional default fund contributions which are unquantifiable in advance.

PARENT ENTITY GUARANTEES

The Company has issued letters of comfort and guarantees in respect of certain subsidiaries in the normal course of business. Under these letters and guarantees, the Company undertakes to ensure that those subsidiaries continue to meet their financial obligations, subject to certain conditions including that the entity remains a controlled entity of the Company.

SALE OF GRINDLAYS BUSINESSES

On 31 July 2000, the Company completed the sale to Standard Chartered Bank (SCB) of ANZ Grindlays Bank Limited (Grindlays) and certain other businesses. The Company provided warranties and indemnities relating to those businesses.

The indemnified matters include civil penalty proceedings and criminal prosecutions brought by Indian authorities against Grindlays and certain of its officers, in relation to certain transactions conducted in 1991 that are alleged to have breached the Foreign Exchange Regulation Act, 1973.

Civil penalties were imposed in 2007 which are the subject of appeals. The criminal prosecutions are being defended.

CONTINGENT ASSETS

NATIONAL HOUSING BANK

The Company is pursuing recovery of the proceeds of certain disputed cheques which were credited to the account of a former Grindlays customer in the early 1990s.

The disputed cheques were drawn on the National Housing Bank (NHB) in India. Proceedings between Grindlays and NHB concerning the proceeds of the cheques were resolved in early 2002.

Recovery is now being pursued from the estate of the Grindlays customer who received the cheque proceeds. Any amounts recovered are to be shared between the Company and NHB.

NOTES TO THE FINANCIAL STATEMENTS (continued)

29. AUDITOR FEES

	2020 $'000	2019 $'000
KPMG Australia		
Audit or review of financial reports	7,262	7,058
Audit-related services[1]	3,540	2,642
Non-audit services[2]	25	114
Total[3]	10,827	9,814
Overseas related practices of KPMG Australia		
Audit or review of financial reports	2,107	1,924
Audit-related services[1]	1,008	714
Non-audit services[2]	44	2
Total	3,159	2,640
Total auditor fees	13,986	12,454

1. Comprises prudential and regulatory services of $3.07 million (2019: $2.56 million), comfort letters $0.72 million (2019: $0.45 million) and other services $0.76 million (2019: $0.34 million).
2. The nature of the non-audit services includes training and methodology and procedural reviews.
3. Inclusive of goods and services tax.

The Company's policy allows KPMG Australia or any of its related practices to provide assurance and other audit-related services that, while outside the scope of the statutory audit, are consistent with the role of external auditor. These include regulatory and prudential reviews requested by regulators such as APRA. Any other services that are not audit or audit-related services are non-audit services. The Policy allows certain non-audit services to be provided where the service would not contravene auditor independence requirements. KPMG Australia or any of its related practices may not provide services that are perceived to be in conflict with the role of the external auditor or breach auditor independence. These include consulting advice and subcontracting of operational activities normally undertaken by management, and engagements where the external auditor may ultimately be required to express an opinion on its own work.

30. EVENTS SINCE THE END OF THE FINANCIAL YEAR

There have been no significant events from 30 September 2020 to the date of signing this report.

DIRECTORS' AND LEAD AUDITOR'S INDEPENDENCE DECLARATION

DIRECTORS' DECLARATION

The Directors of Australia and New Zealand Banking Group Limited declare that:

a) in the Directors' opinion, the financial statements and notes of the Company:

   i) are prepared in accordance with Part 7.8 of the *Corporations Act 2001*, including that they comply with the Australian Accounting Standards and the applicable regulations of the *Corporations Regulations 2001*; and

   ii) give a true and fair view of the financial position of the Company as at 30 September 2020 and of its performance for the year ended on that date; and

b) The auditor's report lodged with the financial statements is a true copy of the report on the financial statements.

Signed in accordance with a resolution of the Directors.

Paul D O'Sullivan
Chairman

Shayne C Elliott
Managing Director

4 November 2020

LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

To the Directors of Australia and New Zealand Banking Group Limited declare that:

I declare that, to the best of my knowledge and belief, in relation to the audit of Australia and New Zealand Banking Group Limited for the financial year ended 30 September 2020 there have been:

i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

Alison Kitchen
Partner
Melbourne

4 November 2020

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL REPORT

OPINION

We have audited the Financial Report of Australia and New Zealand Banking Group Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the part 7.8 of the *Corporations Act 2001*, including:

- giving a true and fair view of the Company's financial position as at 30 September 2020 and of its financial performance for the year ended on that date; and
- complying with Australian Accounting Standards and the relevant Corporations Regulations 2001.

The Financial Report comprises the:

- balance sheet as at 30 September 2020;
- income statement, statement of comprehensive income, statement of changes in equity, and statement of cash flows for the year then ended;
- notes 1 to 30 including a summary of significant accounting policies; and
- Directors' Declaration.

BASIS FOR OPINION

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Company in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (including Independence Standards) (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

KEY AUDIT MATTERS

The Key Audit Matters we identified are:

- Allowance for expected credit losses;
- Subjective and complex valuation of Financial Instruments held at Fair Value;
- Provisions for customer remediation; and
- IT systems and controls.

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT (continued)

KEY AUDIT MATTERS (continued)

ALLOWANCE FOR EXPECTED CREDIT LOSSES ($4,951M)

Refer to the critical accounting estimates and judgements disclosures in relation to the allowance for expected credit losses in Note 12 to the Financial Report.

The Key Audit Matter

Allowance for expected credit losses is a key audit matter due to the significance of the loans and advances balance to the financial statements and the inherent complexity of the Company's Expected Credit Loss (ECL) models (ECL models) used to measure ECL allowances. These models are reliant on data and a number of estimates including the impact of multiple economic scenarios and other assumptions such as defining a significant increase in credit risk (SICR).

AASB 9 *Financial Instruments* requires the Company to measure ECLs on a forward-looking basis reflecting a range of economic conditions, of which GDP and unemployment levels are considered key assumptions. Post-model adjustments are made by the Company to address known ECL model limitations or emerging trends in the loan portfolios. We exercise significant judgement in challenging the economic scenarios used and the judgmental post model adjustments the Company applies to the ECL results.

The Company's criteria selected to identify a SICR, such as a decrease in customer credit rating (CCR), are key areas of judgement within the Company's ECL methodology as these criteria determine if a forward-looking 12 month or lifetime allowance is recorded.

The COVID-19 pandemic has meant that assumptions regarding the economic outlook are more uncertain which, combined with varying government responses, increases the level of judgement required by the Company in calculating the ECL, and the associated audit risk.

Additionally, allowances for individually assessed wholesale loans exceeding specific thresholds are individually assessed by the Company. We exercise significant judgment in challenging the assessment of specific allowances based on the expected future cash repayments and estimated proceeds from the value of the collateral held by the Company in respect of the loans.

How the matter was addressed in our audit

Our audit procedures for the allowance for ECL and disclosures included assessing the Company's significant accounting policies against the requirements of the accounting standard. Additionally, our procedures included:

Testing key controls of the Company in relation to:

- the ECL model governance and validation processes which involved assessment of model performance;
- the assessment and approval of the forward-looking macroeconomic assumptions and scenario weightings through challenge applied by the Company's internal governance processes;
- reconciliation of the data used in the ECL calculation process to gross balances recorded within the general ledger as well as source systems;
- counterparty risk grading for wholesale loans (larger customer exposures are monitored individually). This covered elements such as: approval of new lending facilities against the Company's lending policies, monitoring of counterparty credit quality against the Company's exposure criteria for internal factors specific to the counterparty or external macroeconomic factors, and accuracy and timeliness of counterparty risk assessments and risk grading against the requirements of the Company's lending policies and regulatory requirements; and
- IT system controls which record retail loans lending arrears, group exposures into delinquency buckets, and re-calculate individual allowances. We tested automated calculation and change management controls and evaluated the Company's oversight of the portfolios, with a focus on controls over delinquency monitoring.

We tested relevant General Information Technology Controls (GITCs) in relation to the key IT applications used by the Company in measuring ECL allowances as detailed in the IT Systems and Controls key audit matter below.

In addition to controls testing, our procedures included:

- re-performing credit assessments of a sample of wholesale loans controlled by the Company's specialist workout and recovery team assessed as higher risk or impaired, and a sample of other loans, focusing on larger exposures assessed by the Company as showing signs of deterioration, or in areas of emerging risk (assessed against external market conditions and in particular considering the impacts of COVID-19 and climate change). For each loan sampled, we challenged the Company's CCR and Security Indicator (SI), taking into account our assessment of the customer's financial position and, where relevant, the risk of stranded assets, and our overall assessment of loan recoverability, the valuation of security, and the impact on the credit allowance. To do this, we used the information on the Company's loan file, discussed the facts and circumstances of the case with the loan officer, and performed our own assessment of recoverability. Exercising our judgment, our procedures included using our understanding of relevant industries and the macroeconomic environment and comparing data and assumptions used by the Company in recoverability assessments to externally sourced evidence, such as commodity prices, publicly available audited financial statements and comparable external valuations of collateral held. Where relevant we assessed the forecast timing of future cash flows in the context of underlying valuations and approved business plans and challenged key assumptions in the valuations;

KEY AUDIT MATTERS (continued)

- obtaining an understanding of the Company's processes to determine ECL allowances, evaluating the Company's ECL model methodologies against established market practices and criteria in the accounting standards;
- working with KPMG risk consulting specialists, we assessed the accuracy of the Company's ECL model estimates by re-performing, for a sample of loans, the ECL allowance using our independently derived calculation tools and comparing this to the amount recorded by the Company;
- working with KPMG economic specialists, we challenged the Company's forward-looking macroeconomic assumptions and scenarios incorporated in the Company's ECL models. We compared the Company's forecast GDP, unemployment rates, CPI and property price indices to relevant publicly available macro-economic information, and considered other known variables and information obtained through our other audit procedures to identify contradictory indicators;
- testing the implementation of the Company's SICR methodology by re-performing the staging calculation for a sample of loans taking into consideration movements in the CCR from loan origination CCR and comparing our expectation to actual staging applied on an individual account level in the Company's ECL model; and
- assessing the accuracy of the data used in the ECL models by confirming a sample of data fields such as account balance and CCR to relevant source systems.

We challenged key assumptions in the components of the Company's post-model adjustments to the ECL allowance balance. This included:

- assessing the requirement for additional allowances considering the Company's ECL model and data deficiencies identified by the Company's ECL model validation processes, particularly in light of the extreme volatility in economic scenarios caused by the current COVID-19 pandemic and government responses;
- evaluating underlying data used in concentration risk and economic cycle allowances by comparing underlying loan portfolio characteristics to recent loss experience, current market conditions and specific risks in the Company's loan portfolios;
- assessing the impacts on the modelled ECL and the requirement for out of model adjustments to account for the portion of customers on loan deferral packages that are not aged. We also assessed assumptions used to determine whether a SICR event has occurred; and
- assessing the completeness of additional allowance overlays by checking the consistency of risks we identified in the loan portfolios against the Company's assessment.

SUBJECTIVE AND COMPLEX VALUATION OF FINANCIAL INSTRUMENTS HELD AT FAIR VALUE:

- **FAIR VALUE OF LEVEL 3 ASSET POSITIONS $1,045M**
- **FAIR VALUE OF LEVEL 2 ASSET POSITIONS $139,134M**
- **FAIR VALUE OF LEVEL 3 LIABILITY POSITIONS $55M**
- **FAIR VALUE OF LEVEL 2 LIABILITY POSITIONS $134,761M**

Refer to the critical accounting estimates, judgements and disclosures of fair values in Note 16 to the Financial Report.

The Key Audit Matter

The fair value of the Company's Level 2 and 3 financial instruments is determined by the Company through the application of valuation techniques which often involve the exercise of judgement and the use of assumptions and estimates.

The valuation of Level 3 and Level 2 financial instruments held at fair value is a Key Audit Matter due to:

- the high degree of estimation uncertainty and potentially significant range of reasonable outcomes associated with the valuation of financial instruments classified as Level 3 where significant pricing inputs used in the valuation methodology and models are not observable; and
- the complexity associated with the valuation methodology and models of certain more complex Level 2 financial instruments leading to an increase in subjectivity and estimation uncertainty. Level 2 financial instruments represented 56% of the Company's financial assets carried at fair value and 96% of the Company's financial liabilities carried at fair value.

Level 3 financial instruments represented 0.4% of the Company's financial assets carried at fair value and 0.04% of the Company's financial liabilities carried at fair value. This population is made up of:

- investment securities at fair value through other comprehensive income;
- derivative assets and liabilities; and
- net loans and advances.

INDEPENDENT AUDITOR'S REPORT (continued)

KEY AUDIT MATTERS (continued)

How the matter was addressed in our audit

Our audit procedures in relation to the valuation of financial instruments held at fair value included:

- we performed an assessment of the population of Financial instruments held at fair value to identify portfolios that have a higher risk of misstatement arising from significant judgements over valuation either due to unobservable inputs or complex models.
- we tested the design and operating effectiveness of key controls relating specifically to these financial instruments, including:
  - controls in relation to Independent Price Verification (IPV), including completeness of portfolios and valuation inputs subject to IPV;
  - controls in relation to model validation at inception and periodically, including assessment of model limitation and assumptions;
  - controls in relation to the review and challenge of daily profit and loss (P&L) by a control function;
  - control over the collateral management process, including review of margin reconciliations with clearing houses; and
  - controls over fair value adjustments (FVAs), including exit price and portfolio level adjustments.
- with the assistance of KPMG valuation experts, we independently re-valued a selection of financial instruments and FVAs. This involved sourcing independent inputs from markets data providers or external sources and using our own valuation models. We challenged the Company where our revaluations significantly differed from the Company's.
- in relation to the subjective valuation of Level 3 Investment Securities, with our valuation specialists, we:
  - assessed the reasonableness of key inputs and assumptions using comparable data in the market and available alternatives; and
  - compared the Company's valuation methodology to industry practice and the criteria in the accounting standards.
- we assessed the Company's financial statements disclosures, including key judgements and assumptions using our understanding obtained from our testing and against the relevant accounting standard requirements.

PROVISIONS FOR CUSTOMER REMEDIATION ($969M)

Refer to the critical accounting estimates, judgements and disclosures in Notes 20 and 28 to the Financial Report.

The Key Audit Matter

The Company has assessed the need to recognise provisions in relation to certain customer remediation activities arising from both internal and external investigations and reviews.

The provision for customer remediation activities is a key audit matter due to the judgements required by us in assessing the Company's determination of:

- the existence of a present legal or constructive obligation arising from a past event using the conditions of the event against the criteria in the accounting standards;
- the number of investigations and the quantum of amounts being paid arising from the present obligation;
- reliable estimates of the amounts which may be paid arising from investigations, including estimates of related costs; and
- the potential for legal proceedings, further investigations, and reviews from its regulators leading to a wider range of estimation outcomes for us to consider.

How the matter was addressed in our audit

Our audit procedures for customer remediation provisions included:

- obtaining an understanding of the Company's processes and controls for identifying and assessing the potential impact of the investigations into customer remediation activities;
- enquiring with the Company regarding ongoing legal, regulatory and other investigation into remediation activities;
- conducting independent discussions on significant matters with external legal counsel;
- reading the minutes and other relevant documentation of the Company's Board of Directors, Board Committees, various management committees, and attending the Company's Audit and Risk Committee meetings;
- inspecting correspondence with relevant regulatory bodies;
- for a sample of individual customer remediation matters, assessing the basis for recognition of a provision and associated costs against the requirements of the accounting standards. We did this by understanding and challenging the provisioning methodologies and underlying assumptions;
- testing completeness by evaluating where exposures may have arisen based upon our knowledge and experience of broader industry matters, the Company's documentation and the current regulatory environment. We also checked the features of these exposures against the criteria defining a provision or a contingency in the accounting standards;

KEY AUDIT MATTERS (continued)

- assessing the appropriateness of the Company's conclusions against the requirements of *Australian Accounting Standards* where estimates were unable to be reliably made for a provision to be recognised; and
- evaluating the related disclosures using our understanding obtained from our testing and against the requirements of *Australian Accounting Standards*.

IT SYSTEMS AND CONTROLS

The Key Audit Matter

As a major Australian bank, the Company's businesses utilise many complex, interdependent Information Technology (IT) systems to process and record a high volume of transactions. Controls over access and changes to IT systems are critical to the recording of financial information and the preparation of a financial report which provides a true and fair view of the Company's financial position and performance.

The IT systems and controls, as they impact the financial recording and reporting of transactions, is a key audit matter as our audit approach could significantly differ depending on the effective operation of the Company's IT controls. We work with our KPMG IT specialists as a core part of our audit team.

How the matter was addressed in our audit

We tested the technology control environment for key IT applications (systems) used in processing significant transactions and recording balances in the general ledger. We also tested automated controls embedded within these systems which link the technology-enabled business processes. Our further audit procedures included:

- assessing the governance and higher-level controls across the IT Environment, including those regarding Company policy design, review and awareness, and IT Risk Management practices;
- design and operating effectiveness testing of controls across the User Access Management Lifecycle, including how users are on-boarded, reviewed, and removed on a timely basis from critical IT applications and supporting infrastructure. We also examined how privileged roles and functions are managed across each IT Application and the supporting infrastructure;
- design and operating effectiveness testing of controls to enable Change Management including how changes are initiated, documented, approved, tested and authorised prior to migration into the production environment of critical IT Applications. We assessed the appropriateness of users with access to release changes to IT application production environments across the Company;
- design and operating effectiveness testing of controls used by the Company's technology teams to schedule system jobs and monitor system integrity;
- design and operating effectiveness testing of controls related to significant IT application programs delivered per the ANZ Delivery Framework;
- design and operating effectiveness testing of automated business process controls including those relating to enforcing segregation of duties to avoid conflicts from inappropriate role combinations within IT applications. We tested:
  - configurations in place to perform calculations, mappings and flagging of financial transactions, and automated reconciliation controls (both between systems and intra-system); and
  - data integrity of critical system reporting used by us in our audit to select samples and analyse data used by management to generate financial reporting.

OTHER INFORMATION

Other Information is both financial and non-financial information in Australia and New Zealand Banking Group Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report, we have nothing to report.

INDEPENDENT AUDITOR'S REPORT (continued)

RESPONSIBILITIES OF DIRECTORS FOR THE FINANCIAL REPORT

The Directors are responsible for:

- preparing a Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL REPORT

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists. Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the Auditing and Assurance Standards Board website at: https://www.auasb.gov.au/admin/file/content102/c3/ar2_2020.pdf. This description forms part of our Auditor's Report.

KPMG

KPMG

A M Kitchen

Alison Kitchen
Partner
Melbourne
4 November 2020