

## Liquidity Risk - including discontinued operations

Liquidity risk is the risk that the Group is unable to meet its payment obligations as they fall due, including repaying depositors or maturing wholesale debt, or that the Group has insufficient capacity to fund increases in assets. The timing mismatch of cash flows and the related liquidity risk is inherent in all banking operations and is closely monitored by the Group and managed in accordance with the risk appetite set by the Board.

The Group's approach to liquidity risk management incorporates two key components:

### • Scenario modelling of funding sources

ANZ's liquidity risk appetite is defined by the ability to meet a range of regulatory requirements and internal liquidity metrics mandated by the Board. The metrics cover a range of scenarios of varying duration and level of severity. The objective of this framework is to:

- Provide protection against shorter term extreme market dislocation and stress.
- Maintain structural strength in the balance sheet by ensuring that an appropriate amount of longer-term assets are funded with longer-term funding.
- Ensure that no undue timing concentrations exist in the Group's funding profile.

A key component of this framework is the Liquidity Coverage Ratio (LCR), which is a severe short term liquidity stress scenario mandated by banking regulators globally, including APRA. As part of meeting LCR requirements, ANZ has a Committed Liquidity Facility (CLF) with the Reserve Bank of Australia (RBA). The CLF has been established to offset the shortage of available High Quality Liquid Assets (HQLA) in Australia and provides an alternative form of contingent liquidity. The CLF is collateralised by assets, including internal residential mortgage backed securities, that are eligible to be pledged as security with the RBA. The total amount of the CLF available to a qualifying Authorised Deposit-taking Institution (ADI) is set annually by APRA. From 1 January 2021, ANZ's CLF is \$10.7 billion (2020 calendar year end: \$35.7 billion). The 2021 CLF reduction is driven by the increase in government securities outstanding in Australia that are available for ADIs to hold. APRA has indicated that if this increase continues, the CLF may no longer be required in the foreseeable future.

### • Liquid assets

The Group holds a portfolio of high quality unencumbered liquid assets in order to protect the Group's liquidity position in a severely stressed environment, as well as to meet regulatory requirements. High Quality Liquid Assets comprise three categories, with the definitions consistent with Basel 3 LCR:

- Highest-quality liquid assets (HQLA1): Cash, highest credit quality government, central bank or public sector securities eligible for repurchase with central banks to provide same-day liquidity.
- High-quality liquid assets (HQLA2): High credit quality government, central bank or public sector securities, high quality corporate debt securities and high quality covered bonds eligible for repurchase with central banks to provide same-day liquidity.
- Alternative liquid assets (ALA): Assets qualifying as collateral for the CLF and other eligible securities listed by the Reserve Bank of New Zealand (RBNZ).

In March 2020, in response to the economic impact of COVID-19, the RBA implemented a Term Funding Facility (TFF). Under the TFF, the RBA has offered three-year funding to ADI's secured by RBA eligible collateral. ADIs can include the undrawn but available TFF as a liquid asset for the LCR, representing a committed central bank facility that can be drawn at the ADI's discretion. ANZ's undrawn but available TFF is represented below by the assets that are eligible to be pledged as security with the RBA.

In November 2020, in response to the economic impact of COVID-19, the RBNZ implemented a Funding for Lending Programme (FLP). Under the FLP the RBNZ has offered three-year funding to eligible counterparties secured by approved eligible collateral. APRA has advised that the undrawn but available FLP can be included as a cash inflow for the LCR. As the Level 2 LCR excludes liquid assets held above the NZ dollar LCR of 100%, the undrawn but available FLP has also reduced the reported Level 2 liquid assets.

The Group monitors and manages the size and composition of its liquid assets portfolio on an ongoing basis in line with regulatory requirements and the risk appetite set by the Board.

	Half Year Average			Movement	
	Mar 21 \$B	Sep 20 \$B	Mar 20 \$B	Mar 21 v. Sep 20	Mar 21 v. Mar 20
<b>Market Values Post Discount<sup>1</sup></b>					
HQLA1	186.2	164.6	159.3	13%	17%
HQLA2	10.4	9.9	9.6	5%	8%
Internal Residential Mortgage Backed Securities <sup>2</sup>	18.5	35.3	27.7	-48%	-33%
Other ALA <sup>2</sup>	7.9	8.6	12.8	-8%	-38%
Total liquid assets	223.0	218.4	209.4	2%	6%
<b>Cash flows modelled under stress scenario</b>					
Cash outflows	203.2	203.0	191.9	0%	6%
Cash inflows	41.3	45.4	41.2	-9%	0%
Net cash outflows	161.9	157.6	150.7	3%	7%
<b>Liquidity Coverage Ratio<sup>3</sup></b>	138%	139%	139%	-1%	-1%

<sup>1</sup> Half year average basis, calculated as prescribed per APRA Prudential Regulatory Standard (APS 210 Liquidity) and consistent with APS 330 requirements.

<sup>2</sup> Comprised of assets qualifying as collateral for the CLF and TFF up to approved facility limit; and any liquid assets as defined in the RBNZ's Liquidity Policy - Annex: Liquidity Assets - Prudential Supervision Department Document BS13A12.

<sup>3</sup> All currency Level 2 LCR.

## Funding - including discontinued operations

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

\$3.8 billion of term wholesale debt (all of which was subordinated) with a remaining term greater than one year as at 31 March 2021 was issued during the half.

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

	As at			Movement	
	Mar 21 \$B	Sep 20 \$B	Mar 20 \$B	Mar 21 v. Sep 20	Mar 21 v. Mar 20
<b>Customer deposits and other liabilities</b>					
Australia Retail and Commercial	241.3	234.6	213.0	3%	13%
Institutional	223.6	223.3	258.5	0%	-14%
New Zealand	93.2	91.0	91.2	2%	2%
Pacific	3.4	3.5	3.8	-3%	-11%
Customer deposits	561.5	552.4	566.5	2%	-1%
Other funding liabilities <sup>1,2</sup>	8.9	8.9	11.1	0%	-20%
<b>Total customer liabilities (funding)</b>	<b>570.4</b>	<b>561.3</b>	<b>577.6</b>	<b>2%</b>	<b>-1%</b>
<b>Wholesale funding</b>					
Debt issuances and Term Funding Facility	96.0	110.6	119.1	-13%	-19%
Subordinated debt	23.7	21.1	21.1	12%	12%
Certificates of deposit	40.0	32.5	37.9	23%	6%
Commercial paper	26.1	9.1	21.8	large	20%
Other wholesale borrowings <sup>3,4</sup>	87.9	104.2	130.0	-16%	-32%
<b>Total wholesale funding</b>	<b>273.7</b>	<b>277.5</b>	<b>329.9</b>	<b>-1%</b>	<b>-17%</b>
Shareholders' equity	62.6	61.3	61.4	2%	2%
<b>Total funding</b>	<b>906.7</b>	<b>900.1</b>	<b>968.9</b>	<b>1%</b>	<b>-6%</b>

<sup>1</sup> Includes interest accruals, payables and other liabilities, provisions and net tax provisions.

<sup>2</sup> Excludes liability for acceptances as they do not provide net funding.

<sup>3</sup> Includes borrowings from banks, securities sold under repurchase agreements, net derivative balances, special purpose vehicles and other borrowings.

<sup>4</sup> Includes RBA open repurchase arrangement netted down by the corresponding exchange settlement account cash balance.

## Net Stable Funding Ratio

The following table shows the Level 2 Net Stable Funding Ratio (NSFR) composition:

	As at			Movement	
	Mar 21 \$B	Sep 20 \$B	Mar 20 \$B	Mar 21 v. Sep 20	Mar 21 v. Mar 20
<b>Required Stable Funding<sup>1</sup></b>					
Retail & small and medium enterprises, corporate loans <35% risk weight <sup>2</sup>	196.0	188.1	187.4	4%	5%
Retail & small and medium enterprises, corporate loans >35% risk weight <sup>2</sup>	179.0	174.7	193.2	2%	-7%
Other lending <sup>3</sup>	29.7	28.6	26.9	4%	10%
Liquid assets	12.1	15.3	16.0	-21%	-24%
Other assets <sup>4</sup>	37.2	38.6	45.3	-4%	-18%
<b>Total Required Stable Funding</b>	<b>454.0</b>	<b>445.3</b>	<b>468.8</b>	<b>2%</b>	<b>-3%</b>
<b>Available Stable Funding<sup>1</sup></b>					
Retail & small and medium enterprise customer deposits	275.7	271.7	257.3	1%	7%
Corporate, public sector entities & operational deposits	105.9	104.3	110.0	2%	-4%
Central bank & other financial institution deposits	4.7	5.1	5.5	-8%	-15%
Term funding <sup>5</sup>	70.7	87.9	95.8	-20%	-26%
Short term funding & other liabilities	5.6	1.4	1.4	large	large
Capital	85.0	80.9	82.1	5%	4%
<b>Total Available Stable Funding</b>	<b>547.6</b>	<b>551.3</b>	<b>552.1</b>	<b>-1%</b>	<b>-1%</b>
<b>Net Stable Funding Ratio</b>	<b>121%</b>	<b>124%</b>	<b>118%</b>	<b>-3%</b>	<b>3%</b>

<sup>1</sup> NSFR factored balance as per APRA Prudential Regulatory Standard APS 210 Liquidity.

<sup>2</sup> Risk weighting as per APRA Prudential Regulatory Standard APS 112 Capital Adequacy: Standardised Approach to Credit Risk.

<sup>3</sup> Includes financial institution, central bank and non-performing loans.

<sup>4</sup> Includes off-balance sheet items, net derivatives and other assets.

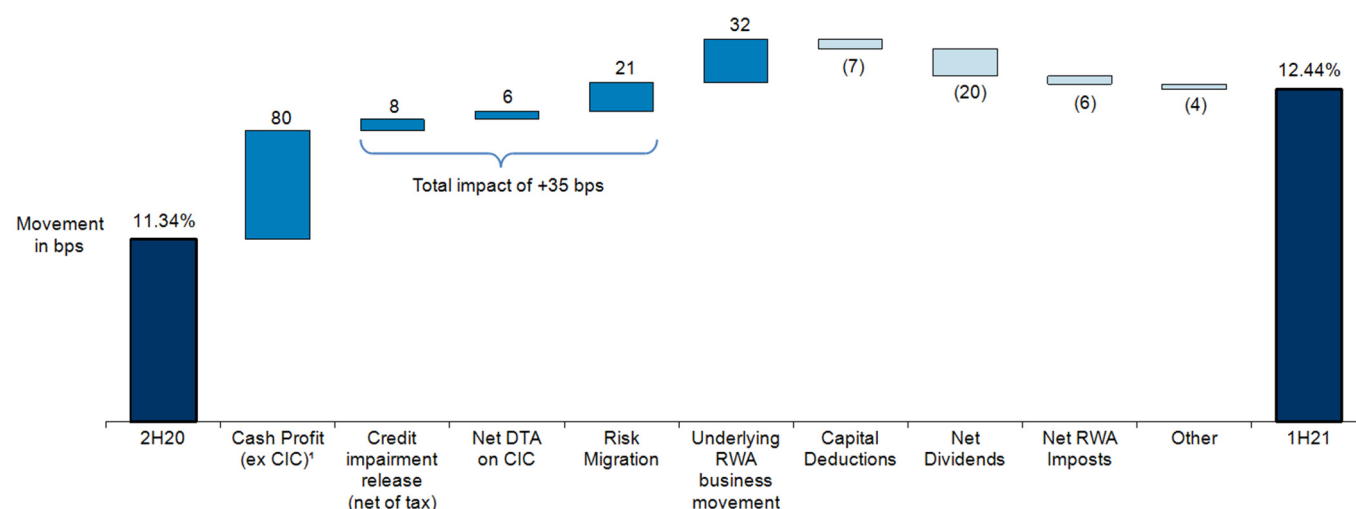
<sup>5</sup> Includes balances from the drawdown of the RBA Term Funding Facility (TFF).

## Capital Management - including discontinued operations

	As at					
	APRA Basel 3			Internationally Comparable Basel 3 <sup>1</sup>		
	Mar 21	Sep 20	Mar 20	Mar 21	Sep 20	Mar 20
<b>Capital Ratios (Level 2)</b>						
Common Equity Tier 1	12.4%	11.3%	10.8%	18.1%	16.7%	15.5%
Tier 1	14.3%	13.2%	12.5%	20.5%	19.1%	17.8%
Total capital	18.3%	16.4%	15.5%	25.7%	23.3%	21.5%
Risk weighted assets (\$B)	408.2	429.4	449.0	317.5	331.5	353.7

<sup>1</sup> Internationally Comparable methodology aligns with APRA's information paper entitled "International Capital Comparison Study" (13 July 2015).

## APRA Basel 3 Common Equity Tier 1 (CET1) - March 2021 v September 2020



<sup>1</sup> Excludes large/notable and one off items for the purposes of Regulatory Capital Management attribution which are included in 'other' with the exception of the Asian associate items and the loss on reclassification of ANZ Share Investing to held for sale which are nil impact to capital since it results in an equivalent reduction in capital deductions. Refer to pages 13 to 17.

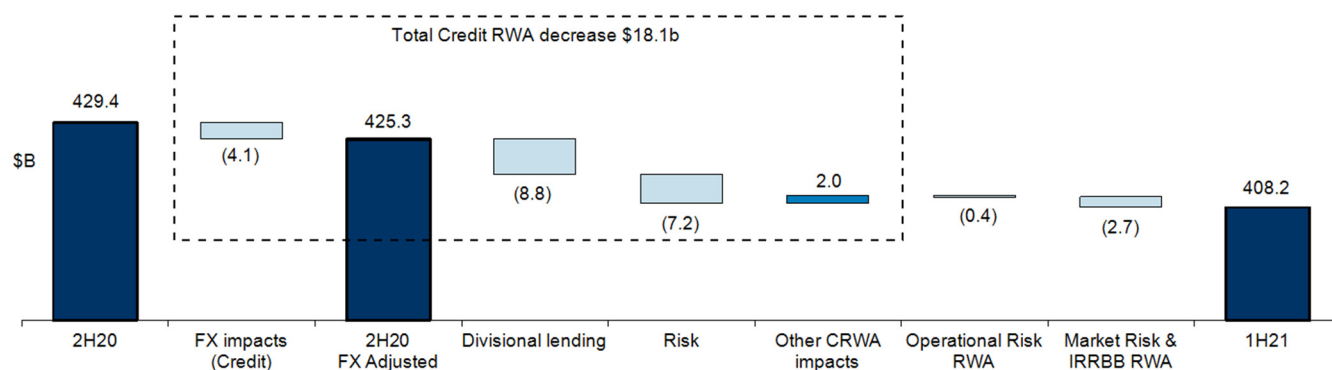
- March 2021 v September 2020**

ANZ's CET1 ratio increased 110 bps to 12.4% during the March 2021 half. Key drivers of the movement in the CET1 ratio were:

- Cash Profit (excluding large/notable items and credit impairment impact) increased the CET1 ratio by +80 bps.
- Benefits from credit impairment release including the associated deferred tax assets (DTA) impacts, along with RWA risk migration benefits mainly from Australian mortgages portfolio associated with lower RWA intensity in part due to changes in household saving and spending patterns through the COVID-19 period, increased the CET1 ratio by +35 bps.
- Lower business RWA usage (excluding foreign currency translation movements, regulatory changes, risk migration and other one-offs) increased CET1 ratio by +32 bps. This was mainly driven by a reduction in underlying CRWA in the Institutional division and an overall reduction in non CRWA from movements mainly in Interest Rate Risk in the Banking Book (IRRBB).
- Capital deduction of -7 bps was driven by the movements in retained earnings in deconsolidated entities, expected losses in excess of eligible provision shortfall and other intangible movements in the period.
- Payment of the 2020 final dividend (net of BOP and DRP issuance) reduced the CET1 ratio by -20 bps.
- Net RWA impostes decreased the CET1 ratio by -6 bps.
- Other impacts totalling -4 bps including large/notable adjustments from customer remediation, restructuring and litigation costs (-6 bps) offset by other minor impacts of +2 bps.

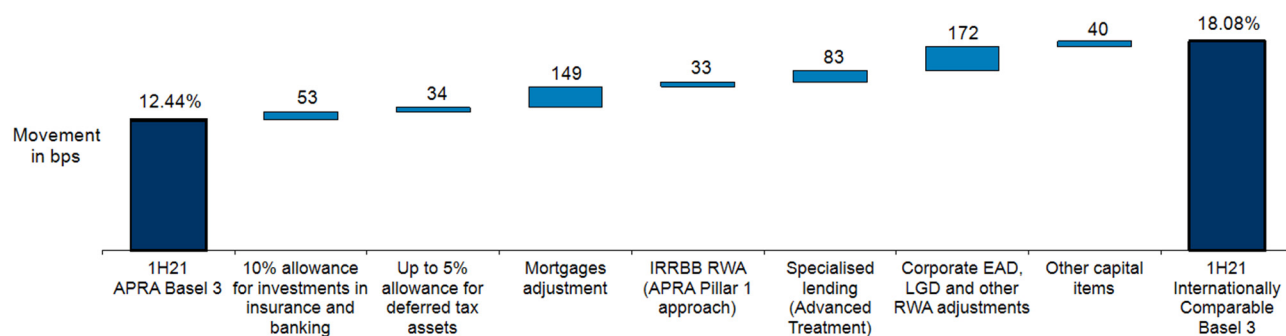
Total Risk Weighted Assets	As at			Movement	
	Mar 21 \$B	Sep 20 \$B	Mar 20 \$B	Mar 21 v. Sep 20	Mar 21 v. Mar 20
Credit RWA	341.9	360.0	386.0	-5%	-11%
Market risk and IRRBB RWA	19.1	21.8	15.1	-12%	26%
Operational RWA	47.2	47.6	47.9	-1%	-1%
<b>Total RWA</b>	<b>408.2</b>	<b>429.4</b>	<b>449.0</b>	<b>-5%</b>	<b>-9%</b>

## Total Risk Weighted Assets (RWA) - March 2021 v September 2020



- March 2021 v September 2020

Total RWA decreased \$21.2 billion. Excluding the impact of foreign currency translation movements and other non-recurring CRWA changes, underlying CRWAs (divisional lending and risk migration) decreased \$16.0 billion, mainly driven by lending reduction in the Institutional division and reduced risk migration in the Australia Retail and Commercial division. Other CRWA impacts include net changes from RWA imposts. The decrease in non-CRWA of \$3.1 billion was mainly driven by IRRBB reduction of \$3.4 billion, mostly from improvement in embedded gains combined with reduction in repricing and yield curve risk.

APRA to Internationally Comparable<sup>1</sup> Common Equity Tier 1 (CET1) as at 31 March 2021

<sup>1</sup> ANZ's interpretation of the regulations documented in the Basel Committee publications: "Basel 3: A global regulatory framework for more resilient banks and banking systems" (June 2011) and "International Convergence of Capital Measurement and Capital Standards" (June 2006). Also includes differences identified in APRA's information paper entitled "International Capital Comparison Study" (13 July 2015).

The above provides a reconciliation of the CET1 ratio under APRA's Basel 3 prudential capital standards to Internationally Comparable Basel 3 standards. APRA views the Basel 3 reforms as a minimum requirement and hence has not incorporated some of the concessions proposed in the Basel 3 rules and has also set higher requirements in other areas. As a result, Australian banks' Basel 3 reported capital ratios will not be directly comparable with international peers. The International Comparable Basel 3 CET1 ratio incorporates differences between APRA and both the Basel Committee Basel 3 framework (including differences identified in the March 2014 Basel Committee's Regulatory Consistency Assessment Programme (RCAP) on Basel 3 implementation in Australia) and its application in major offshore jurisdictions.

The material differences between APRA Basel 3 and Internationally Comparable Basel 3 ratios include:

## Deductions

- Investments in insurance and banking associates - APRA requires full deduction against CET1. On an Internationally Comparable basis, these investments are subject to a concessional threshold before a deduction is required.
- Deferred tax assets - A full deduction is required from CET1 for deferred tax assets relating to temporary differences. On an Internationally Comparable basis, this is first subject to a concessional threshold before the deduction is required.

## Risk Weighted Assets (RWA)

- Mortgages RWA - APRA imposes a floor of 20% on the downturn Loss Given Default (LGD) used in credit RWA calculations for residential mortgages. The Internationally Comparable Basel 3 framework requires a downturn LGD floor of 10%. Additionally, from July 2016, APRA requires a higher correlation factor than the Basel framework.
- IRRBB RWA - APRA requires inclusion of IRRBB within the RWA base for the CET1 ratio calculation. This is not required on an Internationally Comparable basis.
- Specialised lending - APRA requires the supervisory slotting approach to be used in determining credit RWA for specialised lending exposures. The Internationally Comparable basis allows for the advanced internal ratings based approach to be used when calculating RWA for these exposures.
- Unsecured Corporate Lending LGD - an adjustment to align ANZ's unsecured corporate lending LGD to 45% to be consistent with banks in other jurisdictions. The 45% LGD rate is also used in the Foundation Internal Ratings-Based approach (FIRB).
- Undrawn Corporate Lending Exposure at Default (EAD) - an adjustment to ANZ's credit conversion factors (CCF) for undrawn corporate loan commitments to 75% (used in FIRB approach) to align with banks in other jurisdictions.