Financial Report

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FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

INCOME STATEMENTS

For the year ended 30 September	Note	Consolidated 2021 $m	Consolidated 2020 $m	The Company 2021 $m	The Company 2020 $m
Interest income[1]		19,529	24,426	15,347	19,362
Interest expense		(5,368)	(10,377)	(4,822)	(8,926)
Net interest income	2	14,161	14,049	10,525	10,436
Other operating income	3	3,325	3,355	4,854	3,652
Net income from insurance business	3	110	78	-	-
Share of associates' profit/(loss)	3	(176)	155	(1)	(1)
Operating income		17,420	17,637	15,378	14,087
Operating expenses	4	(9,051)	(9,383)	(7,594)	(7,788)
Profit before credit impairment and income tax		8,369	8,254	7,784	6,299
Credit impairment (charge)/release	14	567	(2,738)	469	(2,337)
Profit before income tax		8,936	5,516	8,253	3,962
Income tax expense	5	(2,756)	(1,840)	(1,922)	(1,156)
Profit after tax from continuing operations		6,180	3,676	6,331	2,806
Profit/(Loss) after tax from discontinued operations	29	(17)	(98)	-	-
Profit for the year		6,163	3,578	6,331	2,806
Comprising:					
Profit attributable to shareholders of the Company		6,162	3,577	6,331	2,806
Profit attributable to non-controlling interests		1	1	-	-

For the year ended 30 September	Note	Consolidated 2021	Consolidated 2020
Earnings per ordinary share (cents) including discontinued operations			
Basic	7	217.1	126.4
Diluted	7	204.9	118.0
Earnings per ordinary share (cents) from continuing operations			
Basic	7	217.7	129.8
Diluted	7	205.4	121.1
Dividend per ordinary share (cents)	6	142	60

1. Includes interest income calculated using the effective interest method on financial assets measured at amortised cost or fair value through other comprehensive income of $19,054 million (2020: $23,787 million) in the Group and $14,363 million (2020: $18,073 million) in the Company.

The notes appearing on pages 120 to 243 form an integral part of these financial statements.

STATEMENTS OF COMPREHENSIVE INCOME

For the year ended 30 September	Consolidated 2021 $m	Consolidated 2020 $m	The Company 2021 $m	The Company 2020 $m
Profit for the year from continuing operations	6,180	3,676	6,331	2,806
Other comprehensive income				
Items that will not be reclassified subsequently to profit or loss				
Investment securities - equity securities at FVOCI	80	(157)	67	(151)
Other reserve movements	(41)	13	(95)	23
Items that may be reclassified subsequently to profit or loss				
Foreign currency translation reserve[1]	456	(550)	(14)	(109)
Other reserve movements	(1,052)	712	(1,003)	587
Income tax attributable to the above items	301	(180)	303	(149)
Share of associates' other comprehensive income[2]	(48)	51	-	-
Other comprehensive income after tax from continuing operations	(304)	(111)	(742)	201
Profit/(Loss) after tax from discontinued operations	(17)	(98)	-	-
Other comprehensive income after tax from discontinued operations	-	-	-	-
Total comprehensive income for the year	5,859	3,467	5,589	3,007
Comprising total comprehensive income attributable to:				
Shareholders of the Company	5,858	3,467	5,589	3,007
Non-controlling interests	1	-	-	-

1. Includes foreign currency translation differences attributable to non-controlling interests of nil (2020: $1 million loss) in the Group.
2. Share of associates' other comprehensive income includes a FVOCI reserve loss of $42 million (2020: $48 million gain), defined benefits loss of $5 million (2020: $3 million gain), cash flow hedge reserve gain of $1 million (2020: $1 million loss) and a foreign currency translation reserve loss of $2 million (2020: $1 million gain) that may be reclassified subsequently to profit or loss in the Group.

The notes appearing on pages 120 to 243 form an integral part of these financial statements.

BALANCE SHEETS

		Consolidated		The Company	
As at 30 September	Note	2021 $m	2020 $m	2021 $m	2020 $m
Assets					
Cash and cash equivalents	9	151,260	107,923	141,436	98,083
Settlement balances owed to ANZ		7,530	7,541	7,183	7,116
Collateral paid[1]		9,166	14,308	8,343	13,012
Trading securities	10	44,688	50,913	34,752	38,423
Derivative financial instruments[1]	11	38,736	135,331	38,292	130,552
Investment securities	12	83,126	93,391	67,940	80,284
Net loans and advances	13	629,719	617,093	488,487	488,002
Regulatory deposits		671	801	213	199
Due from controlled entities		-	-	23,530	24,017
Shares in controlled entities	25	-	-	15,693	15,022
Investments in associates	26	1,972	2,164	20	20
Current tax assets		57	161	55	155
Deferred tax assets		2,339	2,124	1,887	1,744
Goodwill and other intangible assets	21	4,124	4,379	1,017	1,097
Premises and equipment		2,734	3,013	2,415	2,643
Other assets		2,735	3,144	1,909	2,072
Total assets		978,857	1,042,286	833,172	902,441
Liabilities					
Settlement balances owed by ANZ		17,427	22,241	14,922	19,556
Collateral received[1]		5,657	9,304	5,148	8,074
Deposits and other borrowings	15	743,056	682,333	606,723	558,136
Derivative financial instruments[1]	11	36,035	134,711	37,005	131,230
Due to controlled entities		-	-	23,079	24,295
Current tax liabilities		419	349	193	81
Deferred tax liabilities		70	80	70	79
Payables and other liabilities		8,647	9,128	7,244	8,070
Employee entitlements		602	596	447	441
Other provisions	22	2,214	2,579	1,873	2,157
Debt issuances	16	101,054	119,668	81,088	97,050
Total liabilities		915,181	980,989	777,792	849,169
Net assets		63,676	61,297	55,380	53,272
Shareholders' equity					
Ordinary share capital	23	25,984	26,531	25,907	26,454
Reserves	23	1,228	1,501	341	1,018
Retained earnings	23	36,453	33,255	29,132	25,800
Share capital and reserves attributable to shareholders of the Company	23	63,665	61,287	55,380	53,272
Non-controlling interests	23	11	10	-	-
Total shareholders' equity	23	63,676	61,297	55,380	53,272

1. During 2021, a change was made to the legal arrangements for the settlement of derivative transactions with a central clearing counterparty which resulted in the reduction of derivative financial instrument assets by $55.1 billion, derivative financial instrument liabilities by $55.2 billion and net collateral paid by $0.1 billion.

The notes appearing on pages 120 to 243 form an integral part of these financial statements.

CASH FLOW STATEMENTS

For the year ended 30 September	Consolidated 2021 $m	Consolidated 2020 $m	The Company 2021 $m	The Company 2020 $m
Profit after income tax	6,163	3,578	6,331	2,806
Adjustments to reconcile to net cash provided by/(used in) operating activities:				
Allowance for expected credit losses	(567)	2,738	(469)	2,337
Impairment of investment in associates	-	815	-	-
Depreciation and amortisation[1]	1,087	1,391	959	1,214
Goodwill impairment	-	77	-	10
(Profit)/Loss on sale of premises and equipment	(11)	(8)	(11)	-
Net derivatives/foreign exchange adjustment[2]	(6,350)	(2,678)	(4,374)	(1,807)
(Gain)/Loss on sale from divestments	238	25	(12)	11
Other non-cash movements	(237)	(80)	(456)	64
Net (increase)/decrease in operating assets:				
Collateral paid	4,995	283	4,484	33
Trading securities	10	(1,803)	(2,778)	1,908
Net loans and advances	(8,259)	(7,119)	(300)	(7,526)
Net intra-group loans and advances	-	-	(1,212)	(393)
Other assets	143	(76)	89	(26)
Net increase/(decrease) in operating liabilities:				
Deposits and other borrowings[3]	48,896	39,873	41,908	28,660
Settlement balances owed by ANZ	(4,928)	11,476	(4,671)	10,286
Collateral received	(3,466)	1,739	(2,728)	1,426
Other liabilities[2]	6,108	(9,949)	5,579	(9,489)
Total adjustments	37,659	36,704	36,008	26,708
Net cash (used in)/provided by operating activities[4]	43,822	40,282	42,339	29,514
Cash flows from investing activities				
Investment securities assets:				
Purchases	(52,639)	(40,029)	(23,040)	(33,731)
Proceeds from sale or maturity	63,445	28,642	35,493	25,346
Proceeds from divestments, net of cash disposed	13	1,309	-	688
Repayment of IOOF secured notes	-	(800)	-	(800)
Net movement in shares in controlled entities	-	-	(175)	(75)
Net investments in other assets	(561)	(587)	(650)	(567)
Net cash (used in)/provided by investing activities	10,258	(11,465)	11,628	(9,139)
Cash flows from financing activities				
Deposits and other borrowings drawn down[3]	9,310	12,002	8,091	12,002
Debt issuances:[5]				
Issue proceeds	12,624	12,260	9,517	10,064
Redemptions	(27,709)	(21,430)	(23,104)	(17,179)
Dividends paid[6]	(2,834)	(2,861)	(2,834)	(2,861)
On market purchase of treasury shares	(79)	(122)	(79)	(122)
Repayment of lease liabilities	(330)	(281)	(288)	(267)
Share buyback	(654)	-	(654)	-
Net cash (used in)/provided by financing activities	(9,672)	(432)	(9,351)	1,637
Net (decrease)/increase in cash and cash equivalents	44,408	28,385	44,616	22,012
Cash and cash equivalents at beginning of year	107,923	81,621	98,083	77,949
Effects of exchange rate changes on cash and cash equivalents	(1,071)	(2,083)	(1,263)	(1,878)
Cash and cash equivalents at end of year	151,260	107,923	141,436	98,083

1. 2020 includes accelerated amortisation of $197 million for the Group and $184 million for the Company following the Group's change in the application of its software amortisation policy in 2020.
2. Certain non-cash adjustments were reclassified from Other liabilities to Net derivatives/foreign exchange adjustment within Net cash (used in)/ provided by operating activities to better reflect the nature of the item. Comparatives have been restated (2020 Group and Company reduction to net derivative foreign exchange adjustment: $368 million).
3. Funding in relation to TFF has been reclassified from operating activities to financing activities. Comparatives have been restated (2020 Group: $12,002 million; 2020 Company: $12,002 million).
4. Net cash (used in)/provided by operating activities for the Group includes interest received of $19,649 million (2020: $24,791 million), interest paid of $5,793 million (2020: $11,156 million) and income taxes paid of $2,427 million (2020: $2,348 million). Net cash (used in)/provided by operating activities for the Company includes interest received of $15,435 million (2020: $19,657 million), interest paid of $5,117 million (2020: $9,577 million) and income taxes paid of $1,541 million (2020: $1,596 million).
5. Non-cash changes in debt issuances includes fair value hedging gain of $1,488 million (2020: $1,127 million loss) and foreign exchange gains of $1,525 million (2020: $1,623 million gain) for the Group, and fair value hedging gain of $1,114 million (2020: $532 million loss) and foreign exchange gains of $1,262 million (2020: $858 million loss) for the Company.
6. Cash outflow for shares purchased to satisfy the dividend reinvestment plan are classified in Dividends paid.

The notes appearing on pages 120 to 243 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

Consolidated	Ordinary share capital $m	Reserves $m	Retained earnings $m	Share capital and reserves attributable to shareholders of the Company $m	Non-controlling interests $m	Total shareholders' equity $m
As at 1 October 2019	26,490	1,629	32,664	60,783	11	60,794
Impact on transition to AASB 16	-	-	(88)	(88)	-	(88)
Profit or loss from continuing operations	-	-	3,675	3,675	1	3,676
Profit or loss from discontinued operations	-	-	(98)	(98)	-	(98)
Other comprehensive income for the year from continuing operations	-	(124)	14	(110)	(1)	(111)
Other comprehensive income for the year from discontinued operations	-	-	-	-	-	-
Total comprehensive income for the year	-	(124)	3,591	3,467	-	3,467
Transactions with equity holders in their capacity as equity holders:						
Dividends paid	-	-	(2,922)	(2,922)	-	(2,922)
Dividend Reinvestment Plan	61	-	-	61	-	61
Other equity movements:						
Group employee share acquisition scheme	(20)	-	-	(20)	-	(20)
Other items	-	(4)	10	6	(1)	5
As at 30 September 2020	26,531	1,501	33,255	61,287	10	61,297
Profit or loss from continuing operations	-	-	6,179	6,179	1	6,180
Profit or loss from discontinued operations	-	-	(17)	(17)	-	(17)
Other comprehensive income for the year from continuing operations	-	(264)	(40)	(304)	-	(304)
Other comprehensive income for the year from discontinued operations	-	-	-	-	-	-
Total comprehensive income for the year	-	(264)	6,122	5,858	1	5,859
Transactions with equity holders in their capacity as equity holders:						
Dividends paid	-	-	(2,928)	(2,928)	-	(2,928)
Dividend Reinvestment Plan[1]	94	-	-	94	-	94
Group share buy-back[2]	(654)	-	-	(654)	-	(654)
Other equity movements:						
Group employee share acquisition scheme	13	-	-	13	-	13
Other items	-	(9)	4	(5)	-	(5)
As at 30 September 2021	25,984	1,228	36,453	63,665	11	63,676

[1] 4.2 million shares were issued under the Dividend Reinvestment Plan (DRP) for the 2020 final dividend (3.4 million shares for the 2020 interim dividend); Nil for 2021 interim dividend and 2019 final 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 2021 were $199 million (2020: $185 million).

[2] The Company commenced a $1.5 billion on-market share buy-back on 4 August 2021. This resulted in 23 million shares ($654 million) being cancelled in the September 2021 half and a further 2 million shares ($55 million) being cancelled after 30 September 2021 in respect of purchase orders placed but not settled at 30 September 2021.

The notes appearing on pages 120 to 243 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

The Company	Ordinary share capital $m	Reserves $m	Retained earnings $m	Total shareholders' equity $m
As at 1 October 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
Profit for the year	-	-	6,331	6,331
Other comprehensive income for the year	-	(668)	(74)	(742)
Total comprehensive income for the year	-	(668)	6,257	5,589
Transactions with equity holders in their capacity as equity holders:				
Dividends paid	-	-	(2,928)	(2,928)
Dividend Reinvestment Plan[1]	94	-	-	94
Group share buy-back[2]	(654)	-	-	(654)
Other equity movements:				
Group employee share acquisition scheme	13	-	-	13
Other items	-	(9)	3	(6)
As at 30 September 2021	25,907	341	29,132	55,380

1. 4.2 million shares were issued under the Dividend Reinvestment Plan (DRP) for the 2020 final dividend (3.4 million shares for the 2020 interim dividend); Nil for 2021 interim dividend and 2019 final 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 2021 were $199 million (2020: $185 million).
2. The Company commenced a $1.5 billion on-market share buy-back on 4 August 2021. This resulted in 23 million shares ($654 million) being cancelled in the September 2021 half and a further 2 million shares ($55 million) being cancelled after 30 September 2021 in respect of purchase orders placed but not settled at 30 September 2021.

The notes appearing on pages 120 to 243 form an integral part of these financial statements.

Notes to the financial statements

1. ABOUT OUR FINANCIAL STATEMENTS

These are the financial statements for Australia and New Zealand Banking Group Limited ('the Company') and its controlled entities (together, 'the Group' or 'ANZ') for the year ended 30 September 2021. The Company is incorporated and domiciled in Australia. The address of the Company's registered office and its principal place of business is ANZ Centre, 833 Collins Street, Docklands, Victoria, Australia 3008. The Group provides banking and financial services to individuals and business customers and operates in and across 32 markets.

On 27 October 2021, the Directors resolved to authorise the issue of these financial statements.

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

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

This section of the financial statements:

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

BASIS OF PREPARATION

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

We present the financial statements of the Group in Australian dollars, which is the Company's functional and presentation currency. We have rounded values to the nearest million dollars ($m), unless otherwise stated, as allowed under the *ASIC Corporations (Rounding in Financial/Directors Report) Instrument 2016/191*. We measure the financial statements of each entity in the Group using the currency of the primary economic environment in which that entity operates (the functional currency).

BASIS OF MEASUREMENT

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

- derivative financial instruments and in the case of fair value hedging, a fair value adjustment made to the underlying hedged item;
- financial instruments held for trading;
- financial assets and financial liabilities designated at fair value through profit or loss;
- financial assets at fair value through other comprehensive income; and
- assets and liabilities classified as held for sale (except those at carrying value).

In accordance with AASB 119 *Employee Benefits* (AASB 119) we have measured defined benefit obligations using the Projected Unit Credit Method.

DISCONTINUED OPERATIONS

The sale of Wealth Australia business to IOOF Holdings Limited (IOOF) and Zurich Financial Services Australia (Zurich) completed across 2020 and 2019. The financial results of these divested businesses are treated as discontinued operations from a financial reporting perspective.

BASIS OF CONSOLIDATION

The consolidated financial statements of the Group comprise the financial statements of the Company and all its subsidiaries. An entity, including a structured entity, is considered a subsidiary of the Group when we determine that the Company has control over the entity. Control exists when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. We assess power by examining existing rights that give the Company the current ability to direct the relevant activities of the entity. We have eliminated, on consolidation, the effect of all transactions between entities in the Group.

1. ABOUT OUR 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 the functional currency at the relevant spot rate. Any foreign currency translation gains or losses that arise are included in profit or loss in the period they arise.

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

FINANCIAL STATEMENTS OF FOREIGN OPERATIONS THAT HAVE A FUNCTIONAL CURRENCY THAT IS NOT AUSTRALIAN DOLLARS

The financial statements of our foreign operations are translated into Australian dollars for consolidation into the Group Financial Statements using the following method:

Foreign currency item	Exchange rate used
Assets and liabilities	The reporting date rate
Equity	The initial investment date rate
Income and expenses	The average rate for the period – but if for a significant transaction we believe the average rate is not reasonable, then we use the rate at the date of the transaction

Exchange differences arising from the translation of financial statements of foreign operations are recognised in the foreign currency translation reserve in equity. When we dispose of a foreign operation, the cumulative exchange differences are transferred to profit or loss.

FIDUCIARY ACTIVITIES

The Group provides fiduciary services to third parties including custody, nominee and trustee services. This involves the Group holding assets on behalf of third parties and making decisions regarding the purchase and sale of financial instruments. If ANZ is not the beneficial owner or does not control the assets, then we do not recognise these transactions in these financial statements, except when required by accounting standards or another legislative requirement.

KEY JUDGEMENTS AND ESTIMATES

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

Coronavirus (COVID-19) pandemic

The COVID-19 pandemic and its ongoing effects on the global economy has continued to impact our customers, operations and Group performance. Governments have responded at unprecedented levels to protect the health of the population, local economies and livelihoods. The course of the pandemic and vaccination levels has varied across the globe and government responses have differed in their extent and timing. Economies are reopening at different rates whilst the risk of subsequent waves of infection remain. Thus there remains an elevated level of estimation uncertainty involved 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 in the ongoing management of the virus;
- the impact and expected response of the economy (and forecasts of key economic factors including GDP, employment and house prices). This includes the response of capital markets, and the impacts on credit quality, liquidity, unemployment, consumer spending, as well as specific sector impacts; and
- the efficacy of vaccines against variants of the virus, and the effectiveness of government and central bank measures to support businesses and consumers through this disruption.

The Group has made various accounting estimates in this Financial Report based on forecasts of economic conditions which reflect expectations and assumptions as at 30 September 2021 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 outside the control of the Group. Accordingly, actual economic conditions are likely to be different from those forecast since anticipated events frequently do not occur as expected, and the effect of those differences may significantly impact accounting estimates included in these financial statements.

The significant accounting estimates impacted by these forecasts and associated uncertainties are predominantly related to expected credit losses and recoverable amounts 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 OUR FINANCIAL STATEMENTS (continued)

ACCOUNTING STANDARDS ADOPTED IN THE PERIOD

INTEREST RATE BENCHMARK REFORM

Interbank offered rates (IBORs), such as the London Interbank Offered Rate (LIBOR) have played a critical role in global financial markets, serving as reference rates for derivatives, loans and securities, and in the valuation of financial instruments. Uncertainty surrounding the integrity of IBOR rates has led to regulators and industry to transition away from IBOR to alternative risk-free benchmark reference rates (RFRs).

As had been anticipated, in March 2021 the UK Financial Conduct Authority (FCA) announced the dates on which IBORs will cease, after which representative IBOR rates will no longer be available. The cessation of the majority of IBOR rates will occur on 31 December 2021, notably for the Pound Sterling (GBP), Euro (EUR), Swiss Franc (CHF) and Japanese Yen (JPY) settings in their entirety, and the US Dollar (USD) 1-week and 2-month LIBOR settings. The Group has ceased issuing new products referencing these rates. Other USD LIBOR settings will cease by 30 June 2023.

The Group has exposure to IBORs through its loan and derivative transactions with customers, issuance of debt and its asset and liability management activities.

Other significant interest rate benchmarks applicable to the Group's banking activities with customers and our own risk management activities include the Euro Interbank Offered Rate (Euribor), the AUD Bank Bill Swap Rate (BBSW) and the NZ Bank Bill Market (BKBM). These are not impacted by IBOR reform and these benchmark rates are expected to remain for the foreseeable future.

Group approach to interest rate benchmark reform

The development of new RFR products and the migration of the Group's existing contracts that reference IBORs to RFRs exposes the Group to financial, compliance, legal and operational risks. The Group is managing the transition to RFRs and these risks through an enterprise-wide Benchmark Transition Program (the Program), which is overseen by a formal Steering Committee of senior executives. The Program provides regular updates to the Group Executive and Board Audit & Board Risk committees.

The IBOR reforms have a wide-ranging impact for the Group and our customers given the fundamental differences between IBORs and RFRs. RFRs are available both as backward-looking in arrears rates and, for some currencies, as forward-looking term rates. The key difference between IBORs and RFRs is that IBOR rates include a term and bank credit risk premium, whereas RFRs do not. As a result of these differences, adjustments are required to an RFR to ensure contracts referencing an IBOR rate, transition on an economically comparable basis.

The Program includes the identification of impacted IBOR contracts across the Group, actions necessary to develop product capability and transition existing contracts to RFRs. This includes the assessment and mitigation of financial, legal and conduct risks arising from changes to pricing and valuation (largely interest rate risk), compliance risks arising from any potential non-compliance with relevant regulatory requirements, legal risks arising from changes to customer contracts, and operational risks including changes to IT systems, controls and reporting infrastructure. In undertaking these changes, the Group is actively engaging with various regulatory bodies across a number of countries in which the Group operates in respect of our IBOR transition readiness. From an industry perspective, the Group is also actively participating in, and contributing to, different RFR Working Groups, industry associations and business forums focusing on different aspects of interest rate benchmark reform.

To date, the Group has successfully transitioned a significant number of loan transactions that previously referenced an IBOR benchmark, to referencing an RFR benchmark rate. The Group has also commenced transitioning existing IBOR derivative trades to reference RFR benchmark rates. The Group continues to extend and deliver its RFR product suite and pricing options to be able support our customers in line with regulatory best practice guidelines.

The Program also includes the management of the impact on customers. The Group is well-progressed in ensuring all customer transition plans are finalised ahead of IBOR cessation dates, with the significant majority of our derivative counterparties with exposures referencing IBORs agreeing to amend existing contracts by adhering to the industry developed ISDA 2020 IBOR Fallbacks Protocol (ISDA Protocol) to facilitate a standardised and orderly transition to RFRs. The Group has also adhered to the ISDA Protocol.

In relation to our loan and transaction banking customers, the Group has commenced a proactive outreach program to ensure an orderly and well-managed migration to RFRs. Given that USD LIBOR will continue to be published for the most widely used settings until 30 June 2023, the Program is focussing on customer engagement with those customers whose arrangements reference IBORs ceasing on 31 December 2021.

1. ABOUT OUR FINANCIAL STATEMENTS (continued)

ACCOUNTING STANDARDS ADOPTED IN THE PERIOD (continued)

Changes to accounting standards

In 2018, given the uncertainty with regards to the longer term viability of IBORs, the International Accounting Standards Board (IASB) commenced a review of the financial reporting implications of the reforms, given the significant potential consequences for financial instrument accounting.

In October 2019, the Australian Accounting Standards Board (AASB) issued AASB 2019-3 *Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform – Phase 1*, which amended certain existing hedge accounting requirements to provide relief from potential effects of the uncertainty caused by the interest rate benchmark reform. The Group elected to early adopt the amendments from 1 October 2019, which have not had a significant impact on the Group.

In September 2020, the AASB issued AASB 2020-8 *Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform – Phase 2* (the Standard), which the Group early adopted from 1 April 2021. This Standard addresses issues that may affect the Group at the point of transition from an existing IBOR rate to a RFR, including the effects of changes to contractual cash flows or hedging relationships. The Standard includes amendments in respect of:

- Modification of a financial asset or a financial liability measured at amortised cost: IBOR reform is expected to result in a change to the basis for determining contractual cash flows of impacted assets and liabilities of the Group. The Standard provides a practical expedient to account for a change in the basis for determining the contractual cash flows by updating the effective interest rate. As a result, no immediate gain or loss is recognised. This applies only when the change is a direct consequence of IBOR reform, and the new basis for determining the contractual cash flows is economically comparable to the previous basis;
- Additional relief for hedging relationships: the Standard also amends a number of existing hedge accounting requirements such that the Group will not have to discontinue any hedge accounting relationships solely because of changes made because of the reform if all other hedge accounting criteria are met; and
- Additional disclosure requirements: the Standard amended AASB 7 *Financial Instruments: Disclosures* which requires additional qualitative and quantitative disclosures in relation to the impact of IBOR reforms on the Group. These disclosures are contained within this note.

Financial Impacts of IBOR reform

The following sets out the Group's impact assessment in relation to IBOR reforms as at 30 September 2021:

i) Impact for the year ended 30 September 2021

For the year ended 30 September 2021, the net impact of the IBOR reforms recognised in the Group's net profit after tax is not material. The impacts recognised in the current year include:

a) changes in the fair values of certain derivative financial instruments for which it is known at balance sheet date – as a result of regulatory pronouncements confirming IBOR cessation – that the fair valuation will incorporate a change to an RFR at a future date; and

b) revenue from a small number of customers in the Institutional division who have transitioned to loan and derivative contracts referencing an RFR by 30 September.

ii) Exposures subject to benchmark reform as at 30 September 2021

The table below shows the Group's exposure to interest rate benchmarks subject to IBOR reform. These are financial instruments that contractually reference an IBOR benchmark planned to transition to an RFR, and have a contractual maturity date beyond the planned IBOR cessation date.

	Financial Instruments yet to transition to RFRs			
	USD Libor	JPY Libor	GBP Libor	Others[1]
As at 30 September 2021	$m	$m	$m	$m
Loan and advances[2]	12,744	635	508	465
Non-derivative financial assets[2]	3,115	-	1,655	78
Non-derivative financial liabilities[3]	614	-	-	55
Derivative asset (notional value)[4]	515,816	58,264	21,916	16,096
Derivative liability (notional value)[4]	486,716	83,039	21,524	14,855
Loan commitments[2,5]	26,982	4	762	3,695

1. Comprises financial instruments referencing other significant benchmark rates subject to cessation yet to transition to alternative benchmarks.
2. Excludes Expected Credit Losses (ECL).
3. Comprises floating rate debt issuances by the Group.
4. For cross-currency swaps, where both the receive and pay legs are in currencies subject to reform, the Group discloses the Australian dollar-equivalent notional amounts for both. Where one leg of a swap is subject to reform, the Group discloses the notional amount of the receive leg.
5. For multi-currency IBOR referenced facilities, the undrawn balance has been allocated to the base currency of the facility. In the event the base currency interest rate is not subject to cessation, but can be drawn in a currency subject to cessation, the allocation is based on most likely currency of drawdown.

1. ABOUT OUR FINANCIAL STATEMENTS (continued)

ACCOUNTING STANDARDS ADOPTED IN THE PERIOD (continued)

iii) Hedge accounting exposures subject to IBOR reform

The Group has hedge-accounted relationships referencing IBORs, with the most significant being USD LIBOR, primarily due to fixed rate investment securities and the Group's fixed rate debt issuances denominated in USD that are designated in fair value hedge accounting relationships.

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

	As at 30 September 2021
Hedged items	$m
Investment securities at FVOCI	13,096
Net loans and advances	236
Deposits and other borrowings	577
Debt issuances	24,249

Hedging instruments	Notional designated up to 30 June 2023 $m	Notional designated beyond 30 June 2023 $m	Total notional amount $m
Fair value hedges	13,335	23,043	36,379
Cash flow hedges	458	258	716

As at 30 September 2021, the Group also has GBP, CHF and JPY exposures designated in hedge accounting relationships of $1,510 million, $940 million and $1,853 million respectively subject to IBOR reform.

Other hedge accounting relationships referencing the Euro Interbank Offered Rate (Euribor), the AUD Bank Bill Swap Rate (BBSW) and the NZ Bank Bill Market (BKBM) are not impacted by IBOR reform as these benchmark rates are expected to remain for the foreseeable future.

iv) Future Developments

As the most widely referenced USD LIBOR benchmark tenors will continue to be published up to 30 June 2023, the Group's transition program supporting our customers and the Group's own risk management activities will continue beyond 2021.

REVISED CONCEPTUAL FRAMEWORK

On 1 October 2020, the Group adopted the 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 adoption of the revised conceptual framework did not have a material impact on the Group.

ACCOUNTING STANDARDS NOT EARLY ADOPTED

A number of new standards, amendments to standards and interpretations have been published but are not mandatory for the financial statements for the year ended 30 September 2021, and have not been applied by the Group in preparing these financial statements. Further details of these are set out below.

GENERAL HEDGE ACCOUNTING

AASB 9 *Financial Instruments* (AASB 9) introduces new hedge accounting requirements which more closely align accounting with risk management activities undertaken when hedging both financial and non-financial risks. AASB 9 provides the Group with an accounting policy choice to continue to apply the AASB 139 *Financial Instruments: Recognition and Measurement* (AASB 139) hedge accounting requirements until the International Accounting Standards Board's ongoing project on macro hedge accounting is completed. The Group continues to apply the hedge accounting requirements of AASB 139.

AASB 17 *INSURANCE CONTRACTS* (AASB 17)

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

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

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

1. ABOUT OUR FINANCIAL STATEMENTS (continued)

ACCOUNTING STANDARDS NOT EARLY ADOPTED (continued)

DEFERRED TAX RELATED TO ASSETS AND LIABILITIES ARISING FROM A SINGLE TRANSACTION

AASB 2021-5 Amendments to Australian Accounting Standards – Deferred Tax related to Assets and Liabilities arising from a Single Transaction amends AASB 112 Income Taxes and clarifies that entities are required to recognise deferred tax on transactions for which there is both an asset and a liability and that give rise to equal taxable and deductible temporary differences. This may include transactions such as leases and decommissioning or restoration obligations. This amendment is effective for the Group from 1 October 2023 and is not expected to have a significant impact.

CHANGE IN ACCOUNTING POLICY

INTRAGROUP TRANSACTIONS WITH CONSOLIDATED SECURITISATION ENTITIES

During the year, the Company changed its accounting policy relating to intragroup transactions with consolidated securitisation structured entities (SEs) in which it holds all the instruments issued by the SE. The Company will no longer separately record a liability to pass the cash flows from the underlying loans to the SE and an asset in the form of notes issued by the SE which entitle the Company to those same cash flows. Rather the transactions will be considered together with the Company recording a net nil position with the SE in order to better reflect the economic substance of the intragroup transactions that are fully offsetting. Comparatives have been restated in the financial statements of the Company. There has been no change to the Group because the relevant securitisation SEs are fully consolidated and the intra-group transactions eliminated. Refer to Note 35 Impact of Adoption of New Standards and Other Changes for further details of this change.

2. NET INTEREST INCOME

	Consolidated		The Company	
	2021 $m	2020 $m	2021 $m	2020 $m
Net interest income				
Interest income by type of financial asset				
Financial assets at amortised cost[1]	18,188	22,625	13,767	17,190
Investment securities at FVOCI	866	1,162	596	883
Trading securities	446	584	325	429
Financial assets designated at FV through profit or loss[1]	29	55	124	159
External interest income	19,529	24,426	14,812	18,661
Controlled entities income[2]	-	-	535	701
Interest income	19,529	24,426	15,347	19,362
Interest expense by type of financial liability				
Financial liabilities at amortised cost[1]	(4,830)	(9,751)	(3,681)	(7,477)
Securities sold short	(91)	(95)	(82)	(91)
Financial liabilities designated at FV through profit or loss[1]	(101)	(125)	(158)	(190)
External interest expense	(5,022)	(9,971)	(3,921)	(7,758)
Controlled entities expense[2]	-	-	(555)	(762)
Interest expense	(5,022)	(9,971)	(4,476)	(8,520)
Major bank levy	(346)	(406)	(346)	(406)
Net interest income[3]	14,161	14,049	10,525	10,436

1. Prior year comparative balances have been restated to align with the classification of the underlying financial asset or liability. The reclassification does not change the reported total interest income or interest expense in the prior year. Prior period comparatives were restated to reclassify interest income from Financial assets at amortised cost to Financial assets at FV through profit and loss (2020: $50 million for the Group and $159 million for the Company) and interest expense from Financial liabilities at amortised cost to Financial liabilities at FV through profit and loss (2020: $32 million for the Group and $125 million for the Company).
2. From 1 April 2021, the Company changed its accounting policy relating to intragroup transactions with consolidated securitisation structured entities (SEs) in which it holds all of the issued securities of the SE. Transactions with an SE are no longer recorded on a gross basis. Comparatives have been restated, reducing Interest income from Controlled Entities by $2,377 million and Interest expense from Controlled Entities by $2,929 million at 30 September 2020. Refer to Note 35 Impact of Adoption of New Standards and Other Changes for further details.
3. Includes charges for customer remediation of $86 million (2020: $106 million) for the Group and $82 million (2020: $97 million) for the Company.

RECOGNITION AND MEASUREMENT

NET INTEREST INCOME

Interest Income and Expense

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

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

Major Bank Levy

The Major Bank Levy Act 2017 ('Levy' or 'Major bank levy') applies a rate of 0.06% to certain liabilities of the Company. The Group has determined that the levy represents a finance cost for the Group and the Company and it is presented as interest expense in the Income Statement.

3. NON-INTEREST INCOME

	Consolidated		The Company	
	2021 $m	2020 $m	2021 $m	2020 $m
Non-interest income				
Fee and commission income				
Lending fees[1]	474	579	436	532
Non-lending fees	2,552	2,687	1,961	2,087
Commissions	97	121	65	67
Funds management income	287	275	5	34
External fee and commission income	3,410	3,662	2,467	2,720
Controlled entities[2]	-	-	235	303
Fee and commission income	3,410	3,662	2,702	3,023
Fee and commission expense	(1,267)	(1,337)	(836)	(999)
Net fee and commission income	2,143	2,325	1,866	2,024
Other income				
Net foreign exchange earnings and other financial instruments income[3]	1,371	1,809	1,064	1,443
Impairment of AmBank	-	(595)	-	-
Impairment of PT Panin	-	(220)	-	-
Disposal of ANZ Share Investing[4]	(251)	-	12	-
Sale of New Zealand legacy insurance portfolio	13	-	-	-
Sale of UDC	-	(7)	-	-
Dividend income on equity securities	1	26	1	26
Dividends received from controlled entities	-	-	1,845	195
Other	48	17	66	(36)
Other income	1,182	1,030	2,988	1,628
Other operating income	3,325	3,355	4,854	3,652
Net income from insurance business	110	78	-	-
Share of associates' profit/(loss)[5]	(176)	155	(1)	(1)
Non-interest income[6]	3,259	3,588	4,853	3,651

1. Lending fees exclude fees treated as part of the effective yield calculation in interest income.
2. From 1 April 2021, the Company changed its accounting policy relating to intragroup transactions with consolidated securitisation structured entities (SEs) in which it holds all of the issued securities of the SE. Transactions with an SE are no longer recorded on a gross basis. Comparatives have been restated, reducing Other operating income from Controlled Entities by $552 million at 30 September 2020. Refer to Note 35 Impact of Adoption of New Standards and Other Changes for further details.
3. 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.
4. CMC Markets has provided a share trading solution under the ANZ Share Investing brand since 2018. During the year ANZ reached agreement to transition customers from the ANZ Share Investing branded platform to a CMC Markets-branded platform.
5. Includes ANZ's share of litigation settlement provisions ($212 million) and goodwill impairment ($135 million) recorded by the Group in 2021.
6. Includes charges for customer remediation of $56 million (2020: $68 million) for the Group and $84 million (2020: $189 million) for the Company.

3. NON-INTEREST INCOME (continued)

RECOGNITION AND MEASUREMENT

OTHER OPERATING INCOME

Fee and Commission Revenue

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

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

Net Foreign Exchange Earnings and Other Financial Instruments Income

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

- exchange rate differences arising on the settlement of monetary items and translation differences on monetary items translated at rates different to those at which they were initially recognised or included in a previous financial report;
- fair value movements (excluding realised and accrued interest) on derivatives that we use to manage interest rate and foreign exchange risk on funding instruments not designated as accounting hedges;
- the ineffective portions of fair value hedges, cash flow hedges and net investment hedges;
- immediately upon sale or repayment of a hedged item, the unamortised fair value adjustments in items designated as fair value hedges and amounts accumulated in equity related to designated cash flow hedges;
- fair value movements on financial assets and financial liabilities designated at fair value through profit or loss or held for trading;
- amounts released from the fair value through other comprehensive income (FVOCI) reserve when a debt instrument classified as FVOCI is sold; and
- the gain or loss on derecognition of financial assets or liabilities measured at amortised cost.

Gain or Loss on Disposal of Non-Financial Assets

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

When a non-financial asset or group of assets is classified as held for sale, the difference between the carrying value immediately prior to reclassification and the fair value less costs to sell is recognised in Other operating income to align with the classification of gain or loss on sale that would have applied if the sale had completed during the year.

3. NON-INTEREST INCOME (continued)

RECOGNITION AND MEASUREMENT

NET INCOME FROM INSURANCE BUSINESS

We recognise:

- premiums received (net of reinsurance premiums paid) based on an assessment of the likely pattern in which risk will emerge over the term of the policies written. This assessment is undertaken periodically and updated in accordance with the latest pattern of risk emergence; and
- claims incurred net of reinsurance, on an accruals basis once the liability to the policy owner has been established under the terms of the contract and through actuarial assumptions of future claims.

SHARE OF ASSOCIATES' PROFIT/(LOSS)

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

4. OPERATING EXPENSES

	Consolidated		The Company	
	2021 $m	2020 $m	2021 $m	2020 $m
Personnel				
Salaries and related costs	4,425	4,310	3,241	3,147
Superannuation costs	337	329	281	277
Other	184	239	110	142
Personnel[1]	4,946	4,878	3,632	3,566
Premises				
Rent	85	84	62	58
Depreciation	446	517	371	427
Other	174	188	131	139
Premises	705	789	564	624
Technology				
Depreciation and amortisation[2,3]	638	858	585	786
Subscription licences and outsourced services	786	780	587	586
Other	164	186	170	189
Technology[1]	1,588	1,824	1,342	1,561
Restructuring	127	161	77	127
Other				
Advertising and public relations	178	177	134	136
Professional fees	769	667	714	614
Freight, stationery, postage and communication	185	205	141	166
Other[3]	553	682	990	994
Other[1]	1,685	1,731	1,979	1,910
Operating expenses[1]	9,051	9,383	7,594	7,788

1. Includes customer remediation expenses of $185 million (2020: $209 million) for the Group and $148 million (2020: $146 million) for the Company allocated across Personnel, Technology and Other expenses.
2. 2020 includes accelerated amortisation of $197 million for the Group and $184 million for the Company following the Group's change in the application of its software amortisation policy in 2020.
3. Includes litigation settlement expenses of $69 million in 2021 for the Group and $69 million for the Company in 2021 and goodwill write-off of $77 million for the Group and $10 million for the Company in 2020.

4. OPERATING EXPENSES (continued)

RECOGNITION AND MEASUREMENT

OPERATING EXPENSES

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

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

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

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

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

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

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

Further information on share-based payment schemes operated by the Group during the current and prior year is included in Note 31 Employee Share and Option Plans.

5. 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:

	Consolidated		The Company	
	2021 $m	2020 $m	2021 $m	2020 $m
Profit before income tax from continuing operations	8,936	5,516	8,253	3,962
Prima facie income tax expense at 30%	2,681	1,655	2,476	1,189
Tax effect of permanent differences:				
Gains or losses on sale from divestments	(4)	2	-	-
Impairment of investment in AmBank and PT Panin	-	245	-	-
Share of associates' (profit)/loss	53	(47)	-	-
Disposal of ANZ Share Investing	75	-	(4)	-
Interest on convertible instruments	44	52	44	52
Overseas tax rate differential	(88)	(86)	(33)	(31)
Provision for foreign tax on dividend repatriation	37	20	33	18
Rebatable and non-assessable dividends	-	-	(554)	(58)
Wealth Australia divestment adjustments	-	-	-	8
Other	(26)	25	(23)	(2)
Subtotal	2,772	1,866	1,939	1,176
Income tax (over)/under provided in previous years	(16)	(26)	(17)	(20)
Income tax expense	2,756	1,840	1,922	1,156
Current tax expense	2,616	2,637	1,743	1,689
Adjustments recognised in the current year in relation to the current tax of prior years	(16)	(26)	(17)	(20)
Deferred tax expense/(income) relating to the origination and reversal of temporary differences	156	(771)	196	(513)
Income tax expense	2,756	1,840	1,922	1,156
Australia	1,897	1,115	1,806	1,028
Overseas	859	725	116	128
Effective tax rate	30.8%	33.4%	23.3%	29.2%

5. INCOME TAX (continued)

TAX CONSOLIDATION

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

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

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

UNRECOGNISED DEFERRED TAX ASSETS AND LIABILITIES

Unrecognised deferred tax assets related to unused realised tax losses (on revenue account) total $6 million (2020: $10 million) for the Group and $2 million (2020: $5 million) for the Company.

Unrecognised deferred tax liabilities related to additional potential foreign tax costs (assuming all retained earnings in offshore branches and subsidiaries are repatriated) total $344 million (2020: $329 million) for the Group and $15 million (2020: $14 million) for the Company.

RECOGNITION AND MEASUREMENT

INCOME TAX EXPENSE

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

CURRENT TAX EXPENSE

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

DEFERRED TAX ASSETS AND LIABILITIES

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

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

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

KEY JUDGEMENTS AND ESTIMATES

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

6. 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 2020			
2019 final dividend paid[1,2]		80 cents	2,268
2020 interim dividend paid[1,3]		25 cents	709
Bonus option plan adjustment			(55)
Dividends paid during the year ended 30 September 2020			2,922
Cash	91.6%		2,676
Dividend reinvestment plan[4]	8.4%		246
Dividends paid during the year ended 30 September 2020			2,922
Financial Year 2021			
2020 final dividend paid[1,3]		35 cents	994
2021 interim dividend paid[1,3]		70 cents	1,992
Bonus option plan adjustment			(58)
Dividends paid during the year ended 30 September 2021			2,928
Cash	90.0%		2,635
Dividend reinvestment plan[4]	10.0%		293
Dividends paid during the year ended 30 September 2021			2,928

Dividends announced and to be paid after year-end	Payment date	Amount per share	Total dividend $m
2021 final dividend (fully franked for Australian tax, New Zealand imputation credit NZD 8 cents per share)	16 December 2021	72 cents	2,030

1. Carries New Zealand imputation credits of NZD 8 cents for the 2021 interim dividend, NZD 4 cents for the 2020 final dividend, NZD 3 cents for the 2020 interim dividend, and NZD 9 cents for the 2019 final dividend.
2. Partially franked at 70% for Australian tax purposes (30% tax rate).
3. Fully franked for Australian tax purposes (30% tax rate).
4. Includes on-market share purchases for the Dividend Reinvestment Plan of $199 million (2020: $185 million).

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 2021 final dividend, DRP participation will be satisfied by an on-market purchase, 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 23 Shareholders' Equity for details of shares the Company purchased or issued in respect of the DRP and BOP.

6. DIVIDENDS (continued)

DIVIDEND FRANKING ACCOUNT

	Currency	2021 $m	2020 $m
Australian franking credits available at 30% tax rate	AUD	772	477
New Zealand imputation credits available (which can be attached to our Australian dividends but may only be used by New Zealand resident shareholders)	NZD	5,020	4,583

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 2021 dividend will utilise the entire balance of $772 million franking credits available at 30 September 2021. Instalment tax payments on account of the 2021 financial year, which will be made after 30 September 2021, will generate sufficient franking credits to enable the final 2021 dividend to be fully franked. The extent to which future dividends will be franked will depend on a number of factors, including the level of profits generated by the Group that will be subject to tax in Australia.

RESTRICTIONS ON THE PAYMENT OF DIVIDENDS

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

- the aggregate dividends exceed the Company's after tax earnings (in calculating those after tax earnings, we take into account any payments we made on senior capital instruments) in the financial year to which they relate; or
- 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 response to the uncertain impacts of COVID-19, in July 2020 APRA provided guidance on capital management, including its expectations in relation to limits on the amount of dividends to be paid out of that year's earnings. 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 (paid to shareholders on 16 December 2020) took into account this guidance.

Following an improvement in the economic outlook and stability in financial markets, APRA updated their guidance in December 2020, whereby from the 2021 calendar year, APRA will no longer hold ADIs to a minimum level of earnings retention but emphasised the requirement for ADIs to maintain vigilance and careful planning in capital management, including conducting regular stress testing and assurance on the capacity to continue to lend. APRA also stated that the onus will be on Boards to consider carefully the sustainable rate for dividends, taking into account the outlook for profitability, capital and economic environment.

7. EARNINGS PER ORDINARY SHARE

Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period (after eliminating ANZ shares held within the Group known as treasury shares). Diluted EPS is calculated by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares used in the basic EPS calculation for the effect of dilutive potential ordinary shares.

Earnings per ordinary share (EPS) - Basic	2021 cents	2020 cents
Earnings Per Share	217.1	126.4
Earnings Per Share from continuing operations	217.7	129.8
Earnings Per Share from discontinued operations	(0.6)	(3.4)

Earnings per ordinary share (EPS) - Diluted	2021 cents	2020 cents
Earnings Per Share	204.9	118.0
Earnings Per Share from continuing operations	205.4	121.1
Earnings Per Share from discontinued operations	(0.5)	(3.1)

Reconciliation of earnings used in earnings per share calculations	2021 $m	2020 $m
Basic:		
Profit for the year	6,163	3,578
Less: Profit attributable to non-controlling interests	1	1
Earnings used in calculating basic earnings per share	6,162	3,577
Less: Profit/(Loss) after tax from discontinued operations	(17)	(98)
Earnings used in calculating basic earnings per share from continuing operations	6,179	3,675
Diluted:		
Earnings used in calculating basic earnings per share	6,162	3,577
Add: Interest on convertible subordinated debt	187	201
Earnings used in calculating diluted earnings per share	6,349	3,778
Less: Profit/(Loss) after tax from discontinued operations	(17)	(98)
Earnings used in calculating diluted earnings per share from continuing operations	6,366	3,876

Reconciliation of weighted average number of ordinary shares (WANOS) used in earnings per share calculations[1]	2021 millions	2020 millions
WANOS used in calculating basic earnings per share	2,838.6	2,830.9
Add: Weighted average dilutive potential ordinary shares		
Convertible subordinated debt	250.3	362.2
Share based payments (options, rights and deferred shares)	9.9	8.0
WANOS used in calculating diluted earnings per share	3,098.8	3,201.1

1. Weighted average number of ordinary shares excludes the weighted average number of treasury shares held in ANZEST Pty Ltd of 4.6 million (2020: 5.0 million).

8. SEGMENT REPORTING

DESCRIPTION OF SEGMENTS

The Group's five continuing operating segments are presented on a basis that is consistent with the information provided internally to the Chief Executive Officer, who is the chief operating decision maker. This reflects the way the Group's businesses are managed, rather than the legal structure of the Group.

We measure the performance of these segments on a cash profit basis. To calculate cash profit, we remove certain non-core items from statutory profit. Details of these items are included in the 'Other Items' section of this note. Transactions between business units across segments within ANZ are conducted on an arm's-length basis and disclosed as part of the income and expenses of these segments.

The reportable segments are divisions engaged in providing either different products or services or similar products and services in different geographical areas. They are as follows:

Australia Retail and Commercial

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

- **Retail** provides products and services to consumer customers in Australia via the branch network, mortgage specialists, contact centres, a variety of self-service channels (digital and internet banking, website, ATMs and phone banking) and third party brokers.
- **Commercial and Private Bank** provides a full range of banking products and financial services, including asset financing, across the following customer segments: medium to large commercial customers, small business owners and high net worth individuals and family groups, in addition to financial planning services provided by salaried financial planners and investment lending secured by approved securities.

Institutional

The Institutional division services governments, global institutional and corporate customers across Australia, New Zealand and International via the following business units:

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

New Zealand

The New Zealand division comprises the following business units:

- **Personal (previously Retail)** provides a full range of banking and wealth management services to consumer and private banking customers. We deliver our services via our internet and app-based digital solutions and network of branches, mortgage specialists, relationship managers and contact centres.
- **Business (previously Commercial)** provides a full range of banking services including small business banking, through our digital, branch and contact centre channels, and traditional relationship banking and sophisticated financial solutions through dedicated managers. These cover privately owned small, medium and large enterprises, the agricultural business segment, government and government related entities.

Pacific

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

Technology, Services & Operations (TSO) and Group Centre

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

Refer to Note 29 Discontinued Operations and Assets and Liabilities Held for Sale for further details.

OPERATING SEGMENTS

There have been no material structural changes during the year which have impacted the presentation of the Group's operating segments in 2021. As such, the presentation of the divisional results remains consistent with the prior period.

8. SEGMENT REPORTING (continued)

OPERATING SEGMENTS (continued)

Year ended 30 September 2021	Australia Retail and Commercial $m	Institutional $m	New Zealand $m	Pacific $m	TSO and Group Centre $m	Other items[1] $m	Group Total $m
Net interest income	7,989	3,105	2,870	96	101	-	14,161
Net fee and commission income							
- Lending fees	216	241	10	7	-	-	474
- Non-lending fees	1,268	683	585	20	(4)	-	2,552
- Commissions	64	1	32	-	-	-	97
- Funds management income	32	1	254	-	-	-	287
- Fee and commission expense	(560)	(274)	(430)	(2)	(1)	-	(1,267)
Net income from insurance business	110	-	-	-	-	-	110
Other income	(242)	1,227	18	40	166	(27)	1,182
Share of associates' profit/(loss)	1	(1)	-	-	(176)	-	(176)
Other operating income	889	1,878	469	65	(15)	(27)	3,259
Operating income	8,878	4,983	3,339	161	86	(27)	17,420
Operating expenses	(4,024)	(2,447)	(1,325)	(144)	(1,111)	-	(9,051)
Profit before credit impairment and income tax	4,854	2,536	2,014	17	(1,025)	(27)	8,369
Credit impairment (charge)/release	426	89	76	(21)	(3)	-	567
Profit before income tax	5,280	2,625	2,090	(4)	(1,028)	(27)	8,936
Income tax expense and non-controlling interests	(1,663)	(738)	(582)	1	217	8	(2,757)
Profit after tax from continuing operations	3,617	1,887	1,508	(3)	(811)	(19)	6,179
Profit/(Loss) after tax from discontinued operations							(17)
Profit after tax attributable to shareholders							6,162
Includes non-cash items:							
Share of associates' profit/(loss)	1	(1)	-	-	(176)	-	(176)
Goodwill write-off[2]	(251)	-	-	-	-	-	(251)
Impairment of associates	-	-	-	-	-	-	-
Depreciation and amortisation	(108)	(115)	(117)	(11)	(739)	-	(1,090)
Equity-settled share based payment expenses	(4)	(63)	(6)	(1)	(17)	-	(91)
Credit impairment (charge)/release	426	89	76	(21)	(3)	-	567

Financial position	Australia Retail and Commercial $m	Institutional $m	New Zealand $m	Pacific $m	TSO and Group Centre $m	Discontinued operations $m	Group Total $m
Goodwill[2]	140	1,100	1,849	-	-	-	3,089
Investments in associates	17	4	-	-	1,951	-	1,972

1. Cash profit represents our preferred measure of the result of the segments. We remove certain items from the segments as discussed on page 140 if we consider them not integral to the ongoing performance of the segment.
2. During 2021, the Group wrote off $251 million of goodwill upon the reclassification of ANZ Share Investing to held for sale with the remaining $13 million derecognised on completion of the disposal.

8. SEGMENT REPORTING (continued)

OPERATING SEGMENTS (continued)

Year ended 30 September 2020	Australia Retail and Commercial $m	Institutional $m	New Zealand $m	Pacific $m	TSO and Group Centre $m	Other items[1] $m	Group Total $m
Net interest income	7,916	3,182	2,731	109	111	-	14,049
Net fee and commission income							
- Lending fees	267	288	14	10	-	-	579
- Non-lending fees	1,310	776	586	29	(14)	-	2,687
- Commissions	67	-	54	-	-	-	121
- Funds management income	30	2	243	-	-	-	275
- Fee and commission expense	(588)	(308)	(436)	(5)	-	-	(1,337)
Net income from insurance business	77	-	-	-	1	-	78
Other income	(1)	1,891	12	50	(807)	(115)	1,030
Share of associates' profit/(loss)	(1)	-	-	-	156	-	155
Other operating income	1,161	2,649	473	84	(664)	(115)	3,588
Operating income	9,077	5,831	3,204	193	(553)	(115)	17,637
Operating expenses	(4,091)	(2,558)	(1,435)	(205)	(1,094)	-	(9,383)
Profit before credit impairment and income tax	4,986	3,273	1,769	(12)	(1,647)	(115)	8,254
Credit impairment (charge)/release	(1,647)	(694)	(345)	(52)	-	-	(2,738)
Profit before income tax	3,339	2,579	1,424	(64)	(1,647)	(115)	5,516
Income tax expense and non-controlling interests	(1,002)	(725)	(407)	2	259	32	(1,841)
Profit after tax from continuing operations	2,337	1,854	1,017	(62)	(1,388)	(83)	3,675
Profit/(Loss) after tax from discontinued operations							(98)
Profit after tax attributable to shareholders							3,577
Includes non-cash items:							
Share of associates' profit/(loss)	(1)	-	-	-	156	-	155
Goodwill impairment	-	-	(27)	(50)	-	-	(77)
Impairment of associates[2]	-	-	-	-	(815)	-	(815)
Depreciation and amortisation[3]	(197)	(188)	(103)	(11)	(892)	-	(1,391)
Equity-settled share based payment expenses	(7)	(70)	(7)	(1)	(25)	-	(110)
Credit impairment (charge)/release	(1,647)	(694)	(345)	(52)	-	-	(2,738)

Financial position	Australia Retail and Commercial $m	Institutional $m	New Zealand $m	Pacific $m	TSO and Group Centre $m	Discontinued operations $m	Group Total $m
Goodwill	403	1,068	1,793	-	-	-	3,264
Investments in associates[2]	17	4	-	-	2,143	-	2,164

1. Cash profit represents our preferred measure of the result of the segments. We remove certain items from the segments as discussed on page 140 if we consider them not integral to the ongoing performance of the segment.
2. Includes $815 million impairment after tax in respect of two of the Group's equity accounted investments. AmBank was impaired by $595 million and PT Panin was impaired by $220 million. Refer to Note 26 Investments in Associates for further details.
3. Includes accelerated amortisation of $197 million following the Group's change in the application of its software amortisation policy in 2020 (Australia Retail and Commercial $31 million, Institutional $38 million, New Zealand $2 million, TSO and Group Centre $126 million). Refer to Note 21 Goodwill and Other Intangible Assets for further details.

8. SEGMENT REPORTING (continued)

OTHER ITEMS

The table below sets out the profit after tax impact of other items which are removed from statutory profit to reflect the cash profit of each segment.

		Profit after tax	
Item	Related segment	2021 $m	2020 $m
Economic hedges	Institutional, New Zealand, TSO and Group Centre	77	(121)
Revenue and expense hedges	TSO and Group Centre	(96)	36
Structured credit intermediation trades	Institutional	-	2
Total from continuing operations		(19)	(83)

SEGMENT INCOME BY PRODUCTS AND SERVICES

The primary sources of our external income across all divisions are interest income and other operating income. The Australia Retail and Commercial, New Zealand, and Pacific divisions derive income from products and services from retail and commercial banking. The Institutional division derives its income from institutional products and market services. No single customer amounts to greater than 10% of the Group's income.

GEOGRAPHICAL INFORMATION

The following table sets out total operating income earned including discontinued operations and assets to be recovered in more than one year based on the geographical regions in which the Group operates.

The reportable segments operate across three geographical regions as follows:

- Australia Retail and Commercial division - Australia
- Institutional division - all three geographical regions
- New Zealand division - New Zealand
- Pacific division - International
- TSO and Group Centre division - all three geographical regions
- Discontinued operations - Australia

The International region includes Asia, Pacific, Europe and Americas.

	Australia		International		New Zealand		Total	
	2021 $m	2020 $m	2021 $m	2020 $m	2021 $m	2020 $m	2021 $m	2020 $m
Total operating income[1]	11,822	11,838	1,778	1,975	3,892	3,773	17,492	17,586
Assets to be recovered in more than one year[2]	362,588	362,846	28,213	27,632	112,966	100,377	503,767	490,855

1. Includes operating income earned from Discontinued operations of $72 million (2020: -$51 million).
2. Based on the contractual maturity of net loans and advances.

FINANCIAL ASSETS

Outlined below is a description of how we classify and measure financial assets as they apply to 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

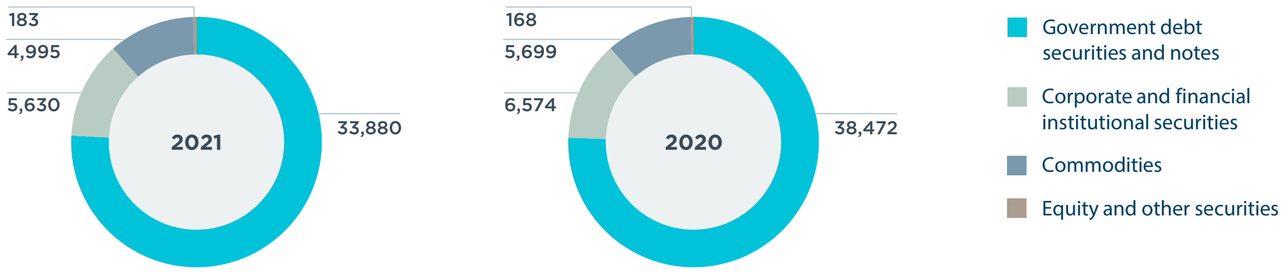
A financial asset may be irrevocably designated on initial recognition:

- at FVTPL when the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise; or
- at FVOCI for investments in equity securities, where that instrument is neither held for trading nor contingent consideration recognised by an acquirer in a business combination.

9. CASH AND CASH EQUIVALENTS

	Consolidated		The Company	
	2021 $m	2020 $m	2021 $m	2020 $m
Coins, notes and cash at bank	1,127	1,514	721	1,084
Securities purchased under agreements to resell in less than 3 months	17,571	35,603	16,465	34,501
Balances with central banks	107,915	46,091	101,400	39,362
Settlement balances owed to ANZ within 3 months	24,647	24,715	22,850	23,136
Cash and cash equivalents	151,260	107,923	141,436	98,083

10. TRADING SECURITIES



	Consolidated		The Company	
	2021 $m	2020 $m	2021 $m	2020 $m
Government debt securities and notes	33,880	38,472	26,119	27,917
Corporate and financial institution securities	5,630	6,574	3,493	4,873
Commodities	4,995	5,699	4,957	5,464
Equity and other securities	183	168	183	169
Total	44,688	50,913	34,752	38,423

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 18 Fair Value of Financial Assets and Financial Liabilities for further details.

11. DERIVATIVE FINANCIAL INSTRUMENTS

Consolidated Fair Value	Assets 2021 $m	Liabilities 2021 $m	Assets 2020 $m	Liabilities 2020 $m
Derivative financial instruments - held for trading	38,080	(35,833)	130,097	(130,227)
Derivative financial instruments - designated in hedging relationships	656	(202)	5,234	(4,484)
Derivative financial instruments	38,736	(36,035)	135,331	(134,711)

The Company Fair Value	Assets 2021 $m	Liabilities 2021 $m	Assets 2020 $m	Liabilities 2020 $m
Derivative financial instruments - held for trading	37,700	(36,847)	126,561	(128,028)
Derivative financial instruments - designated in hedging relationships	592	(158)	3,991	(3,202)
Derivative financial instruments	38,292	(37,005)	130,552	(131,230)

FEATURES

Derivative financial instruments are contracts:

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

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

PURPOSE

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

Trading	Derivatives held in order to: • meet customer needs for managing their own risks. • manage risks in the Group that are not in a designated hedge accounting relationship (some elements of 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 in underlying positions relating to: • hedges of the Group's exposures to interest rate risk and currency risk. • hedges of other exposures relating to non-trading positions.

TYPES

The Group offers or 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 one 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.

11. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

RISKS MANAGED

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

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

The Group uses a number of central clearing counterparties and exchanges to settle derivative transactions. Different arrangements for posting of collateral exist with these exchanges:

- some transactions are subject to clearing arrangements which result in separate recognition of collateral assets and liabilities, with the carrying values of the associated derivative assets and liabilities held at their fair value.
- other transactions, are legally settled by the payment or receipt of collateral which reduces the carrying values of the related derivative instruments by the amount paid or received.

In August 2021, the Group amended the terms of its legal agreements with one of its central clearing counterparties giving effect to this form of legal settlement. As a result of this change, collateral paid and received by the Group under these agreements is no longer separately recognised, instead settling the Group's outstanding derivative exposures and reducing the associated carrying values of the derivative asset and liability balances. The impact of this change as at 30 September 2021 is a reduction in derivative assets of $55.1 billion, derivative liabilities of $55.2 billion, and a reduction in net collateral paid of $0.1 billion.

11. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

DERIVATIVE FINANCIAL INSTRUMENTS – HELD FOR TRADING

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

Consolidated Fair Value	Assets 2021 $m	Liabilities 2021 $m	Assets 2020 $m	Liabilities 2020 $m
Interest rate contracts				
Forward rate agreements	2	(23)	86	(86)
Futures contracts	105	(24)	31	(128)
Swap agreements	10,267	(8,065)	104,814	(101,277)
Options purchased	971	-	1,676	-
Options sold	-	(1,207)	-	(2,609)
Total	11,345	(9,319)	106,607	(104,100)
Foreign exchange contracts				
Spot and forward contracts	13,869	(11,462)	11,815	(11,435)
Swap agreements	11,109	(12,425)	8,703	(12,334)
Options purchased	277	-	372	-
Options sold	-	(577)	-	(502)
Total	25,255	(24,464)	20,890	(24,271)
Commodity and other contracts	1,445	(2,017)	2,577	(1,834)
Credit default swaps				
Structured credit derivatives purchased	-	-	18	-
Other credit derivatives purchased	-	(33)	4	(3)
Credit derivatives purchased	-	(33)	22	(3)
Structured credit derivatives sold	-	-	-	(18)
Other credit derivatives sold	35	-	1	(1)
Credit derivatives sold	35	-	1	(19)
Total	35	(33)	23	(22)
Derivative financial instruments - held for trading[1]	38,080	(35,833)	130,097	(130,227)

1. Includes derivatives held for balance sheet management which are not designated into accounting hedge relationships.

11. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The Company

Fair Value	Assets 2021 $m	Liabilities 2021 $m	Assets 2020 $m	Liabilities 2020 $m
Interest rate contracts				
Forward rate agreements	3	(24)	92	(91)
Futures contracts	87	(19)	23	(124)
Swap agreements	11,598	(10,538)	102,260	(100,765)
Options purchased	969	-	1,673	-
Options sold	-	(1,206)	-	(2,609)
Total	12,657	(11,787)	104,048	(103,589)
Foreign exchange contracts				
Spot and forward contracts	11,840	(9,658)	10,525	(10,105)
Swap agreements	11,463	(12,940)	9,008	(12,002)
Options purchased	267	-	378	-
Options sold	-	(408)	-	(476)
Total	23,570	(23,006)	19,911	(22,583)
Commodity and other contracts	1,422	(2,015)	2,571	(1,834)
Credit default swaps				
Structured credit derivatives purchased	-	-	18	-
Other credit derivatives purchased	-	(39)	4	(3)
Credit derivatives purchased	-	(39)	22	(3)
Structured credit derivatives sold	-	-	-	(18)
Other credit derivatives sold	51	-	9	(1)
Credit derivatives sold	51	-	9	(19)
Total	51	(39)	31	(22)
Derivative financial instruments - held for trading[1]	37,700	(36,847)	126,561	(128,028)

1. Includes derivatives held for balance sheet management which are not designated into accounting hedge relationships.

11. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

DERIVATIVE FINANCIAL INSTRUMENTS – DESIGNATED IN HEDGING RELATIONSHIPS

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

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

11. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

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

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

	2021			2020		
Consolidated	Nominal amount $m	Assets $m	Liabilities $m	Nominal amount $m	Assets $m	Liabilities $m
Fair value hedges						
Foreign exchange spot and forward contracts	548	-	(13)	558	-	(9)
Interest rate swap agreements	95,384	370	(121)	105,249	2,871	(3,532)
Interest rate futures contracts	8,704	191	(2)	9,380	-	(103)
Cash flow hedges						
Interest rate swap agreements	105,416	27	(20)	97,170	2,233	(769)
Foreign exchange swap agreements	642	22	-	2,943	63	(54)
Foreign exchange spot and forward contracts	153	-	(1)	153	-	-
Net investment hedges						
Foreign exchange spot and forward contracts	1,097	46	(45)	1,269	67	(17)
Derivative financial instruments - designated in hedging relationships	211,944	656	(202)	216,722	5,234	(4,484)

	2021			2020		
The Company	Nominal amount $m	Assets $m	Liabilities $m	Nominal amount $m	Assets $m	Liabilities $m
Fair value hedges						
Foreign exchange spot and forward contracts	548	-	(13)	558	-	(9)
Interest rate swap agreements	68,708	358	(116)	79,416	2,272	(2,773)
Interest rate futures contracts	8,704	191	(2)	9,380	-	(103)
Cash flow hedges						
Interest rate swap agreements	78,852	19	(16)	59,037	1,643	(261)
Foreign exchange swap agreements	642	22	-	2,943	63	(54)
Foreign exchange spot and forward contracts	153	-	(1)	153	-	-
Net investment hedges						
Foreign exchange spot and forward contracts	299	2	(10)	404	13	(2)
Derivative financial instruments - designated in hedging relationships	157,906	592	(158)	151,891	3,991	(3,202)

11. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The maturity profile of the nominal amounts of our hedging instruments held is:

Consolidated 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
As at 30 September 2021							
Fair value hedges							
Interest rate	Interest Rate	1.26%	2,597	14,328	58,658	28,505	104,088
Foreign exchange	HKD/AUD FX Rate	5.74	548	-	-	-	548
Cash flow hedges							
Interest rate	Interest Rate	1.17%	4,593	14,180	84,924	1,719	105,416
Foreign exchange[1]	AUD/USD FX Rate USD/EUR FX Rate	0.74 0.91	38	115	-	642	795
Net investment hedges							
Foreign exchange	TWD/AUD FX Rate THB/AUD FX Rate	20.81 24.18	456	641	-	-	1,097
As at 30 September 2020							
Fair value hedges							
Interest rate	Interest Rate	1.47%	3,548	12,736	69,836	28,509	114,629
Foreign exchange	HKD/AUD FX Rate	5.59	558	-	-	-	558
Cash flow hedges							
Interest rate	Interest Rate	1.72%	9,062	30,364	55,549	2,195	97,170
Foreign exchange[1]	AUD/USD FX Rate USD/EUR FX Rate	0.72 0.91	38	613	1,157	1,288	3,096
Net investment hedges							
Foreign exchange	TWD/AUD FX Rate THB/AUD FX Rate	20.29 21.63	591	678	-	-	1,269

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

11. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The Company

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
As at 30 September 2021							
Fair value hedges							
Interest rate	Interest Rate	1.37%	2,445	10,884	43,063	21,020	77,412
Foreign exchange	HKD/AUD FX Rate	5.74	548	-	-	-	548
Cash flow hedges							
Interest rate	Interest Rate	1.06%	2,125	7,233	67,799	1,695	78,852
Foreign exchange[1]	AUD/USD FX Rate USD/EUR FX Rate	0.74 0.91	38	115	-	642	795
Net investment hedges							
Foreign exchange	TWD/AUD FX Rate	20.81	150	149	-	-	299
As at 30 September 2020							
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

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

11. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

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

Consolidated	Ineffectiveness			
As at 30 September 2021	Change in value of hedging instrument[2] $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	1,005	(1,006)	(1)	-
Foreign exchange	9	(9)	-	-
Cash flow hedges[1]				
Interest rate	(934)	909	(25)	4
Foreign exchange	(10)	10	-	(1)
Net investment hedges[1]				
Foreign exchange	61	(61)	-	-
As at 30 September 2020				
Fair value hedges[1]				
Interest rate	372	(358)	14	-
Foreign exchange	23	(23)	-	-
Cash flow hedges[1]				
Interest rate	451	(449)	2	10
Foreign exchange	(15)	15	-	(2)
Net investment hedges[1]				
Foreign exchange	94	(94)	-	(15)

1. All hedging instruments are classified as derivative financial instruments.
2. Changes in value of hedging instruments is before any adjustments for Settle to Market.

The Company	Ineffectiveness			
As at 30 September 2021	Change in value of hedging instrument[2] $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	731	(734)	(3)	-
Foreign exchange	9	(9)	-	-
Cash flow hedges[1]				
Interest rate	(797)	772	(25)	(6)
Foreign exchange	(10)	10	-	(1)
Net investment hedges[1]				
Foreign exchange	(6)	6	-	-
As at 30 September 2020				
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)

1. All hedging instruments are classified as derivative financial instruments.
2. Changes in value of hedging instruments is before any adjustments for Settle to Market.

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.

11. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The hedged items in relation to the Group's fair value hedges are:

Consolidated	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
As at 30 September 2021						
Fixed rate loans and advances	Net loans and advances	Interest rate	3,416	-	9	-
Fixed rate debt issuance	Debt issuances	Interest rate	-	(53,885)	-	(999)
Fixed rate investment securities (FVOCI)[1]	Investment securities	Interest rate	53,321	-	(209)	-
Equity securities at FVOCI[1]	Investment securities	Foreign exchange	548	-	20	-
Total			57,285	(53,885)	(180)	(999)
As at 30 September 2020						
Fixed rate loans and advances	Net loans and advances	Interest rate	7,375	-	52	-
Fixed rate debt issuance	Debt issuances	Interest rate	-	(61,355)	-	(2,518)
Fixed rate investment securities (FVOCI)[1]	Investment securities	Interest rate	55,233	-	2,256	-
Equity securities at FVOCI[1]	Investment securities	Foreign exchange	558	-	29	-
Total			63,166	(61,355)	2,337	(2,518)

1. The carrying amount of debt and equity instruments at fair value through other comprehensive income does not include the fair value hedge adjustment since accounting for the hedge relationship results in the transfer of the hedge adjustment out of other comprehensive income into the Income Statement to match the profit or loss on the hedging instrument.

The cumulative amount of fair value hedge adjustments relating to ceased hedge relationships remaining on the Balance Sheet is $2 million (2020: nil).

The hedged items in relation to the Company's fair value hedges are:

The Company	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
As at 30 September 2021						
Fixed rate loans and advances	Net loans and advances	Interest rate	3,416	-	7	-
Fixed rate debt issuance	Debt issuances	Interest rate	-	(38,222)	-	(769)
Fixed rate investment securities (FVOCI)[1]	Investment securities	Interest rate	41,944	-	129	-
Equity securities at FVOCI[1]	Investment securities	Foreign exchange	548	-	20	-
Total			45,908	(38,222)	156	(769)
As at 30 September 2020						
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)

1. The carrying amount of debt and equity instruments at fair value through other comprehensive income does not include the fair value hedge adjustment since accounting for the hedge relationship results in the transfer of the hedge adjustment out of other comprehensive income into the Income Statement to match the profit or loss on the hedging instrument.

The cumulative amount of fair value hedge adjustments relating to ceased hedge relationships remaining on the Balance Sheet is nil (2020: nil).

11. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The hedged items in relation to the Group's cash flow and net investment hedges are:

		Cash flow hedge reserve		Foreign currency translation reserve	
Consolidated	Hedged risk	Continuing hedges $m	Discontinued hedges $m	Continuing hedges $m	Discontinued hedges $m
As at 30 September 2021					
Cash flow hedges					
Floating rate loans and advances	Interest rate	546	20	-	-
Floating rate customer deposits	Interest rate	4	(6)	-	-
Foreign currency debt issuance	Foreign exchange	(4)	(1)	-	-
Foreign currency investment securities	Foreign exchange	-	-	-	-
Highly probable forecast transactions	Foreign exchange	(1)	-	-	-
Net investment hedges					
Foreign operations	Foreign exchange	-	-	(19)	(149)
As at 30 September 2020					
Cash flow hedges					
Floating rate loans and advances	Interest rate	2,013	38	-	-
Floating rate customer deposits	Interest rate	(562)	(18)	-	-
Foreign currency debt issuance	Foreign exchange	(2)	-	-	-
Foreign currency investment securities	Foreign exchange	10	-	-	-
Highly probable forecast transactions	Foreign exchange	(1)	-	-	-
Net investment hedges					
Foreign operations	Foreign exchange	-	-	(80)	(149)

		Cash flow hedge reserve		Foreign currency translation reserve	
The Company	Hedged risk	Continuing hedges $m	Discontinued hedges $m	Continuing hedges $m	Discontinued hedges $m
As at 30 September 2021					
Cash flow hedges					
Floating rate loans and advances	Interest rate	541	11	-	-
Floating rate customer deposits	Interest rate	8	(6)	-	-
Foreign currency debt issuance	Foreign exchange	(4)	(1)	-	-
Foreign currency investment securities	Foreign exchange	-	-	-	-
Highly probable forecast transactions	Foreign exchange	(1)	-	-	-
Net investment hedges					
Foreign operations	Foreign exchange	-	-	30	(149)
As at 30 September 2020					
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)

11. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

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

Consolidated	Interest rate $m	Foreign currency $m	Total $m
Balance at 1 October 2019	716	15	731
Fair value gains/(losses)	449	(15)	434
Transferred to income statement	10	(2)	8
Income taxes and others	(141)	6	(135)
Balance at 30 September 2020	1,034	4	1,038
Fair value gains/(losses)	(909)	(10)	(919)
Transferred to income statement	4	(1)	3
Income taxes and others	269	2	271
Balance at 30 September 2021	398	(5)	393

Hedges of net investments in a foreign operation resulted in a $61 million increase in FCTR during the year (2020: $94 million). Of that, nil (2020: $15 million) was reclassified from FCTR to the income statement during the year.

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

The Company	Interest rate $m	Foreign currency $m	Total $m
Balance at 1 October 2019	690	17	707
Fair value gains/(losses)	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
Fair value gains/(losses)	(772)	(10)	(782)
Transferred to income statement	(6)	(1)	(7)
Income taxes and others	236	2	238
Balance at 30 September 2021	389	(5)	384

Hedges of net investments in a foreign operation resulted in a $6 million decrease in FCTR during the year (2020: $16 million increase). Of that, nil (2020: $15 million) was reclassified from FCTR to the income statement during the year.

11. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

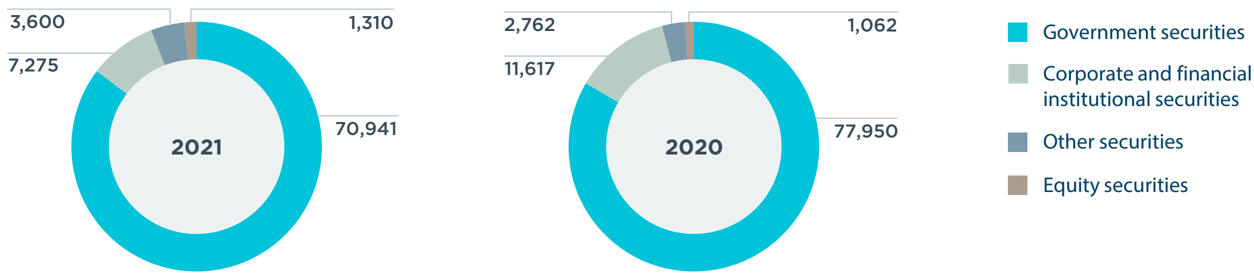
RECOGNITION AND MEASUREMENT

Recognition	Initially and at each reporting date, we recognise all derivatives at fair value. If the fair value of a derivative is positive, then we carry it as an asset, but if its value is negative, then we carry it as a liability. Valuation adjustments are integral in determining the fair value of derivatives. This includes: • a credit valuation adjustment (CVA) to reflect the counterparty risk and/or event of default; and • a funding valuation adjustment (FVA) to account for funding costs and benefits in the derivatives portfolio.
Derecognition of assets and liabilities	We remove derivative assets from our balance sheet when the contracts expire or we have transferred substantially all the risks and rewards of ownership. We remove derivative liabilities from our balance sheet when the Group's contractual obligations are discharged, cancelled or expired. With respect to derivatives cleared through a central clearing counterparty or exchange, derivative assets or liabilities may be derecognised in accordance with the principle above when collateral is settled, depending on the legal arrangements in place for each instrument.
Impact on the Income Statement	The recognition of gains or losses on derivative financial instruments depends on whether the derivative is held for trading or is designated in a hedging relationship. For derivative financial instruments held for trading, gains or losses from changes in the fair value are recognised in profit or loss. For an instrument designated in a hedging relationship, the recognition of gains or losses depends on the nature of the item being hedged. Refer to the table on page 147 for profit or loss treatment for each hedge type. Sources of hedge ineffectiveness may arise from differences in the interest rate reference rate, margins, or rate set differences and differences in discounting between the hedged items and the hedging instruments. The hedging instruments are discounted using Overnight Index Swaps discount curves which are not applied to the hedged items.
Hedge effectiveness	To qualify for hedge accounting, a hedge is expected to be highly effective. A hedge is highly effective only if the following conditions are met: • the hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated (prospective effectiveness); and • the actual results of the hedge are within the range of 80-125% (retrospective effectiveness). The Group monitors hedge effectiveness on a regular basis but at a minimum at least at each reporting date.

KEY JUDGEMENTS AND ESTIMATES

Judgement is required when we select the valuation techniques used to determine the fair value of derivatives, particularly the selection of valuation inputs that are not readily observable, and the application of valuation adjustments to certain derivatives. Refer to Note 18 Fair Value of Financial Assets and Financial Liabilities for further details.

12. INVESTMENT SECURITIES



	Consolidated 2021 $m	Consolidated 2020 $m	The Company 2021 $m	The Company 2020 $m
Investment securities measured at fair value through other comprehensive income				
Debt securities	74,743	85,460	61,623	73,936
Equity securities	1,310	1,062	1,054	994
Investment securities measured at amortised cost				
Debt securities[1]	7,031	6,816	5,263	5,354
Investment Securities measured at fair value through profit or loss				
Debt securities	42	53	-	-
Total	83,126	93,391	67,940	80,284

1. Includes allowance for expected credit losses of $31 million (2020: $20 million) for the Group and $1 million (2020: $1 million) for the Company.

The maturity profile of investment securities is as follows:

Consolidated 2021 Investment securities	Less than 3 months $m	3 to 12 months $m	1 to 5 years $m	After 5 years $m	No maturity $m	Total $m
Government securities	6,396	12,984	32,179	19,382	-	70,941
Corporate and financial institution securities	285	1,179	5,701	110	-	7,275
Other securities	129	295	553	2,623	-	3,600
Equity securities[1]	-	-	-	-	1,310	1,310
Total	6,810	14,458	38,433	22,115	1,310	83,126
2020 Investment securities						
Government securities	7,175	14,436	37,656	18,683	-	77,950
Corporate and financial institution securities	701	2,698	8,128	90	-	11,617
Other securities	-	-	532	2,230	-	2,762
Equity securities[1]	-	-	-	-	1,062	1,062
Total	7,876	17,134	46,316	21,003	1,062	93,391

1. The carrying value of equity securities classified as FVOCI securities includes the Group's $991 million (2020: $934 million) investment in the Bank of Tianjin (BoT).

During the year, the Group recognised a net gain (before tax) in Other operating income from the recycling of gains/losses previously deferred in other comprehensive income of $303 million (2020: $23 million) in respect of investment securities.

12. INVESTMENT SECURITIES (continued)

The Company 2021 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	5,453	11,646	24,390	16,350	-	57,839
Corporate and financial institution securities	175	830	4,371	71	-	5,447
Other securities	129	295	553	2,623	-	3,600
Equity securities[1]	-	-	-	-	1,054	1,054
Total	5,757	12,771	29,314	19,044	1,054	67,940
2020 Investment securities						
Government securities	5,770	12,763	30,887	17,600	-	67,020
Corporate and financial institution securities	633	1,700	7,104	71	-	9,508
Other securities	-	-	532	2,230	-	2,762
Equity securities[1]	-	-	-	-	994	994
Total	6,403	14,463	38,523	19,901	994	80,284

1. The carrying value of equity securities classified as FVOCI securities includes the Company's $991 million (2020: $934 million) investment in the Bank of Tianjin (BoT).

During the year, the Company recognised a net gain (before tax) in Other operating income from the recycling of gains/losses previously deferred in other comprehensive income of $301 million (2020: $21 million) in respect of investment securities.

RECOGNITION AND MEASUREMENT

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

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

Assets disclosed as Investment securities are subject to the general classification and measurement policy for Financial Assets outlined at the commencement of the Group's financial asset disclosures on page 141. Additionally, expected credit losses associated with 'Investment securities - debt securities at amortised cost' and 'Investment securities - debt securities at fair value through other comprehensive income' are recognised and measured in accordance with the accounting policy outlined in Note 14 Allowance for Expected Credit Losses. 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 18 Fair Value of Financial Assets and Financial Liabilities for further details.

13. NET LOANS AND ADVANCES

The following table provides details of net loans and advances for the Group:

	Consolidated 2021 $m	Consolidated 2020 $m	The Company 2021 $m	The Company 2020 $m
Overdrafts	5,360	5,214	4,465	4,466
Credit cards	6,570	7,194	5,494	5,990
Commercial bills	6,000	6,383	6,000	6,383
Term loans – housing	372,572	358,350	278,372	275,579
Term loans – non-housing	239,277	241,725	194,150	197,117
Other	2,985	2,406	2,733	2,133
Subtotal	632,764	621,272	491,214	491,668
Unearned income[1]	(434)	(460)	(390)	(406)
Capitalised brokerage and other origination costs[1]	1,434	1,262	1,050	959
Gross loans and advances	633,764	622,074	491,874	492,221
Allowance for expected credit losses (refer to Note 14)	(4,045)	(4,981)	(3,387)	(4,219)
Net loans and advances	629,719	617,093	488,487	488,002
Residual contractual maturity:				
Within one year	125,952	126,238	98,214	98,736
More than one year	503,767	490,855	390,273	389,266
Net loans and advances	629,719	617,093	488,487	488,002
Carried on Balance Sheet at:				
Amortised cost	626,099	613,155	485,015	483,986
Fair value through profit or loss	3,620	3,938	3,472	4,016
Net loans and advances	629,719	617,093	488,487	488,002

1. During 2021, deferred expenses previously netted within Unearned income were reclassified to Capitalised brokerage and other origination costs to better align with the nature of the balances. Comparatives have been restated accordingly (2020: $394 million for the Group; $387 million for the Company).

RECOGNITION AND MEASUREMENT

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

Loans and advances are initially recognised at fair value plus transaction costs directly attributable to the issue of the loan or advance, which are primarily brokerage and other origination costs 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 allowance for expected credit losses, or at fair value when they are specifically designated on initial recognition as fair value through profit or loss or when held for trading.

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

The Group enters into transactions in which it transfers financial assets that are recognised on its balance sheet. When the Group retains substantially all of the risks and rewards of the transferred assets, the transferred assets remain on the Group's balance sheet, however if substantially all the risks and rewards are transferred, the Group derecognises the asset. If the risks and rewards are partially retained and control over the asset is lost, the Group derecognises the asset. If control over the asset is not lost, the Group continues to recognise the asset to the extent of its continuing involvement.

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

Assets disclosed as net loans and advances are subject to the general classification and measurement policy for financial assets outlined on page 141. 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 14 Allowance for Expected Credit Losses.

14. ALLOWANCE FOR EXPECTED CREDIT LOSSES

Consolidated	2021 Collectively assessed $m	2021 Individually assessed $m	2021 Total $m	2020 Collectively assessed $m	2020 Individually assessed $m	2020 Total $m
Net loans and advances at amortised cost	3,379	666	4,045	4,130	851	4,981
Off-balance sheet commitments	785	21	806	858	40	898
Investment securities - debt securities at amortised cost	31	-	31	20	-	20
Total	4,195	687	4,882	5,008	891	5,899
Other comprehensive income						
Investment securities - debt securities at FVOCI[1]	11	-	11	10	-	10

1. For FVOCI assets, the allowance for ECL does not alter the carrying amount which remains at fair value. Instead, the allowance for ECL is recognised in Other Comprehensive Income (OCI) with a corresponding charge to profit or loss.

The Company	2021 Collectively assessed $m	2021 Individually assessed $m	2021 Total $m	2020 Collectively assessed $m	2020 Individually assessed $m	2020 Total $m
Net loans and advances at amortised cost	2,824	563	3,387	3,515	704	4,219
Off-balance sheet commitments	667	7	674	711	20	731
Investment securities - debt securities at amortised cost	1	-	1	1	-	1
Total	3,492	570	4,062	4,227	724	4,951
Other comprehensive income						
Investment securities - debt securities at FVOCI[1]	7	-	7	7	-	7

1. For FVOCI assets, the allowance for ECL does not alter the carrying amount which remains at fair value. Instead, the allowance for ECL is recognised in Other Comprehensive Income (OCI) with a corresponding charge to profit or loss.

The following tables present the movement in the allowance for ECL for the year.

Net loans and advances - at amortised cost

Allowance for ECL is included in Net loans and advances.

Consolidated	Stage 1 $m	Stage 2 $m	Stage 3[1] Collectively assessed $m	Stage 3[1] Individually assessed $m	Total $m
As at 1 October 2019	927	1,378	413	791	3,509
Transfer between stages	200	(308)	(112)	220	-
New and increased provisions (net of releases)	110	1,428	162	1,324	3,024
Write-backs	-	-	-	(321)	(321)
Bad debts written off (excluding recoveries)	-	-	-	(1,109)	(1,109)
Foreign currency translation and other movements[2]	(33)	(33)	(2)	(54)	(122)
As at 30 September 2020	1,204	2,465	461	851	4,981
Transfer between stages	399	(421)	(137)	159	-
New and increased provisions (net of releases)	(639)	(53)	90	663	61
Write-backs	-	-	-	(365)	(365)
Bad debts written off (excluding recoveries)	-	-	-	(626)	(626)
Foreign currency translation and other movements[2]	4	3	3	(16)	(6)
As at 30 September 2021	968	1,994	417	666	4,045

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

14. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)

The Company	Stage 1 $m	Stage 2 $m	Stage 3[1] Collectively assessed $m	Stage 3[1] Individually assessed $m	Total $m
As at 1 October 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
Transfer between stages	392	(382)	(130)	120	-
New and increased provisions (net of releases)	(620)	(49)	106	619	56
Write-backs	-	-	-	(308)	(308)
Bad debts written off (excluding recoveries)	-	-	-	(556)	(556)
Foreign currency translation and other movements[2]	(3)	(4)	(1)	(16)	(24)
As at 30 September 2021	797	1,679	348	563	3,387

1. The Group'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.

Off-balance sheet commitments - undrawn and contingent facilities

Allowance for ECL is included in Other provisions.

Consolidated	Stage 1 $m	Stage 2 $m	Stage 3[1] Collectively assessed $m	Stage 3[1] Individually assessed $m	Total $m
As at 1 October 2019	473	151	21	23	668
Transfer between stages	18	(24)	(1)	7	-
New and increased provisions (net of releases)	115	115	3	24	257
Write-backs	-	-	-	(14)	(14)
Foreign currency translation and other movements[2]	(10)	(3)	-	-	(13)
As at 30 September 2020	596	239	23	40	898
Transfer between stages	51	(49)	(3)	1	-
New and increased provisions (net of releases)	(92)	19	-	1	(72)
Write-backs	-	-	-	(21)	(21)
Foreign currency translation	-	2	(1)	-	1
As at 30 September 2021	555	211	19	21	806

1. The Group's credit exposures that are purchased or originated credit-impaired financial assets are insignificant.
2. Other movements include the impacts of divestments completed during the year.

14. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)

The Company	Stage 1 $m	Stage 2 $m	Stage 3[1] Collectively assessed $m	Stage 3[1] Individually assessed $m	Total $m
As at 1 October 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
Transfer between stages	45	(41)	(5)	1	-
New and increased provisions (net of releases)	(72)	28	2	1	(41)
Write-backs	-	-	-	(15)	(15)
Foreign currency translation	(2)	1	-	-	(1)
As at 30 September 2021	484	171	12	7	674

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

Investment securities - debt securities at amortised cost

Allowance for ECL is included in Investment securities.

Consolidated	Stage 1 $m	Stage 2 $m	Stage 3 Collectively assessed $m	Stage 3 Individually assessed $m	Total $m
As at 30 September 2020	20	-	-	-	20
As at 30 September 2021	31	-	-	-	31

The Company	Stage 1 $m	Stage 2 $m	Stage 3 Collectively assessed $m	Stage 3 Individually assessed $m	Total $m
As at 30 September 2020	1	-	-	-	1
As at 30 September 2021	1	-	-	-	1

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.

Consolidated	Stage 1 $m	Stage 2 $m	Stage 3 Collectively assessed $m	Stage 3 Individually assessed $m	Total $m
As at 30 September 2020	10	-	-	-	10
As at 30 September 2021	11	-	-	-	11

The Company	Stage 1 $m	Stage 2 $m	Stage 3 Collectively assessed $m	Stage 3 Individually assessed $m	Total $m
As at 30 September 2020	7	-	-	-	7
As at 30 September 2021	7	-	-	-	7

14. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)

CREDIT IMPAIRMENT CHARGE - INCOME STATEMENT

Credit impairment charge/(release) analysis

	Consolidated		The Company	
	2021 $m	2020 $m	2021 $m	2020 $m
New and increased provisions (net of releases)[1,2]				
- Collectively assessed	(823)	1,717	(726)	1,420
- Individually assessed	824	1,575	741	1,403
Write-backs[3]	(386)	(335)	(323)	(298)
Recoveries of amounts previously written-off	(182)	(219)	(161)	(188)
Total credit impairment charge	(567)	2,738	(469)	2,337

1. Includes the impact of transfers between collectively assessed and individually assessed.
2. New and increased provisions (net of releases) includes:

	Consolidated				The Company			
	2021		2020		2021		2020	
	Collectively assessed $m	Individually assessed $m	Collectively assessed $m	Individually assessed $m	Collectively assessed $m	Individually assessed $m	Collectively assessed $m	Individually assessed $m
Net loans and advances at amortised cost	(761)	822	1,479	1,544	(683)	739	1,243	1,383
Off-balance sheet commitments	(74)	2	226	31	(43)	2	174	20
Investment securities - debt securities at amortised cost	11	-	9	-	-	-	1	-
Investment securities - debt securities at FVOCI	1	-	3	-	-	-	2	-
Total	(823)	824	1,717	1,575	(726)	741	1,420	1,403

3. Consists of write-backs in Net loans and advances at amortised cost of $365 million (2020: $321 million) for the Group and $308 million (2020: $286 million) for the Company, and Off-balance sheet commitments of $21 million (2020: $14 million) for the Group and $15 million (2020: $12 million) for the Company.

The contractual amount outstanding on financial assets that were written off during the year and that are still subject to enforcement activity is $168 million (2020: $340 million) for the Group, and $138 million (2020: $321 million) for the Company.

14. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)

RECOGNITION AND MEASUREMENT

EXPECTED CREDIT LOSS MODEL

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

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

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

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

MEASUREMENT OF EXPECTED CREDIT LOSS

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

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

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

EXPECTED LIFE

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

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

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

DEFINITION OF DEFAULT, CREDIT IMPAIRED AND WRITE-OFFS

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

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

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

14. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)

RECOGNITION AND MEASUREMENT

MODIFIED FINANCIAL ASSETS

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

SIGNIFICANT INCREASE IN CREDIT RISK (SICR)

Stage 2 assets are those that have experienced a SICR since origination. In determining what constitutes a SICR, the Group considers both qualitative and quantitative information:

i. Internal credit rating grade

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

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

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

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

ii. Backstop criteria

The Group uses 30 days past due arrears as a backstop criterion 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

Facilities previously subject to the COVID-19 repayment deferral arrangements have been subsumed into the normal loan portfolios and SICR applied accordingly.

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 Group considers four probability-weighted forecast economic scenarios as follows:

i. Base case scenario

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

ii. Upside and iii. Downside scenarios

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

iv. Severe downside scenario

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

14. 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 lending 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 scenario and the Credit and Market Risk Committee (CMRC) approves the probability weights applied to each scenario.

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

KEY JUDGEMENTS AND ESTIMATES

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

- the selection of an estimation technique or modelling methodology; 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. The Group's ECL estimates are inherently uncertain and, as a result, actual results may differ from these estimates.

Judgement/Assumption	Description	Considerations for the year ended 30 September 2021
Determining when a Significant Increase in Credit Risk (SICR) has occurred	In the measurement of ECL, judgement is involved in setting the rules and trigger points to determine whether there has been a SICR since initial recognition of a loan, which would result in the financial asset moving from Stage 1 to Stage 2. This is a key area of judgement since transition from Stage 1 to Stage 2 increases the ECL from an allowance based on the probability of default in the next 12 months, to an allowance for lifetime expected credit losses. Subsequent decreases in credit risk resulting in transition from Stage 2 to Stage 1 may similarly result in significant changes in the ECL allowance. The setting of precise trigger points requires judgement which may have a material impact upon the size of the ECL allowance. The Group monitors the effectiveness of SICR criteria on an ongoing basis.	The support packages offered to customers in response to COVID-19 in 2020 and 2021 have ceased with the majority of customers who took up the support packages having reverted back to their normal loan repayments. Given the recency of cessation of these packages, the Group has provided a component of ECL for expected delinquencies that may have been obscured by the support measures.

14. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)

KEY JUDGEMENTS AND ESTIMATES (continued)

Judgement/Assumption	Description	Considerations for the year ended 30 September 2021
Measuring both 12-month and lifetime credit losses	The probability of default (PD), loss given default (LGD) and exposure at default (EAD) credit risk parameters used in determining ECL are point-in-time measures reflecting the relevant forward-looking information determined by management. Judgement is involved in determining which forward-looking information variables are relevant for particular lending portfolios and for determining each portfolio's point-in-time sensitivity.	The PD, EAD and LGD models are subject to the Group's model risk policy that stipulates periodic model monitoring, periodic re-validation and defines approval procedures and authorities according to model materiality. In the 2021 year, an adjustment was made to the modelled outcome to account for increased model uncertainties as a result of COVID-19.
	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 material changes to the policies during the year ended 30 September 2021.
Base case economic forecast	The Group derives a forward-looking 'base case' economic scenario which reflects ANZ Research - Economics' (ANZ Economics) view of 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 2021, the base case assumptions have been updated to reflect the evolving situation with respect to COVID-19, including emergence from lockdowns, government stimulus measures and roll-out of vaccines. In determining the expected path of the economy, assessments of the impact of central bank policies, governments' actions, the response of business, and institution specific responses (such as repayment deferrals) were considered. The expected outcomes of key economic drivers for the base case scenario as at 30 September 2021 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 continued uncertain economic impacts of COVID-19. The Group considers these weightings in each geography to provide estimates of the possible loss outcomes taking into account short and long term inter-relationships within the Group's credit portfolios. As at 30 September 2021, a base case weighting of 41.3% has been applied and more weight has been applied to the downside scenario given the Group's assessment of downside risks. The assigned probability weightings in Australia, New Zealand and Rest of world are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected.

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

14. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)

KEY JUDGEMENTS AND ESTIMATES (continued)

Judgement/Assumption	Description	Considerations for the year ended 30 September 2021
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, including the roll-out of vaccines and their efficacy, 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 which are based on historical underlying data. 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 continuing COVID-19 impacts. Management overlays (including COVID-19 overlays) which add to the modelled ECL provision have been made for risks particular to retail including home loans, small business and commercial banking in Australia, for personal and business banking in New Zealand, and for tourism in the Pacific.

Base case economic forecast assumptions

The uncertain evolution of the COVID-19 pandemic and associated government, business and consumer responses, increases the risk of the economic forecast resulting in an understatement or overstatement of the ECL balance due to uncertainties around:

- the extent and duration of measures, including the roll-out of vaccines and the relaxation of containment measures, impacting the spread of COVID-19;
- the expected impact on the economy, including the timing and speed of the economic response and differences between sectors; and
- the effects of progressive reductions in government stimulus measures, in particular their impact on the extent and duration of economic recovery.

The economic drivers of the base case economic forecasts at 30 September 2021 are set out below. These reflect ANZ Economics' view of future macro-economic conditions at 30 September 2021. 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		
	2021	2022	2023
Australia			
GDP (annual % change)	3.4%	3.8%	3.4%
Unemployment rate	5.3%	4.3%	4.1%
Residential property prices (annual % change)	20.5%	6.7%	3.5%
Consumer price index	2.4	1.9	2.2
New Zealand			
GDP (annual % change)	4.3%	4.3%	2.9%
Unemployment rate	4.1%	3.9%	3.9%
Residential property prices (annual % change)	22.4%	0.4%	5.2%
Consumer price index	3.3	2.9	1.9
Rest of world			
GDP (annual % change)	6.2%	4.2%	2.5%
Consumer price index	3.9	2.5	2.2

14. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)

KEY JUDGEMENTS AND ESTIMATES (continued)

The base case economic forecasts as at 30 September 2021 indicate a significant improvement in current and expected economic conditions from the forecasts as at 30 September 2020 reflecting the ongoing progress and actions in responding to the COVID-19 pandemic.

Probability weightings

Probability weightings for 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 effectiveness of actions taken in response to COVID-19 relaxation of containment measures by governments, and the take-up of vaccines limiting the impact of the virus.

The base case scenario represents a significant improvement in the forecasts since September 2020. Given the uncertainties associated with a potential ongoing recovery in the economy, the average base case weighting across geographies has been reduced to 41.3% (Sep 20: 50.0%) and the downside scenario increased to 47.7% (Sep 20: 33.3%).

The assigned probability weightings in Australia, New Zealand and Rest of world are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Group considers these weightings in each geography to provide estimates of the possible loss outcomes and taking into account short and long term inter-relationships within the Group's credit portfolios. The average weightings applied across the Group are set out below:

	Consolidated		The Company	
	2021	2020	2021	2020
Base	41.3%	50.0%	40.0%	50.0%
Upside	5.2%	10.4%	5.4%	10.9%
Downside	47.7%	33.3%	48.8%	33.4%
Severe Downside	5.8%	6.3%	5.8%	5.7%

ECL - Sensitivity analysis

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

The table below illustrates the sensitivity of collectively assessed ECL to key factors used in determining it as at 30 September 2021:

	Consolidated		The Company	
	ECL $m	Impact $m	ECL $m	Impact $m
If 1% of Stage 1 facilities were included in Stage 2	4,250	55	3,541	49
If 1% of Stage 2 facilities were included in Stage 1	4,188	(7)	3,486	(6)
100% upside scenario	1,774	(2,421)	1,469	(2,024)
100% base scenario	2,337	(1,858)	1,946	(1,547)
100% downside scenario	4,337	142	3,668	175
100% severe downside scenario	5,358	1,163	4,476	983

FINANCIAL LIABILITIES

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

CLASSIFICATION AND MEASUREMENT

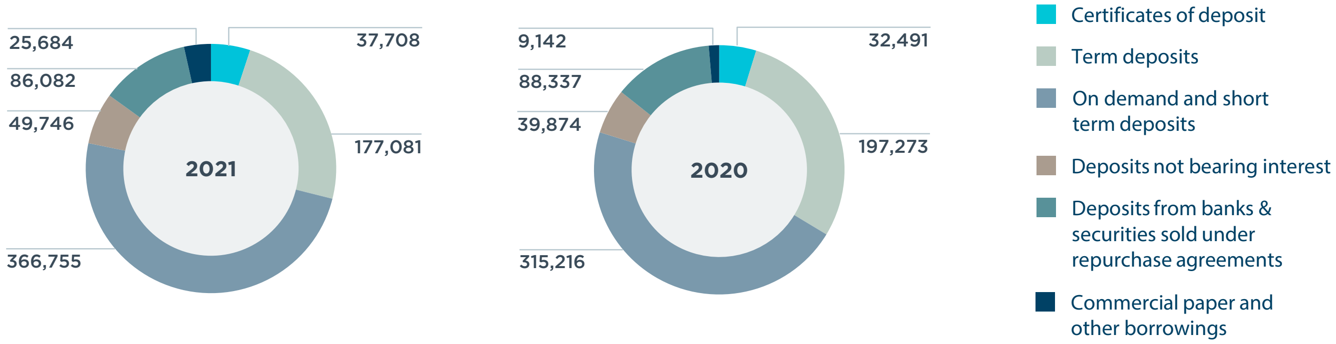
Financial liabilities

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

- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise;
- a group of financial liabilities are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management strategy; or
- the financial liability contains one or more embedded derivatives unless:
  a) the embedded derivative does not significantly modify the cash flows that otherwise would be required by the contract; or
  b) the embedded derivative is closely related to the host financial liability.

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

15. DEPOSITS AND OTHER BORROWINGS



	Consolidated 2021 $m	Consolidated 2020 $m	The Company 2021 $m	The Company 2020 $m
Certificates of deposit	37,708	32,491	35,696	30,574
Term deposits	177,081	197,273	136,067	148,839
On demand and short term deposits	366,755	315,216	303,381	262,236
Deposits not bearing interest	49,746	39,874	26,836	22,016
Deposits from banks & securities sold under repurchase agreements[1]	86,082	88,337	83,294	86,947
Commercial paper and other borrowings	25,684	9,142	21,449	7,524
Deposits and other borrowings	743,056	682,333	606,723	558,136
Residual contractual maturity:				
Within one year	717,889	665,151	584,816	544,324
More than one year	25,167	17,182	21,907	13,812
Deposits and other borrowings	743,056	682,333	606,723	558,136
Carried on Balance Sheet at:				
Amortised cost	738,772	679,255	606,673	556,676
Fair value through profit or loss	4,284	3,078	50	1,460
Deposits and other borrowings	743,056	682,333	606,723	558,136

1. Includes $20.1 billion (2020: $12.0 billion) of funds drawn under the RBA's Term Funding Facility (TFF) for the Group and the Company, and $1.2 billion (2020: nil) under the Reserve Bank of New Zealand's (RBNZ) Funding for Lending Programme (FLP) and Term Lending Facility (TLF) for the Group.

RECOGNITION AND MEASUREMENT

For deposits and other borrowings that:

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

Refer to Note 18 Fair Value of Financial Assets and Financial Liabilities for further details.

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

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

16. DEBT ISSUANCES

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

	Consolidated		The Company	
	2021 $m	2020 $m	2021 $m	2020 $m
Senior debt	58,952	80,835	45,348	64,591
Covered bonds	15,399	15,948	11,342	11,761
Securitisation	1,424	1,824	-	-
Total unsubordinated debt	75,775	98,607	56,690	76,352
Subordinated debt				
- Additional Tier 1 capital	8,506	8,196	8,191	7,833
- Tier 2 capital	16,207	12,865	16,207	12,865
- Other subordinated debt securities	566	-	-	-
Total subordinated debt	25,279	21,061	24,398	20,698
Total debt issued	101,054	119,668	81,088	97,050
Residual contractual maturity[1]*:*				
Within one year	22,621	25,688	18,512	20,937
More than one year	76,594	92,059	60,605	74,122
No maturity date (instruments in perpetuity)	1,839	1,921	1,971	1,991
Total debt issued	101,054	119,668	81,088	97,050

1. Based on the final maturity date or, in the case of Additional Tier 1 capital securities, the mandatory conversion date (if any).

TOTAL DEBT ISSUED BY CURRENCY

The table below shows the Group's issued debt by currency of issue, which broadly represents the debt holders' base location.

		Consolidated		The Company	
		2021 $m	2020 $m	2021 $m	2020 $m
USD	United States dollars	29,788	41,100	22,354	31,836
EUR	Euro	22,984	23,038	15,294	15,325
AUD	Australian dollars	35,709	43,697	34,299	41,857
NZD	New Zealand dollars	3,276	3,682	839	923
JPY	Japanese yen	1,854	2,131	1,853	2,131
CHF	Swiss francs	940	975	-	-
GBP	Pounds sterling	4,286	2,387	4,287	2,387
HKD	Hong Kong dollars	727	1,088	727	1,088
Other	Chinese yuan, Norwegian kroner, Singapore dollars and Canadian dollars	1,490	1,570	1,435	1,503
Total debt issued		101,054	119,668	81,088	97,050

SUBORDINATED DEBT

At 30 September 2021, all subordinated debt issued by the Company and certain other subordinated debt issued by its subsidiary ANZ Bank New Zealand Limited (ANZ NZ) qualify as regulatory capital for the Group. They are classified as either Additional Tier 1 (AT1) capital, in the case of the ANZ Capital Notes (ANZ CN), ANZ Capital Securities (ANZ CS) or ANZ NZ Capital Notes (ANZ NZ CN), or Tier 2 capital, in the case of perpetual or term subordinated notes, for APRA's capital adequacy purposes depending on the terms and conditions of the instruments.

Tier 2 capital instruments rank ahead of AT1 capital instruments, and AT1 capital instruments only rank ahead of ordinary shares, in any liquidation event impacting the issuer of the instruments.

16. DEBT ISSUANCES (continued)

AT1 CAPITAL

All outstanding AT1 capital instruments are Basel III fully compliant instruments (refer to Note 24 Capital Management for further information about Basel III). Each of the ANZ CN and ANZ CS rank equally with each other.

Distributions on the AT1 capital instruments are non-cumulative and subject to the issuer's absolute discretion and certain payment conditions (including regulatory requirements). Distributions on ANZ CNs are franked in line with the franking applied to ANZ ordinary shares.

Where specified, the AT1 capital instruments provide the issuer with an early redemption or conversion option on a specified date and in certain other circumstances (such as a tax or regulatory event). This redemption option is subject to APRA's and, in respect of the ANZ NZ CN, the Reserve Bank of New Zealand's (RBNZ) prior written approval.

Each of the AT1 capital instruments will immediately convert into a variable number of ANZ ordinary shares (based on the average market price of the shares immediately prior to conversion less a 1% discount, subject to a maximum conversion number of ANZ ordinary shares) if:

- ANZ's or, in the case of the ANZ NZ CN, ANZ Bank New Zealand Limited's (ANZ NZ) Common Equity Tier 1 capital ratio is equal to or less than 5.125% - known as a Common Equity Capital Trigger Event; or
- APRA notifies the Company that, without the conversion or write-off of certain securities or a public sector injection of capital (or equivalent support), it considers that the Company would become non-viable or, in the case of the ANZ NZ CN, the RBNZ directs ANZ NZ to convert or write-off the notes, or a statutory manager is appointed to ANZ NZ and decides that ANZ NZ must convert or write-off the notes – known as a Non-Viability Trigger Event.

Where specified, AT1 capital instruments mandatorily convert into a variable number of ANZ ordinary shares (based on the average market price of the shares immediately prior to conversion less a 1% discount):

- on a specified mandatory conversion date; or
- on an earlier date under certain circumstances as set out in the terms.

However, the mandatory conversion is deferred for a specified period if certain conversion tests are not met.

The tables below show the key details of the Group's AT1 capital instruments on issue at 30 September in both the current and prior years:

			Consolidated		The Company	
			2021 $m	2020 $m	2021 $m	2020 $m
Additional Tier 1 capital (perpetual subordinated securities)[1]						
ANZ Capital Notes (ANZ CN)						
AUD	1,120m	ANZ CN1[2]	-	1,119	-	1,119
AUD	1,610m	ANZ CN2	1,609	1,608	1,609	1,608
AUD	970m	ANZ CN3	968	967	998	997
AUD	1,622m	ANZ CN4	1,617	1,614	1,617	1,614
AUD	931m	ANZ CN5	927	926	927	926
AUD	1,500m	ANZ CN6	1,486	-	1,486	-
ANZ Capital Securities (ANZ CS)						
USD	1,000m	ANZ Capital Securities	1,422	1,499	1,554	1,569
ANZ NZ Capital Notes (ANZ NZ CN)						
NZD	500m	ANZ NZ Capital Notes	477	463	-	-
Total Additional Tier 1 capital[3]			8,506	8,196	8,191	7,833

1. Carrying values are net of issuance costs, and where appropriate include fair value hedge accounting adjustments.
2. Approximately $750 million of ANZ Capital Notes 1 were reinvested into ANZ Capital Notes 6 on 8 July 2021 with the remaining $370m being redeemed on 1 September 2021.
3. This forms part of qualifying Additional Tier 1 capital. Refer to Note 24 Capital Management for further details.

16. DEBT ISSUANCES (continued)

ANZ Capital Notes (ANZ CN)

	CN1	CN2	CN3
Issuer	ANZ	ANZ	ANZ, acting through its New Zealand branch
Issue date	7 August 2013	31 March 2014	5 March 2015
Issue amount	$1,120 million	$1,610 million	$970 million
Face value	$100	$100	$100
Distribution frequency	Semi-annually in arrears	Semi-annually in arrears	Semi-annually in arrears
Distribution rate	Floating rate: (180 day Bank Bill rate +3.4%)x(1-Australian corporate tax rate)	Floating rate: (180 day Bank Bill rate +3.25%)x(1-Australian corporate tax rate)	Floating rate: (180 day Bank Bill rate +3.6%)x(1-Australian corporate tax rate)
Issuer's early redemption or conversion option	1 September 2021[1]	24 March 2022	24 March 2023
Mandatory conversion date	1 September 2023[2]	24 March 2024	24 March 2025
Common equity capital trigger event	Yes	Yes	Yes
Non-viability trigger event	Yes	Yes	Yes
Carrying value (net of issue costs)	$nil (2020: $1,119 million)	$1,609 million (2020: $1,608 million)	$968 million (2020: $967 million)

	CN4	CN5	CN6
Issuer	ANZ	ANZ	ANZ
Issue date	27 September 2016	28 September 2017	8 July 2021
Issue amount	$1,622 million	$931 million	$1,500 million
Face value	$100	$100	$100
Distribution frequency	Quarterly in arrears	Quarterly in arrears	Quarterly in arrears
Distribution rate	Floating rate: (90 day Bank Bill rate +4.7%)x(1-Australian corporate tax rate)	Floating rate: (90 day Bank Bill rate +3.8%)x(1-Australian corporate tax rate)	Floating rate: (90 day Bank Bill rate +3.0%)x(1-Australian corporate tax rate)
Issuer's early redemption or conversion option	20 March 2024	20 March 2025	20 March 2028
Mandatory conversion date	20 March 2026	20 March 2027	20 September 2030
Common equity capital trigger event	Yes	Yes	Yes
Non-viability trigger event	Yes	Yes	Yes
Carrying value (net of issue costs)	$1,617 million (2020: $1,614 million)	$927 million (2020: $926 million)	$1,486 million (2020: $nil)

1. Approximately $750 million of ANZ Capital Notes 1 were reinvested into ANZ Capital Notes 6 on 8 July 2021 with the remaining $370m being redeemed on 1 September 2021.
2. The mandatory conversion date is no longer applicable as all of CN1 has been redeemed.

16. DEBT ISSUANCES (continued)

ANZ Capital Securities (ANZ CS)

Issuer	ANZ, acting through its London branch
Issue date	15 June 2016
Issue amount	USD 1,000 million
Face value	Minimum denomination of USD 200,000 and an integral multiple of USD 1,000 above that
Interest frequency	Semi-annually in arrears
Interest rate	Fixed at 6.75% p.a. until 15 June 2026. Reset on 15 June 2026 and each 5 year anniversary to a floating rate: 5 year USD mid-market swap rate + 5.168%
Issuer's early redemption option	15 June 2026 and each 5 year anniversary
Common equity capital trigger event	Yes
Non-viability trigger event	Yes
Carrying value (net of issue costs)	$1,422 million (2020: $1,499 million)

ANZ NZ Capital Notes (ANZ NZ CN)

Issuer	ANZ Bank New Zealand Limited (ANZ NZ)
Issue date	31 March 2015
Issue amount	NZD 500 million
Face value	NZD 1
Interest frequency	Quarterly in arrears
Interest rate	Fixed at 7.2% p.a. until 25 May 2020. The rate reset in May 2020 to a floating rate: New Zealand 3 month bank bill rate + 3.5% Interest payments are subject to ANZ NZ's absolute discretion and certain payment conditions (including APRA and RBNZ requirements)
Issuer's early redemption option	The option was not exercised on 25 May 2020 and has expired
Mandatory conversion date	25 May 2022
Common equity capital trigger event	Yes
Non-viability trigger event	Yes
Carrying value (net of issue costs)	$477 million (2020: $463 million)

In April 2020, the RBNZ informed New Zealand-incorporated registered banks (including ANZ NZ) that they should not redeem capital instruments. In March 2021, the RBNZ announced that it would remove these restrictions on the redemption of non-CET1 capital instruments. However, as the restriction was in place in May 2020, ANZ NZ was not able to redeem its ANZ NZ CNs and decided not to exercise its option to convert at the optional exchange date in May 2020. As ANZ NZ did not exercise its option to convert in May 2020, the terms of the ANZ NZ CNs provide for their conversion into a variable number of shares of the Company in May 2022 subject to certain conditions.

The RBNZ has released new capital adequacy requirements for New Zealand banks, which are being implemented from October 2021 to July 2028. Under these changes, from 1 January 2022, the ANZ NZ CNs are subject to a reduction in their regulatory capital recognition, and as a result, ANZ NZ has determined that a Regulatory Event (as defined in the ANZ NZ CN Deed Poll) has occurred in respect of these notes. The occurrence of a Regulatory Event means that ANZ NZ may choose to redeem the ANZ NZ CNs at its discretion. A redemption of the ANZ NZ CNs is subject to certain conditions, including approval from the RBNZ and APRA. At the date of this financial report, no decision had been made on whether ANZ NZ will redeem the ANZ NZ CNs (subject to regulatory approvals).

16. DEBT ISSUANCES (continued)

TIER 2 CAPITAL

Convertible term subordinated notes issued by the Company are Basel III fully compliant instruments. If a Non-Viability Trigger Event occurs, each of the convertible term subordinated notes will immediately convert into ANZ ordinary shares (based on the average market price of the shares immediately prior to conversion less a 1% discount, subject to a maximum conversion number).

APRA has granted transitional Basel III capital treatment for the USD 300 million perpetual subordinated notes until the end of the transitional period (December 2021). These subordinated notes do not contain a Non-Viability Trigger Event.

The table below shows the Tier 2 capital subordinated notes the Group holds at 30 September in both the current and prior year:

					Consolidated		The Company	
Currency	Face value	Maturity	Next optional call date – subject to APRA's prior approval	Interest rate	2021 $m	2020 $m	2021 $m	2020 $m
Basel III transitional subordinated notes (perpetual)								
USD	300m	Perpetual	Each semi-annual interest payment date	Floating	417	422	417	422
Total Basel III transitional subordinated notes					417	422	417	422
Basel III fully compliant convertible subordinated notes (term)								
USD	800m	2024	N/A	Fixed	1,173	1,225	1,173	1,225
SGD	500m	2027	2022	Fixed	515	529	515	529
AUD	200m	2027	2022	Fixed	200	200	200	200
JPY	20,000m	2026	N/A	Fixed	250	270	250	270
AUD	700m	2026	2021	Floating	-	700	-	700
USD	1,500m	2026	N/A	Fixed	2,137	2,253	2,137	2,253
JPY	10,000m	2026	2021	Fixed	-	133	-	133
JPY	10,000m	2028	2023	Fixed	124	133	124	133
AUD	225m	2032	2027	Fixed	225	225	225	225
AUD	1,750m	2029	2024	Floating	1,740	1,750	1,740	1,750
EUR	1,000m	2029	2024	Fixed	1,608	1,657	1,608	1,657
AUD	265m	2039	N/A	Fixed	253	265	253	265
USD	1,250m	2030	2025	Fixed	1,782	1,859	1,782	1,859
AUD	1,250m	2031	2026	Floating	1,235	1,244	1,235	1,244
USD	1,500m	2035	2030	Fixed	1,955	-	1,955	-
AUD	330m	2040	N/A	Fixed	304	-	304	-
AUD	195m	2040	N/A	Fixed	178	-	178	-
EUR	750m	2031	2026	Fixed	1,193	-	1,193	-
GBP	500m	2031	2026	Fixed	918	-	918	-
Total Basel III fully compliant subordinated notes					15,790	12,443	15,790	12,443
Total Tier 2 capital[1,2]					16,207	12,865	16,207	12,865

1. Carrying value are net of issuance costs, and where applicable include fair value hedge accounting adjustments.
2. This forms part of qualifying Tier 2 capital. Refer to Note 24 Capital Management for further details.

OTHER SUBORDINATED DEBT SECURITIES

A subsidiary of the Group, ANZ Bank New Zealand Limited, issued NZ$600 million of unsecured subordinated notes in September 2021. Whilst these notes constitute Tier 2 capital under RBNZ requirements, the notes do not contain a Non-Viability Trigger Event and therefore do not meet APRA's requirements for Tier 2 capital instruments in order to qualify as regulatory capital for the Group.

16. DEBT ISSUANCES (continued)

RECOGNITION AND MEASUREMENT

Debt issuances are measured at amortised cost, except where designated at fair value through profit or loss. Where the Group enters into a fair value hedge accounting relationship, the fair value attributable to the hedge risk is reflected in adjustments to the carrying value of the debt. Interest expense is recognised using the effective interest rate method.

Subordinated debt with capital-based conversion features (i.e. Common Equity Capital Trigger Events or Non-Viability Trigger Events) are considered to contain embedded derivatives that we account for separately at fair value through profit and loss. The embedded derivatives arise because the amount of shares issued on conversion following any of those trigger events is subject to the maximum conversion number, however they have no significant value as of the reporting date given the remote nature of those trigger events.

17. FINANCIAL RISK MANAGEMENT

RISK MANAGEMENT FRAMEWORK AND MODEL

INTRODUCTION

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

We disclose details of all key material risks impacting the Group, and further information on the Group's risk management activities, in the Governance and Risk Management sections of this Annual Report.

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

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

17. FINANCIAL RISK MANAGEMENT (continued)

OVERVIEW

AN OVERVIEW OF OUR RISK MANAGEMENT FRAMEWORK

This overview is provided to aid the users of the financial statements in understanding the context of the financial disclosures required under AASB 7 *Financial Instruments: Disclosures* (AASB 7). It should be read in conjunction with the Governance and Risk Management sections of this Annual Report.

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

The Board approves the strategic objectives of the Group including:

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

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

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

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

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

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

17. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK

CREDIT RISK OVERVIEW, MANAGEMENT AND CONTROL RESPONSIBILITIES

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

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

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

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

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

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

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

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

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

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

17. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK (continued)

MAXIMUM EXPOSURE TO CREDIT RISK

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

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

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

	Reported		Excluded[1]		Maximum exposure to credit risk	
Consolidated	2021 $m	2020 $m	2021 $m	2020 $m	2021 $m	2020 $m
On-balance sheet positions						
Net loans and advances	629,719	617,093	-	-	629,719	617,093
Other financial assets:						
Cash and cash equivalents	151,260	107,923	1,127	1,514	150,133	106,409
Settlement balances owed to ANZ	7,530	7,541	7,530	7,541	-	-
Collateral paid	9,166	14,308	-	-	9,166	14,308
Trading securities	44,688	50,913	4,996	5,698	39,692	45,215
Derivative financial instruments	38,736	135,331	-	-	38,736	135,331
Investment securities						
- debt securities at amortised cost	7,031	6,816	-	-	7,031	6,816
- debt securities at FVOCI	74,743	85,460	-	-	74,743	85,460
- equity securities at FVOCI	1,310	1,062	1,310	1,062	-	-
- debt securities at FVTPL	42	53	-	-	42	53
Regulatory deposits	671	801	-	-	671	801
Other financial assets[2]	2,054	2,407	-	-	2,054	2,407
Total other financial assets	337,231	412,615	14,963	15,815	322,268	396,800
Subtotal	966,950	1,029,708	14,963	15,815	951,987	1,013,893
Off-balance sheet positions						
Undrawn and contingent facilities[3]	259,789	266,716	-	-	259,789	266,716
Total	1,226,739	1,296,424	14,963	15,815	1,211,776	1,280,609

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; and 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.

17. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK (continued)

The Company	Reported 2021 $m	Reported 2020 $m	Excluded[1] 2021 $m	Excluded[1] 2020 $m	Maximum exposure to credit risk 2021 $m	Maximum exposure to credit risk 2020 $m
On-balance sheet positions						
Net loans and advances	488,487	488,002	-	-	488,487	488,002
Other financial assets:						
Cash and cash equivalents	141,436	98,083	721	1,084	140,715	96,999
Settlement balances owed to ANZ	7,183	7,116	7,183	7,116	-	-
Collateral paid	8,343	13,012	-	-	8,343	13,012
Trading securities	34,752	38,423	4,957	5,465	29,795	32,958
Derivative financial instruments	38,292	130,552	-	-	38,292	130,552
Investment securities						
- debt securities at amortised cost	5,263	5,354	-	-	5,263	5,354
- debt securities at FVOCI	61,623	73,936	-	-	61,623	73,936
- equity securities at FVOCI	1,054	994	1,054	994	-	-
- debt securities at FVTPL	-	-	-	-	-	-
Regulatory deposits	213	199	-	-	213	199
Due from controlled entities[2]	23,530	24,017	-	-	23,530	24,017
Other financial assets[3]	1,371	1,460	-	-	1,371	1,460
Total other financial assets	323,060	393,146	13,915	14,659	309,145	378,487
Subtotal	811,547	881,148	13,915	14,659	797,632	866,489
Off-balance sheet positions						
Undrawn and contingent facilities[4]	220,445	226,714	-	-	220,445	226,714
Total	1,031,992	1,107,862	13,915	14,659	1,018,077	1,093,203

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; and Equity securities within Investment securities were excluded as they do not have credit risk exposure.
2. From 1 April 2021, the Company changed its accounting policy relating to intragroup transactions with consolidated securitisation structured entities (SEs) in which it holds all of the issued securities of the SE. Transactions with an SE are no longer recorded on a gross basis. Comparatives have been restated, reducing Due from controlled entities by $76,637 million at 30 September 2020. Refer to Note 35 Impact of Adoption of New Standards and Other Changes for further details.
3. Other financial assets mainly comprise accrued interest and acceptances.
4. 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.

17. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK (continued)

CREDIT QUALITY

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

Net loans and advances

Consolidated	Stage 1 $m	Stage 2 $m	Stage 3 Collectively assessed $m	Stage 3 Individually assessed $m	Total $m
As at 30 September 2021					
Strong	412,821	12,596	-	-	425,417
Satisfactory	146,368	31,228	-	-	177,596
Weak	7,921	12,907	-	-	20,828
Defaulted	-	-	3,754	1,549	5,303
Gross loans and advances at amortised cost	567,110	56,731	3,754	1,549	629,144
Allowance for ECL	(968)	(1,994)	(417)	(666)	(4,045)
Net loans and advances at amortised cost	566,142	54,737	3,337	883	625,099
Coverage ratio	0.17%	3.51%	11.11%	43.00%	0.64%
Loans and advances at fair value through profit or loss					3,620
Unearned income[1]					(434)
Capitalised brokerage and other origination costs[1]					1,434
Net carrying amount					629,719
As at 30 September 2020					
Strong	395,608	18,262	-	-	413,870
Satisfactory	133,558	37,577	-	-	171,135
Weak	8,461	16,850	-	-	25,311
Defaulted	-	-	4,762	2,256	7,018
Gross loans and advances at amortised cost	537,627	72,689	4,762	2,256	617,334
Allowance for ECL	(1,204)	(2,465)	(461)	(851)	(4,981)
Net loans and advances at amortised cost	536,423	70,224	4,301	1,405	612,353
Coverage ratio	0.22%	3.39%	9.68%	37.72%	0.81%
Loans and advances at fair value through profit or loss					3,938
Unearned income[1]					(460)
Capitalised brokerage and other origination costs[1]					1,262
Net carrying amount					617,093

1. During 2021, deferred expenses previously netted within Unearned income were reclassified to Capitalised brokerage and other origination costs to better align with the nature of the balances. Comparatives have been restated accordingly (2020: $394 million).

17. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK (continued)

Net loans and advances

The Company	Stage 1 $m	Stage 2 $m	Stage 3 Collectively assessed $m	Stage 3 Individually assessed $m	Total $m
As at 30 September 2021					
Strong	297,511	9,329	-	-	306,840
Satisfactory	131,979	25,538	-	-	157,517
Weak	7,913	11,038	-	-	18,951
Defaulted	-	-	3,089	1,345	4,434
Gross loans and advances at amortised cost	437,403	45,905	3,089	1,345	487,742
Allowance for ECL	(797)	(1,679)	(348)	(563)	(3,387)
Net loans and advances at amortised cost	436,606	44,226	2,741	782	484,355
Coverage ratio	0.18%	3.66%	11.27%	41.86%	0.69%
Loans and advances at fair value through profit or loss					3,472
Unearned income[1]					(390)
Capitalised brokerage and other origination costs[1]					1,050
Net carrying amount					488,487
As at 30 September 2020					
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[1]					(406)
Capitalised brokerage and other origination costs[1]					959
Net carrying amount					488,002

1. During 2021, deferred expenses previously netted within Unearned income were reclassified to Capitalised brokerage and other origination costs to better align with the nature of the balances. Comparatives have been restated accordingly (2020: $387 million).

17. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK (continued)

Off-balance sheet commitments - undrawn and contingent facilities

Consolidated	Stage 1 $m	Stage 2 $m	Stage 3 Collectively assessed $m	Stage 3 Individually assessed $m	Total $m
As at 30 September 2021					
Strong	174,808	1,754	-	-	176,562
Satisfactory	23,799	3,564	-	-	27,363
Weak	1,030	1,185	-	-	2,215
Defaulted	-	-	138	50	188
Gross undrawn and contingent facilities subject to ECL	199,637	6,503	138	50	206,328
Allowance for ECL included in Other provisions (refer to Note 22)	(555)	(211)	(19)	(21)	(806)
Net undrawn and contingent facilities subject to ECL	199,082	6,292	119	29	205,522
Coverage ratio	0.28%	3.24%	13.77%	42.00%	0.39%
Undrawn and contingent facilities not subject to ECL[1]					54,267
Net undrawn and contingent facilities					259,789
As at 30 September 2020					
Strong	171,979	3,045	-	-	175,024
Satisfactory	22,983	3,972	-	-	26,955
Weak	1,123	1,132	-	-	2,255
Defaulted	-	-	144	203	347
Gross undrawn and contingent facilities subject to ECL	196,085	8,149	144	203	204,581
Allowance for ECL included in Other provisions (refer to Note 22)	(596)	(239)	(23)	(40)	(898)
Net undrawn and contingent facilities subject to ECL	195,489	7,910	121	163	203,683
Coverage ratio	0.30%	2.93%	15.97%	19.70%	0.44%
Undrawn and contingent facilities not subject to ECL[1]					63,033
Net undrawn and contingent facilities					266,716

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

17. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK (continued)

Off-balance sheet commitments - undrawn and contingent facilities

The Company	Stage 1 $m	Stage 2 $m	Stage 3 Collectively assessed $m	Stage 3 Individually assessed $m	Total $m
As at 30 September 2021					
Strong	162,232	1,745	-	-	163,977
Satisfactory	19,790	2,662	-	-	22,452
Weak	1,005	966	-	-	1,971
Defaulted	-	-	91	28	119
Gross undrawn and contingent facilities subject to ECL	183,027	5,373	91	28	188,519
Allowance for ECL included in Other provisions (refer to Note 22)	(484)	(171)	(12)	(7)	(674)
Net undrawn and contingent facilities subject to ECL	182,543	5,202	79	21	187,845
Coverage ratio	0.26%	3.18%	13.19%	25.00%	0.36%
Undrawn and contingent facilities not subject to ECL[1]					32,600
Net undrawn and contingent facilities					220,445
As at 30 September 2020					
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 Other provisions (refer to Note 22)	(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

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

17. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK (continued)

Investment securities - debt securities at amortised cost

Consolidated	Stage 1 $m	Stage 2 $m	Stage 3 Collectively assessed $m	Stage 3 Individually assessed $m	Total $m
As at 30 September 2021					
Strong	5,574	-	-	-	5,574
Satisfactory	121	-	-	-	121
Weak	1,367	-	-	-	1,367
Gross investment securities - debt securities at amortised cost	7,062	-	-	-	7,062
Allowance for ECL	(31)	-	-	-	(31)
Net investment securities - debt securities at amortised cost	7,031	-	-	-	7,031
Coverage ratio	0.44%	-	-	-	0.44%
As at 30 September 2020					
Strong	5,594	-	-	-	5,594
Satisfactory	1,067	175	-	-	1,242
Gross investment securities - debt securities at amortised cost	6,661	175	-	-	6,836
Allowance for ECL	(20)	-	-	-	(20)
Net investment securities - debt securities at amortised cost	6,641	175	-	-	6,816
Coverage ratio	0.30%	0.00%	-	-	0.29%

The Company	Stage 1 $m	Stage 2 $m	Stage 3 Collectively assessed $m	Stage 3 Individually assessed $m	Total $m
As at 30 September 2021					
Strong	5,162	-	-	-	5,162
Satisfactory	102	-	-	-	102
Gross investment securities - debt securities at amortised cost	5,264	-	-	-	5,264
Allowance for ECL	(1)	-	-	-	(1)
Net investment securities - debt securities at amortised cost	5,263	-	-	-	5,263
Coverage ratio	0.02%	-	-	-	0.02%
As at 30 September 2020					
Strong	5,271	-	-	-	5,271
Satisfactory	84	-	-	-	84
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%

17. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK (continued)

Investment securities - debt securities at FVOCI

Consolidated	Stage 1 $m	Stage 2 $m	Stage 3 Collectively assessed $m	Stage 3 Individually assessed $m	Total $m
As at 30 September 2021					
Strong	74,541	-	-	-	74,541
Satisfactory	202	-	-		202
Investment securities - debt securities at FVOCI	74,743	-	-	-	74,743
Allowance for ECL recognised in other comprehensive income	(11)	-	-	-	(11)
Coverage ratio	0.01%	-	-	-	0.01%
As at 30 September 2020					
Strong	85,287	-	-	-	85,287
Satisfactory	173	-	-	-	173
Investment securities - debt securities at FVOCI	85,460	-	-	-	85,460
Allowance for ECL recognised in other comprehensive income	(10)	-	-	-	(10)
Coverage ratio	0.01%	-	-	-	0.01%

The Company	Stage 1 $m	Stage 2 $m	Stage 3 Collectively assessed $m	Stage 3 Individually assessed $m	Total $m
As at 30 September 2021					
Strong	61,623	-	-	-	61,623
Satisfactory	-	-	-	-	-
Investment securities - debt securities at FVOCI	61,623	-	-	-	61,623
Allowance for ECL recognised in other comprehensive income	(7)	-	-	-	(7)
Coverage ratio	0.01%	-	-	-	0.01%
As at 30 September 2020					
Strong	73,936	-	-	-	73,936
Satisfactory	-	-	-	-	-
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%

17. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK (continued)

Investment securities - debt securities at FVTPL

Consolidated	Stage 1 $m	Stage 2 $m	Stage 3 Collectively assessed $m	Stage 3 Individually assessed $m	Total $m
As at 30 September 2021					
Strong	42	-	-	-	42
Investment securities - debt securities at FVTPL	42	-	-	-	42
Allowance for ECL	-	-	-	-	-
Coverage ratio	-	-	-	-	-
As at 30 September 2020					
Strong	53	-	-	-	53
Investment securities - debt securities at FVTPL	53	-	-	-	53
Allowance for ECL	-	-	-	-	-
Coverage ratio	-	-	-	-	-

Other financial assets

	Consolidated 2021 $m	Consolidated 2020 $m	The Company 2021 $m	The Company 2020 $m
Strong	235,847	293,171	238,452	365,532
Satisfactory	3,471	10,671	3,026	9,724
Weak	1,122	628	769	577
Defaulted	12	1	12	1
Total carrying amount	240,452	304,471	242,259	375,834

17. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK (continued)

CONCENTRATIONS OF CREDIT RISK

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

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

	Loans and advances		Other financial assets		Off-balance sheet credit related commitments		Total	
Consolidated	2021 $m	2020 $m	2021 $m	2020 $m	2021 $m	2020 $m	2021 $m	2020 $m
Agriculture, forestry, fishing and mining	34,862	36,458	335	1,092	16,034	17,188	51,231	54,738
Business services	9,161	8,642	119	172	6,429	6,506	15,709	15,320
Construction	5,886	5,807	46	44	6,458	6,679	12,390	12,530
Electricity, gas and water supply	6,513	5,881	807	2,386	9,053	8,663	16,373	16,930
Entertainment, leisure and tourism	12,710	13,179	157	600	3,862	4,114	16,729	17,893
Financial, investment and insurance	56,107	51,857	229,273	279,468	50,568	48,537	335,948	379,862
Government and official institutions	4,651	4,645	83,741	98,017	1,798	1,968	90,190	104,630
Manufacturing	23,752	25,163	741	2,306	37,696	41,114	62,189	68,583
Personal lending	361,814	361,459	664	1,170	57,410	50,433	419,888	413,062
Property services	50,396	50,406	489	2,044	16,673	27,992	67,558	80,442
Retail trade	9,967	10,739	104	231	8,444	9,602	18,515	20,572
Transport and storage	11,710	12,657	437	1,280	8,257	8,587	20,404	22,524
Wholesale trade	12,434	11,816	583	2,649	20,899	19,494	33,916	33,959
Other	32,801	22,563	4,803	5,361	17,014	16,737	54,618	44,661
Gross total	632,764	621,272	322,299	396,820	260,595	267,614	1,215,658	1,285,706
Allowance for ECL	(4,045)	(4,981)	(31)	(20)	(806)	(898)	(4,882)	(5,899)
Subtotal	628,719	616,291	322,268	396,800	259,789	266,716	1,210,776	1,279,807
Unearned income[1]	(434)	(460)	-	-	-	-	(434)	(460)
Capitalised brokerage and other origination costs[1]	1,434	1,262	-	-	-	-	1,434	1,262
Maximum exposure to credit risk	629,719	617,093	322,268	396,800	259,789	266,716	1,211,776	1,280,609

1. During 2021, deferred expenses previously netted within Unearned income were reclassified to Capitalised brokerage and other origination costs to better align with the nature of the balances. Comparatives have been restated accordingly (2020: $394 million).

17. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK (continued)

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

The Company	Loans and advances 2021 $m	Loans and advances 2020 $m	Other financial assets 2021 $m	Other financial assets 2020 $m	Off-balance sheet credit related commitments 2021 $m	Off-balance sheet credit related commitments 2020 $m	Total 2021 $m	Total 2020 $m
Agriculture, forestry, fishing and mining	18,283	19,555	297	946	14,305	15,837	32,885	36,338
Business services	8,096	7,544	73	105	5,618	5,747	13,787	13,396
Construction	4,710	4,649	30	19	5,241	5,331	9,981	9,999
Electricity, gas and water supply	5,523	4,842	580	1,843	7,356	6,841	13,459	13,526
Entertainment, leisure and tourism	10,934	11,477	138	560	3,404	3,522	14,476	15,559
Financial, investment and insurance	52,230	49,254	236,430	364,478	46,971	44,678	335,631	458,410
Government and official institutions	4,621	3,347	65,429	75,554	1,113	1,224	71,163	80,125
Manufacturing	20,143	21,452	369	1,661	30,794	33,716	51,306	56,829
Personal lending	278,526	279,899	638	697	45,886	49,421	325,050	330,017
Property services	37,580	37,605	379	1,024	14,424	14,526	52,383	53,155
Retail trade	8,273	9,023	82	164	7,298	7,279	15,653	16,466
Transport and storage	10,564	11,599	339	1,016	7,229	7,412	18,132	20,027
Wholesale trade	10,345	9,973	380	2,237	17,462	17,151	28,187	29,361
Other	21,386	21,449	3,982	4,821	14,018	14,760	39,386	41,030
Gross total	491,214	491,668	309,146	455,125	221,119	227,445	1,021,479	1,174,238
Allowance for ECL	(3,387)	(4,219)	(1)	(1)	(674)	(731)	(4,062)	(4,951)
Subtotal	487,827	487,449	309,145	455,124	220,445	226,714	1,017,417	1,169,287
Unearned income[1]	(390)	(406)	-	-	-	-	(390)	(406)
Capitalised brokerage and other origination costs[1]	1,050	959	-	-	-	-	1,050	959
Maximum exposure to credit risk	488,487	488,002	309,145	455,124	220,445	226,714	1,018,077	1,169,840

1. During 2021, deferred expenses previously netted within Unearned income were reclassified to Capitalised brokerage and other origination costs to better align with the nature of the balances. Comparatives have been restated accordingly (2020: $387 million).

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.

17. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK (continued)

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, such as guarantees, standby letters of credit or derivative protection.
Other financial assets	
Trading securities, Investment securities, Derivatives and Other financial assets	For trading securities, we do not seek collateral directly from the issuer or counterparty. However, the collateral may be implicit in the terms of the instrument (for example, with an asset-backed security). The terms of debt securities may include collateralisation. For derivatives, we typically terminate all contracts with the counterparty and settle on a net basis at market levels current at the time of a counterparty default under International Swaps and Derivatives Association (ISDA) Master Agreements. Our preferred practice is to use a Credit Support Annex (CSA) to the ISDA so that open derivative positions with the counterparty are aggregated and cash collateral (or other forms of eligible collateral) is exchanged daily. The collateral is provided by the counterparty when their position is out of the money (or provided to the counterparty by ANZ when our position is out of the money).
Off-balance sheet positions	
Undrawn and contingent facilities	Collateral for off-balance sheet positions is mainly held against undrawn facilities, and they are typically performance bonds or guarantees. Undrawn facilities that are secured include housing loans secured by mortgages over residential property and business lending secured by commercial real estate and/or charges over business assets.

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

	Credit exposure		Total value of collateral		Unsecured portion of credit exposure	
Consolidated	2021 $m	2020 $m	2021 $m	2020 $m	2021 $m	2020 $m
Net loans and advances	629,719	617,093	515,866	510,995	113,853	106,098
Other financial assets	322,268	396,800	24,410	45,246	297,858	351,554
Off-balance sheet positions	259,789	266,716	52,512	51,361	207,277	215,355
Total	1,211,776	1,280,609	592,788	607,602	618,988	673,007

	Credit exposure		Total value of collateral		Unsecured portion of credit exposure	
The Company	2021 $m	2020 $m	2021 $m	2020 $m	2021 $m	2020 $m
Net loans and advances	488,487	488,002	387,273	393,548	101,214	94,454
Other financial assets[1]	309,145	378,487	22,027	42,000	287,118	336,487
Off-balance sheet positions	220,445	226,714	36,676	36,372	183,769	190,342
Total	1,018,077	1,093,203	445,976	471,920	572,101	621,283

1. From 1 April 2021, the Company changed its accounting policy relating to intragroup transactions with consolidated securitisation structured entities (SEs) in which it holds all of the issued securities of the SE. Transactions with an SE are no longer recorded on a gross basis. Comparatives have been restated, reducing Other financial assets by $76,637 million at 30 September 2020. Refer to Note 35 Impact of Adoption of New Standards and Other Changes for further details.

17. FINANCIAL RISK MANAGEMENT (continued)

MARKET RISK

MARKET RISK OVERVIEW, MANAGEMENT AND CONTROL RESPONSIBILITIES

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

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

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

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

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

MEASUREMENT OF MARKET RISK

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

VaR measures the Group's possible daily loss based on historical market movements.

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

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

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

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

17. 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:

Consolidated	2021 As at $m	2021 High for year $m	2021 Low for year $m	2021 Average for year $m	2020 As at $m	2020 High for year $m	2020 Low for year $m	2020 Average for year $m
Traded value at risk 99% confidence								
Foreign exchange	3.8	10.0	1.3	3.9	2.0	6.1	1.2	3.1
Interest rate	9.6	19.6	4.3	8.8	9.6	13.8	3.3	7.2
Credit	6.3	22.2	5.3	13.7	13.9	17.1	1.8	8.6
Commodity	3.1	5.0	1.3	2.8	3.0	4.7	1.3	2.6
Equity	-	-	-	-	-	-	-	-
Diversification benefit[1]	(9.4)	n/a	n/a	(9.7)	(10.9)	n/a	n/a	(8.0)
Total VaR	13.4	30.0	8.7	19.5	17.6	31.9	5.7	13.5

The Company	2021 As at $m	2021 High for year $m	2021 Low for year $m	2021 Average for year $m	2020 As at $m	2020 High for year $m	2020 Low for year $m	2020 Average for year $m
Traded value at risk 99% confidence								
Foreign exchange	3.4	7.6	1.5	3.5	2.0	5.6	1.0	2.8
Interest rate	9.0	16.4	4.1	7.5	7.2	10.6	2.9	5.8
Credit	5.8	22.1	5.3	13.3	13.6	16.9	1.6	8.2
Commodity	2.3	5.4	1.4	2.7	2.7	4.3	1.3	2.2
Equity	-	-	-	-	-	-	-	-
Diversification benefit[1]	(6.0)	n/a	n/a	(10.1)	(10.5)	n/a	n/a	(7.9)
Total VaR	14.5	26.0	9.6	16.9	15.0	24.5	5.3	11.1

1. The diversification benefit reflects risks that offset across categories. The high and low VaR figures reported for each factor did not necessarily occur on the same day as the high and low VaR reported for the Group as a whole. Consequently, a diversification benefit for high and low would not be meaningful and is therefore omitted from the table.

17. FINANCIAL RISK MANAGEMENT (continued)

MARKET RISK (continued)

Non-traded market risk

Balance sheet risk management

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

Interest rate risk management

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

	2021				2020			
Consolidated	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	67.0	81.8	61.9	69.8	60.8	60.8	18.8	33.4
New Zealand	21.6	32.8	21.6	26.7	26.3	26.3	9.4	15.2
Asia Pacific, Europe & America	31.5	34.9	29.0	32.0	29.4	30.2	17.8	24.2
Diversification benefit[1]	(32.9)	n/a	n/a	(53.7)	(61.4)	n/a	n/a	(29.5)
Total VaR	87.2	87.2	59.3	74.8	55.1	58.3	31.5	43.3

	2021				2020			
The Company	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	67.0	81.8	61.9	69.8	60.8	60.8	18.8	33.4
New Zealand	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0
Asia Pacific, Europe & America	30.8	35.2	27.5	31.2	28.5	30.9	17.7	24.1
Diversification benefit[1]	(31.9)	n/a	n/a	(36.2)	(43.3)	n/a	n/a	(21.4)
Total VaR	65.9	69.9	55.0	64.8	46.0	47.6	25.5	36.1

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

17. FINANCIAL RISK MANAGEMENT (continued)

MARKET RISK (continued)

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

The table below shows the outcome of this risk measure for the current and previous financial years, expressed as a percentage of reported net interest income.

	Consolidated		The Company	
	2021	2020	2021	2020
Impact of 1% rate shock				
As at period end	2.43%	1.25%	2.02%	0.78%
Maximum exposure	2.43%	1.61%	2.02%	1.78%
Minimum exposure	0.98%	0.52%	0.54%	0.06%
Average exposure (in absolute terms)	1.55%	1.01%	1.08%	0.78%

EQUITY SECURITIES DESIGNATED AT FVOCI

Our investment securities contain equity investment holdings which predominantly comprise investments we hold for longer-term strategic reasons. The market risk impact on these equity investments is not captured by the Group's VaR processes for traded and non-traded market risks. Therefore, the Group regularly reviews the valuations of the investments within the portfolio and assesses whether the investments are appropriately measured based on the recognition and measurement policies set out in Note 12 Investment Securities.

FOREIGN CURRENCY RISK – STRUCTURAL EXPOSURES

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

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

17. FINANCIAL RISK MANAGEMENT (continued)

LIQUIDITY AND FUNDING RISK

LIQUIDITY RISK OVERVIEW, MANAGEMENT AND CONTROL RESPONSIBILITIES

Liquidity risk is the risk that the Group is either:

- unable to meet its payment obligations (including repaying depositors or maturing wholesale debt) when they fall due; or
- does not have the appropriate amount, tenor and composition of funding and liquidity to fund increases in its assets.

Management of liquidity and funding risks are overseen by GALCO. The Group's liquidity and funding risks are governed by a set of principles approved by the BRC and include:

- maintaining the ability to meet all payment obligations in the immediate term;
- ensuring that the Group has the ability to meet 'survival horizons' under a range of ANZ specific, and general market, liquidity stress scenarios, at the site and Group-wide level, to meet cash flow obligations over the short to medium term;
- maintaining strength in the Group's balance sheet structure to ensure long term resilience in the liquidity and funding risk profile;
- ensuring the liquidity management framework is compatible with local regulatory requirements;
- preparing daily liquidity reports and scenario analysis to quantify the Group's positions;
- targeting a diversified funding base to avoid undue concentrations by investor type, maturity, market source and currency;
- holding a portfolio of high quality liquid assets to protect against adverse funding conditions and to support day-to-day operations; and
- establishing detailed contingency plans to cover different liquidity crisis events.

KEY AREAS OF MEASUREMENT FOR LIQUIDITY RISK

Scenario modelling of funding sources

ANZ's liquidity risk appetite is defined by a range of regulatory and internal liquidity metrics mandated by the Board. The metrics cover a range of scenarios of varying duration and level of severity.

A key component of this framework is the Liquidity Coverage Ratio (LCR), which is a severe short term liquidity stress scenario mandated by banking regulators including APRA. As part of meeting LCR requirements, the Group has a Committed Liquidity Facility (CLF) with the Reserve Bank of Australia (RBA). The CLF was 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. The total amount of the CLF available to a qualifying Australian Deposit-taking Institution is set annually by APRA. In September 2021, APRA wrote to ADI's to advise that APRA and the RBA consider there to be sufficient HQLA for ADI's to meet their LCR requirements, and therefore the use of the CLF should no longer be required beyond 2022.

From 1 January 2021, ANZ's CLF is $10.7 billion (2020 calendar year end: $35.7 billion). Consistent with APRA's requirement, ANZ's CLF will decrease to zero through equal reductions on 1 January, 30 April, 31 August and 31 December 2022. This reduction will be managed as part of ANZ's funding plans over this period.

Liquid assets

The Group holds a portfolio of high quality (unencumbered) liquid assets to protect the Group's liquidity position in a severely stressed environment and to meet regulatory requirements. HQLA comprise three categories consistent with Basel III LCR requirements:

- HQLA1- Cash and highest credit quality government, central bank or public sector securities eligible for repurchase with central banks to provide same-day liquidity.
- HQLA2 - High credit quality government, central bank or public sector securities, high quality corporate debt securities and high quality covered bonds eligible for repurchase with central banks to provide same-day liquidity.
- Alternative liquid assets (ALA) - Assets qualifying as collateral for the CLF and eligible securities that the Reserve Bank of New Zealand (RBNZ) will accept in its domestic market operations.

LIQUIDITY RISK OUTCOMES[1]

Liquidity Coverage Ratio

ANZ's Liquidity Coverage Ratio (LCR) averaged 136% for 2021, a decrease from the 2020 average of 139%, and above the regulatory minimum of 100%.

Net Stable Funding Ratio

ANZ's Net Stable Funding Ratio (NSFR) as at 30 September 2021 was 124% (2020: 124%), above the regulatory minimum of 100%.

1. This information is not within the scope of the external audit of the Group Financial Report by the Group's external auditor, KPMG. The Liquidity Coverage Ratio and Net Stable Funding Ratio are non-IFRS disclosures and are disclosed as part of the Group's *APS 330 Public Disclosure* which is subject to specific review procedures in accordance with the *Australian Standard on Related Services (ASRS) 4400 Agreed upon Procedures Engagements to Report Factual Findings.*

17. FINANCIAL RISK MANAGEMENT (continued)

LIQUIDITY AND FUNDING RISK (continued)

Liquidity crisis contingency planning

The Group maintains APRA-endorsed liquidity crisis contingency plans for analysing and responding to a liquidity threatening event at a country and Group-wide level. Key liquidity contingency crisis planning requirements and guidelines include:

Ongoing business management	Early signs/ mild stress	Severe stress
• establish crisis/severity levels • liquidity limits • early warning indicators	• monitoring and review • management actions not requiring business rationalisation	• activate contingency funding plans • management actions for altering asset and liability behaviour
Assigned responsibility for internal and external communications and the appropriate timing to communicate		

Since the precise nature of any stress event cannot be known in advance, we design the plans to be flexible to the nature and severity of the stress event with multiple variables able to be accommodated in any plan.

Group funding

The Group monitors the composition and stability of its funding so that it remains within the Group's funding risk appetite. This approach ensures that an appropriate proportion of the Group's assets are funded by stable funding sources, including customer deposits; longer-dated wholesale funding (with a remaining term exceeding one year); and equity.

Funding plans prepared	Considerations in preparing funding plans
• 3 year strategic plan prepared annually • annual funding plan as part of budgeting process • forecasting in light of actual results as a calibration to the annual plan	• customer balance sheet growth • changes in wholesale funding including: targeted funding volumes; markets; investors; tenors; and currencies for senior, secured, subordinated, hybrid transactions and market conditions

RBA Term Funding Facility

As an additional source of funding, in March 2020, the RBA announced a term funding facility (TFF) for the banking system to support lending to Australian businesses. The TFF is a three-year secured funding facility to ADIs at a fixed rate of 0.25%. APRA has determined that the TFF qualifies for inclusion in determining the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). ADIs can obtain initial funding of up to 3% of their existing credit outstanding to Australian households and businesses, and have access to additional funding if they increase lending to business, especially to small and medium-sized businesses. The TFF closed to drawdowns on 30 June 2021.

As at 30 September 2021, ANZ had drawn $20.1 billion under the RBA's TFF.

RBNZ Funding for Lending Programme and Term Lending Facility

- Between May 2020 and July 2021, the RBNZ made funds available under a term lending facility (TLF) to promote lending to businesses. The TLF is a three to five-year secured funding facility for New Zealand banks at a fixed rate of 0.25%.
- In November 2020, the RBNZ announced a funding for lending programme (FLP) which aimed to lower the cost of borrowing for New Zealand businesses and households. The FLP is a three-year secured funding facility for New Zealand banks at a floating rate of the New Zealand Official Cash Rate (OCR). New Zealand banks can obtain initial funding of up to 4% of their lending to New Zealand resident households, non-financial businesses and non-profit institutions serving households as at 31 October 2020 (eligible loans). An additional allocation of up to 2% of eligible loans is available, subject to certain conditions. The additional allocation is available until 6 December 2022, and the initial allocation is available until 6 June 2022.

As at 30 September 2021, ANZ NZ had drawn $0.3 billion under the TLF and $0.9 billion under the FLP.

17. FINANCIAL RISK MANAGEMENT (continued)

LIQUIDITY AND FUNDING RISK (continued)

RESIDUAL CONTRACTUAL MATURITY ANALYSIS OF GROUP'S LIABILITIES

The tables below provide residual contractual maturity analysis of financial liabilities, including financial liabilities reclassified to held for sale, at 30 September within relevant maturity groupings. All outstanding debt issuance and subordinated debt is profiled on the earliest date on which the Group may be required to pay. All at-call liabilities are reported in the 'Less than 3 months' category. Any other items without a specified maturity date are included in the 'After 5 years' category. The amounts represent principal and interest cash flows - so they may differ from equivalent amounts reported on balance sheet. For the purpose of this note, liabilities presented as liabilities held for sale in the Balance Sheet have been reallocated to their respective Balance Sheet categories.

It should be noted that this is not how the Group manages its liquidity risk. The management of this risk is detailed on page 196.

Consolidated	Less than 3 months $m	3 to 12 months $m	1 to 5 years $m	After 5 years $m	Total $m
As at 30 September 2021					
Settlement balances owed by ANZ	17,427	-	-	-	17,427
Collateral received	5,657	-	-	-	5,657
Deposits and other borrowings	634,145	84,357	25,247	227	743,976
Liability for acceptances	392	-	-	-	392
Debt issuances[1]	4,218	24,928	65,198	14,588	108,932
Derivative liabilities (excluding those held for balance sheet management)[2]	30,474	-	-	-	30,474
Lease liabilities	86	224	755	301	1,366
Derivative assets and liabilities (balance sheet management)[3]					
- Funding					
Receive leg	(29,186)	(36,462)	(62,061)	(14,334)	(142,043)
Pay leg	28,538	35,082	61,867	14,473	139,960
- Other balance sheet management					
Receive leg	(104,036)	(37,275)	(14,982)	(8,029)	(164,322)
Pay leg	103,586	36,804	15,457	9,974	165,821
As at 30 September 2020					
Settlement balances owed by ANZ	22,241	-	-	-	22,241
Collateral received	9,304	-	-	-	9,304
Deposits and other borrowings	576,506	90,241	18,025	159	684,931
Liability for acceptances	449	-	-	-	449
Debt issuances[1]	5,174	26,642	78,181	16,948	126,945
Derivative liabilities (excluding those held for balance sheet management)[2]	123,865	-	-	-	123,865
Lease liabilities	72	248	809	390	1,519
Derivative assets and liabilities (balance sheet management)[3]					
- Funding					
Receive leg	(11,170)	(21,569)	(69,594)	(18,243)	(120,576)
Pay leg	10,856	20,206	66,455	17,403	114,920
- Other balance sheet management					
Receive leg	(75,098)	(40,956)	(9,738)	(8,512)	(134,304)
Pay leg	75,226	40,401	10,031	7,271	132,929

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 Group, and perpetual debt instruments after 5 years.
2. The full mark-to-market after any adjustments for Settle to Market of derivative liabilities (excluding those held for balance sheet management) is included in the 'less than 3 months' category.
3. Include derivatives designated into hedging relationships of $202 million (2020: $4,484 million) and $5,359 million (2020: $6,362 million) categorised as held for trading but form part of Group's balance sheet activities.

At 30 September 2021, $212,265 million (2020: $227,819 million) of the Group's undrawn facilities and $48,330 million (2020: $39,795 million) of its issued guarantees mature in less than 1 year, based on the earliest date on which the Group may be required to pay.

17. FINANCIAL RISK MANAGEMENT (continued)

LIQUIDITY AND FUNDING RISK (continued)

The Company	Less than 3 months $m	3 to 12 months $m	1 to 5 years $m	After 5 years $m	Total $m
As at 30 September 2021					
Settlement balances owed by ANZ	14,922	-	-	-	14,922
Collateral received	5,148	-	-	-	5,148
Deposits and other borrowings	524,654	60,427	21,844	227	607,152
Liability for acceptances	223	-	-	-	223
Debt issuances[1]	4,108	20,244	54,465	8,965	87,782
Derivative liabilities (excluding those held for balance sheet management)[2]	34,240	-	-	-	34,240
Lease liabilities	81	208	814	989	2,092
Derivative assets and liabilities (balance sheet management)[3]					
- Funding					
Receive leg	(25,170)	(26,362)	(48,026)	(7,364)	(106,922)
Pay leg	24,523	25,344	47,467	7,318	104,652
- Other balance sheet management					
Receive leg	(102,921)	(35,426)	(11,063)	(7,633)	(157,043)
Pay leg	102,346	34,908	11,501	9,587	158,342
As at 30 September 2020					
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	66	234	855	1,114	2,269
Derivative assets and liabilities (balance sheet management)[3]					
- 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

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 after any adjustments for Settle to Market of derivative liabilities (excluding those held for balance sheet management) is included in the 'less than 3 months' category.
3. Include derivatives designated into hedging relationships of $158 million (2020: $3,202 million) and $2,607 million (2020: $4,001 million) categorised as held for trading but form part of Company's balance sheet activities.

At 30 September 2021, $176,077 million (2020: $191,300 million) of the Company's undrawn facilities and $45,042 million (2020: $36,146 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.

18. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

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

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

Fair value designation

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

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

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

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

FAIR VALUE APPROACH AND VALUATION TECHNIQUES

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

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

18. 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 recognised on the balance sheet.

		2021			2020		
Consolidated	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	9	151,260	-	151,260	107,923	-	107,923
Settlement balances owed to ANZ		7,530	-	7,530	7,541	-	7,541
Collateral paid		9,166	-	9,166	14,308	-	14,308
Trading securities	10	-	44,688	44,688	-	50,913	50,913
Derivative financial instruments	11	-	38,736	38,736	-	135,331	135,331
Investment securities	12	7,031	76,095	83,126	6,816	86,575	93,391
Net loans and advances	13	626,099	3,620	629,719	613,155	3,938	617,093
Regulatory deposits		671	-	671	801	-	801
Other financial assets		2,054	-	2,054	2,407	-	2,407
Total		803,811	163,139	966,950	752,951	276,757	1,029,708
Financial liabilities							
Settlement balances owed by ANZ		17,427	-	17,427	22,241	-	22,241
Collateral received		5,657	-	5,657	9,304	-	9,304
Deposits and other borrowings	15	738,772	4,284	743,056	679,255	3,078	682,333
Derivative financial instruments	11	-	36,035	36,035	-	134,711	134,711
Payables and other liabilities		4,734	3,913	8,647	5,285	3,843	9,128
Debt issuances	16	99,092	1,962	101,054	117,509	2,159	119,668
Total		865,682	46,194	911,876	833,594	143,791	977,385

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

CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

		2021			2020		
The Company	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	9	141,436	-	141,436	98,083	-	98,083
Settlement balances owed to ANZ		7,183	-	7,183	7,116	-	7,116
Collateral paid		8,343	-	8,343	13,012	-	13,012
Trading securities	10	-	34,752	34,752	-	38,423	38,423
Derivative financial instruments	11	-	38,292	38,292	-	130,552	130,552
Investment securities	12	5,262	62,678	67,940	5,354	74,930	80,284
Net loans and advances	13	485,015	3,472	488,487	483,986	4,016	488,002
Regulatory deposits		213	-	213	199	-	199
Due from controlled entities[1]		21,489	2,041	23,530	22,089	1,928	24,017
Other financial assets		1,371	-	1,371	1,460	-	1,460
Total		670,312	141,235	811,547	631,299	249,849	881,148
Financial liabilities							
Settlement balances owed by ANZ		14,922	-	14,922	19,556	-	19,556
Collateral received		5,148	-	5,148	8,074	-	8,074
Deposits and other borrowings	15	606,673	50	606,723	556,676	1,460	558,136
Derivative financial instruments	11	-	37,005	37,005	-	131,230	131,230
Due to controlled entities[1]		23,079	-	23,079	24,295	-	24,295
Payables and other liabilities		3,999	3,245	7,244	4,377	3,693	8,070
Debt issuances	16	77,053	4,035	81,088	92,832	4,218	97,050
Total		730,874	44,335	775,209	705,810	140,601	846,411

1. From 1 April 2021, the Company changed its accounting policy relating to intragroup transactions with consolidated securitisation structured entities (SEs) in which it holds all of the issued securities of the SE. Transactions with an SE are no longer recorded on a gross basis. Comparatives have been restated, reducing Due from controlled entities and Due to controlled entities by $76,637 million at 30 September 2020. Refer to Note 35 Impact of Adoption of New Standards and Other Changes for further details.

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

FAIR VALUE HIERARCHY

The Group categorises assets and liabilities carried at fair value into a fair value hierarchy as required by AASB 13 *Fair Value Measurement* 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.

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	
Consolidated	2021 $m	2020 $m	2021 $m	2020 $m	2021 $m	2020 $m	2021 $m	2020 $m
Assets								
Trading securities[1]	36,025	44,004	8,663	6,909	-	-	44,688	50,913
Derivative financial instruments	494	681	38,187	134,588	55	62	38,736	135,331
Investment securities[1]	68,007	85,330	6,756	137	1,332	1,108	76,095	86,575
Net loans and advances	-	-	3,510	3,925	110	13	3,620	3,938
Total	104,526	130,015	57,116	145,559	1,497	1,183	163,139	276,757
Liabilities								
Deposits and other borrowings	-	-	4,284	3,078	-	-	4,284	3,078
Derivative financial instruments	1,131	1,120	34,874	133,536	30	55	36,035	134,711
Payables and other liabilities[2]	3,690	3,830	223	13	-	-	3,913	3,843
Debt issuances (designated at fair value)	-	-	1,962	2,159	-	-	1,962	2,159
Total	4,821	4,950	41,343	138,786	30	55	46,194	143,791

	Fair value measurements							
	Quoted price in active markets (Level 1)		Using observable inputs (Level 2)		Using unobservable inputs (Level 3)		Total	
The Company	2021 $m	2020 $m	2021 $m	2020 $m	2021 $m	2020 $m	2021 $m	2020 $m
Assets								
Trading securities[1]	27,764	35,170	6,988	3,253	-	-	34,752	38,423
Derivative financial instruments	470	662	37,788	129,832	34	58	38,292	130,552
Investment securities[1]	56,277	73,838	5,354	105	1,046	987	62,677	74,930
Net loans and advances	-	-	3,362	4,016	110	-	3,472	4,016
Due from controlled entities	-	-	2,041	1,928	-	-	2,041	1,928
Total	84,511	109,670	55,533	139,134	1,190	1,045	141,234	249,849
Liabilities								
Deposits and other borrowings	-	-	50	1,460	-	-	50	1,460
Derivative financial instruments	1,121	1,109	35,854	130,066	30	55	37,005	131,230
Payables and other liabilities[2]	3,040	3,680	205	13	-	-	3,245	3,693
Debt issuances (designated at fair value)	998	996	3,037	3,222	-	-	4,035	4,218
Total	5,159	5,785	39,146	134,761	30	55	44,335	140,601

1. During the year, $3,845 million of assets were transferred from Level 1 to Level 2 (2020: $127 million transferred from Level 2 to Level 1) for the Group and the Company due to a change of the observability of inputs. 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. 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.

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

FAIR VALUE MEASUREMENT INCORPORATING UNOBSERVABLE MARKET DATA

Level 3 fair value measurements

The net balance of Level 3 financial instruments is an asset of $1,467 million (2020: $1,128 million) for the Group and $1,160 million (2020: $1,003 million) for the Company.

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;
- net loans and advances that are required to be measured at fair value for which there is no observable market data; and
- derivatives referencing market rates that cannot be observed primarily due to lack of market activity.

The increase in the net balance of Level 3 financial instruments is Investment Securities, due to the revaluation of the investment in Bank of Tianjin (Group and Company), and an increase in unlisted equity investments (Group).

During the year, the Group and Company transferred $5 million of derivative liabilities from Level 3 to Level 2, where valuation parameters for these financial instruments became observable during the year, and $105 million of Loan and advances measured at fair value from Level 2 to Level 3, where valuation parameters for these loans became unobservable during the year. There were no other transfers in or out of Level 3 in the current or prior year.

Bank of Tianjin (BoT)

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

Sensitivity to Level 3 data inputs

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

Bank of Tianjin (BoT)

The valuation of the BoT investment is sensitive to the selected unobservable input, being the P/B multiple. If the P/B multiple was increased or decreased by 10% it would result in a $99 million (2020: $93 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 inputs have a minimal impact on net profit and net assets of the Group.

Deferred fair value gains and losses

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

Day one gains and losses which have been deferred are not material.

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

FINANCIAL ASSETS AND FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE

The following table sets out the Group's basis of estimating the fair values of financial assets and liabilities carried at amortised cost where the carrying value is not typically a reasonable approximation of fair value.

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

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

			Categorised into fair value hierarchy							
	At amortised cost		Quoted price active markets (Level 1)		Using observable inputs (Level 2)		With significant non-observable inputs (Level 3)		Total fair value	
Consolidated	2021 $m	2020 $m	2021 $m	2020 $m	2021 $m	2020 $m	2021 $m	2020 $m	2021 $m	2020 $m
Financial assets										
Net loans and advances	626,099	613,155	-	-	16,906	22,862	609,541	591,296	626,447	614,158
Investment securities	7,031	6,816	-	-	7,043	6,816	-	-	7,043	6,816
Total	633,130	619,971	-	-	23,949	29,678	609,541	591,296	633,490	620,974
Financial liabilities										
Deposits and other borrowings	738,772	679,255	-	-	738,840	679,544	-	-	738,840	679,544
Debt issuances	99,092	117,509	27,785	26,107	73,332	93,187	-	-	101,117	119,294
Total	837,864	796,764	27,785	26,107	812,172	772,731	-	-	839,957	798,838

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

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

			Categorised into fair value hierarchy							
	At amortised cost		Quoted price active markets (Level 1)		Using observable inputs (Level 2)		With significant non-observable inputs (Level 3)		Total fair value	
The Company	2021 $m	2020 $m	2021 $m	2020 $m	2021 $m	2020 $m	2021 $m	2020 $m	2021 $m	2020 $m
Financial assets										
Net loans and advances	485,015	483,986	-	-	16,050	22,350	469,363	462,073	485,413	484,423
Investment securities	5,263	5,354	-	-	5,275	5,352	-	-	5,275	5,352
Due from controlled entities[1]	21,489	22,089	-	-	-	-	21,489	22,089	21,489	22,089
Total	511,767	511,429	-	-	21,325	27,702	490,852	484,162	512,177	511,864
Financial liabilities										
Deposits and other borrowings	606,673	556,676	-	-	606,723	556,805	-	-	606,723	556,805
Debt issuances	77,053	92,832	24,280	23,214	54,421	71,133	-	-	78,701	94,347
Due to controlled entities[1]	23,079	24,295	-	-	-	-	23,079	24,295	23,079	24,295
Total	706,805	673,803	24,280	23,214	661,144	627,938	23,079	24,295	708,503	675,447

1. From 1 April 2021, the Company changed its accounting policy relating to intragroup transactions with consolidated securitisation structured entities (SEs) in which it holds all of the issued securities of the SE. Transactions with an SE are no longer recorded on a gross basis. Comparatives have been restated, reducing Due from controlled entities and Due to controlled entities by $76,637 million at 30 September 2020. Refer to Note 35 Impact of Adoption of New Standards and Other Changes for further details.

KEY JUDGEMENTS AND ESTIMATES

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

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

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

When establishing the fair value of a financial instrument using a valuation technique, the Group considers valuation adjustments in determining the fair value. We may apply adjustments (such as bid/offer spreads, credit valuation adjustments and funding valuation adjustments – refer Note 11 Derivative Financial Instruments) to reflect the Group's assessment of factors that market participants would consider in determining fair value.

19. 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 under which most of our derivatives are executed.

ASSETS CHARGED AS SECURITY FOR LIABILITIES

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

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

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

	Consolidated		The Company	
	2021 $m	2020 $m	2021 $m	2020 $m
Securities sold under arrangements to repurchase[1]	**51,208**	61,415	**48,663**	60,612
Residential mortgages provided as security for covered bonds	**28,816**	28,559	**17,925**	17,937
Other	**4,039**	4,990	**3,963**	4,921

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

COLLATERAL ACCEPTED AS SECURITY FOR ASSETS

ANZ has received collateral associated with various financial transactions. Under certain arrangements ANZ has the right to sell, or to repledge, the collateral received. These arrangements 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:

	Consolidated		The Company	
	2021 $m	2020 $m	2021 $m	2020 $m
Fair value of assets which can be sold or repledged	**26,814**	54,242	**25,679**	53,118
Fair value of assets sold or repledged	**18,741**	32,578	**18,189**	32,308

20. 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.

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.

Consolidated	Total amounts recognised in the Balance Sheet $m	Amounts not subject to master netting agreement or similar $m	Amount subject to master netting agreement or similar: Total $m	Financial instruments $m	Financial collateral (received)/ pledged $m	Net amount $m
As at 30 September 2021						
Derivative financial assets[1]	38,736	(3,078)	35,658	(24,186)	(5,750)	5,722
Reverse repurchase, securities borrowing and similar agreements[2]	26,082	(3,166)	22,916	(1,052)	(21,864)	-
Total financial assets	64,818	(6,244)	58,574	(25,238)	(27,614)	5,722
Derivative financial liabilities[1]	(36,035)	2,822	(33,213)	24,186	5,530	(3,497)
Repurchase, securities lending and similar agreements[3]	(46,147)	11,461	(34,686)	1,052	33,634	-
Total financial liabilities	(82,182)	14,283	(67,899)	25,238	39,164	(3,497)
As at 30 September 2020						
Derivative financial assets	135,331	(3,862)	131,469	(117,982)	(6,397)	7,090
Reverse repurchase, securities borrowing and similar agreements[2]	53,434	(5,922)	47,512	(1,566)	(45,946)	-
Total financial assets	188,765	(9,784)	178,981	(119,548)	(52,343)	7,090
Derivative financial liabilities	(134,711)	2,824	(131,887)	117,982	10,059	(3,846)
Repurchase, securities lending and similar agreements[3]	(55,716)	14,354	(41,362)	1,566	39,796	-
Total financial liabilities	(190,427)	17,178	(173,249)	119,548	49,855	(3,846)

1. In August 2021, the Group amended the terms of its legal agreements with one of its central clearing counterparties whereby the payment or receipt of collateral results in a legal settlement of associated derivative assets and liabilities, and an associated reduction in the carrying values of the related derivative instruments. These derivative remain subject to a master netting agreement. The impact of this change as at 30 September 2021 is a decrease in the derivative assets of $55.1 billion and a decrease in derivative liabilities of $55.2 billion and reduction in net collateral paid of $0.1 billion. Refer to Note 11 Derivative Financial Instruments for further information.
2. Reverse repurchase agreements:
   - with less than 90 days to maturity are presented in the Balance Sheet within cash and cash equivalents; or
   - with 90 days or more to maturity are presented in the Balance Sheet within net loans and advances.
3. Repurchase agreements are presented on the Balance Sheet within deposits and other borrowings.

20. OFFSETTING (continued)

The Company	Total amounts recognised in the Balance Sheet $m	Amounts not subject to master netting agreement or similar $m	Amount subject to master netting agreement or similar: Total $m	Financial instruments $m	Financial collateral (received)/ pledged $m	Net amount $m
As at 30 September 2021						
Derivative financial assets[1]	38,292	(1,539)	36,753	(27,288)	(5,189)	4,276
Reverse repurchase, securities borrowing and similar agreements[2]	24,958	(2,042)	22,916	(1,052)	(21,864)	-
Total financial assets	63,250	(3,581)	59,669	(28,340)	(27,053)	4,276
Derivative financial liabilities[1]	(37,005)	1,343	(35,662)	27,288	5,425	(2,949)
Repurchase, securities lending and similar agreements[3]	(43,925)	10,480	(33,445)	1,052	32,393	-
Total financial liabilities	(80,930)	11,823	(69,107)	28,340	37,818	(2,949)
As at 30 September 2020						
Derivative financial assets	130,552	(2,531)	128,021	(117,039)	(5,625)	5,357
Reverse repurchase, securities borrowing and similar agreements[2]	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 lending and similar agreements[3]	(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)

1. In August 2021, the Company amended the terms of its legal agreements with one of its central clearing counterparties whereby the payment or receipt of collateral results in a legal settlement of associated derivative assets and liabilities, and an associated reduction in the carrying values of the related derivative instruments. These derivative remain subject to a master netting agreement. The impact of this change as at 30 September 2021 is a decrease in the derivative assets of $51.4 billion and a decrease in derivative liabilities of $51.3 billion and reduction in net collateral paid of $0.1 billion. Refer to Note 11 Derivative Financial Instruments for further information.
2. Reverse repurchase agreements:
   - with less than 90 days to maturity are presented in the Balance Sheet within cash and cash equivalents; or
   - with 90 days or more to maturity are presented in the Balance Sheet within net loans and advances.
3. Repurchase agreements are presented on the Balance Sheet within deposits and other borrowings.

21. GOODWILL AND OTHER INTANGIBLE ASSETS

	Goodwill[1]		Software		Other Intangibles		Total	
Consolidated	2021 $m	2020 $m	2021 $m	2020 $m	2021 $m	2020 $m	2021 $m	2020 $m
Balance at start of year	3,264	3,467	1,039	1,323	76	71	4,379	4,861
Additions	-	-	356	375	-	6	356	381
Amortisation expense[2]	-	-	(434)	(657)	(2)	(1)	(436)	(658)
Impairment expense[3]	(251)	(77)	(1)	(2)	-	-	(252)	(79)
Written off on disposal	(13)	(124)	-	-	-	-	(13)	(124)
Foreign currency exchange difference	89	(2)	-	-	1	-	90	(2)
Balance at end of year	3,089	3,264	960	1,039	75	76	4,124	4,379
Cost[4]	3,089	3,264	7,639	7,300	78	77	10,806	10,641
Accumulated amortisation	n/a	n/a	(6,679)	(6,261)	(3)	(1)	(6,682)	(6,262)
Carrying amount	3,089	3,264	960	1,039	75	76	4,124	4,379

	Goodwill[1]		Software		Other Intangibles		Total	
The Company	2021 $m	2020 $m	2021 $m	2020 $m	2021 $m	2020 $m	2021 $m	2020 $m
Balance at start of year	62	82	1,030	1,285	5	-	1,097	1,367
Additions	-	-	345	372	-	6	345	378
Amortisation expense[2]	-	-	(422)	(625)	(2)	(1)	(424)	(626)
Impairment expense	-	(10)	(1)	(2)	-	-	(1)	(12)
Written off on disposal	-	(10)	-	-	-	-	-	(10)
Foreign currency exchange difference	-	-	-	-	-	-	-	-
Balance at end of year	62	62	952	1,030	3	5	1,017	1,097
Cost[4]	62	62	7,342	7,006	6	6	7,410	7,074
Accumulated amortisation	n/a	n/a	(6,390)	(5,976)	(3)	(1)	(6,393)	(5,977)
Carrying amount	62	62	952	1,030	3	5	1,017	1,097

1. Goodwill excludes notional goodwill in equity accounted investments.
2. During 2020, the Group amended the application of its software amortisation policy and recognised an accelerated amortisation of $197 million for the Group and $184 million for the Company in 2020.
3. 2021 goodwill impairment expense relates to the write-off on reclassification of ANZ Share Investing to held for sale. This is recognised in Other income to align with the classification on completion of the disposal in 2021.
4. Includes impact of foreign currency translation differences.

IMPAIRMENT TESTING FOR CASH GENERATING UNITS (CGUs) CONTAINING GOODWILL

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

We estimate the recoverable amount of each CGU to which goodwill is allocated using a fair value less costs of disposal (FVLCOD) approach, with a value-in-use (VIU) assessment performed where the FVLCOD is less than the carrying amount.

During the year ended 30 September 2021, $251 million of goodwill was written off upon reclassification of ANZ Share Investing to held for sale in the Group (Company: nil) with a remaining $13 million of goodwill derecognised upon completion of the disposal.

During the year ended 30 September 2020, the Group wrote off $124 million of goodwill in relation to completed divestments (Company: $10 million). In addition, the Group announced its intention to begin winding up the Bonus Bonds business, a managed investment product in New Zealand and the Group wrote off the associated goodwill of $27 million (Company: nil). The Group wrote off $50 million of goodwill in the Pacific division (Company: $10 million) as a result of changes in economic outlook.

21. GOODWILL AND OTHER INTANGIBLE ASSETS (continued)

Fair Value Less Cost of Disposal

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

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

Key assumption	Approach to determining the value (or values) for each key assumption
Future maintainable earnings	Future maintainable earnings for each CGU have been estimated as the sum of: • The Group's 2022 financial plan for each CGU; plus • An allocation of the central costs recorded outside of the CGU's to which goodwill is allocated. Where relevant, adjustments are made to the Group's financial plan to reflect the long term expectations for items such as expected credit losses and investment spend.
Price/Earnings (P/E) multiple applied	The P/E multiples used have been derived from valuations of comparable publicly traded companies relevant to the respective CGU. In the case of the New Zealand and Institutional CGUs, management has made downwards adjustments to comparator group multiples to address specific factors relevant to those CGUs. The median P/E multiples applied (including a 30% control premium discussed below) were as follows: Division — 2021 — 2020 Australia Retail and Commercial — 18.9 — 16.0 New Zealand — 16.4 — 12.7 Institutional — 15.5 — 13.4 **Control premium:** A control premium has been applied which recognises the increased consideration a potential acquirer would be willing to pay in order to gain sufficient ownership to achieve control over the relevant activities of the CGU. For each CGU, the control premium has been estimated as 30% of the comparator group P/E multiple based on historical transactions.
Costs of disposal	Costs of disposal have been estimated as 2% of the fair value of the CGU based on input from historical and recent transactions.

As noted above, our impairment testing did not result in any material impairment of goodwill being identified as at 30 September 2021.

FVLCOD assessment outcomes

For each CGU, the surplus of the recoverable amount over the carrying amount determined on the basis of FVLCOD was as follows:

Cash generating unit:	Surplus 2021 $m
Australia Retail and Commercial	12,168
New Zealand	6,332
Institutional	4,249

Sensitivity analysis

The surpluses disclosed above are sensitive to judgements and estimates however the FVLCOD estimates for the respective CGUs would continue to show a surplus in recoverable amount over carrying amount even where reasonably possible alternative estimates were used.

21. GOODWILL AND OTHER INTANGIBLE ASSETS (continued)

RECOGNITION AND MEASUREMENT

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

	Goodwill	Software	Other Intangible Assets
Definition	Excess amount the Group has paid in acquiring a business over the fair value of the identifiable assets and liabilities acquired.	Purchased software owned by the Group is capitalised. Internal and external costs incurred in building software and computer systems costing greater than $20 million are capitalised as assets. Those less than $20 million are expensed in the year in which the costs are incurred.	Management fee rights arising from acquisition of funds management business and an intangible asset arising from contractual rights.
Carrying value	Cost less any accumulated impairment losses. Allocated to the cash generating unit to which the acquisition relates.	Initially, measured at cost. Subsequently, carried at cost less accumulated amortisation and impairment losses. Costs incurred in planning or evaluating software proposals or in maintaining systems after implementation are not capitalised.	Initially, measured at fair value at acquisition. Subsequently, carried at cost less amortisation and impairment losses.
Useful life	Indefinite. Goodwill is reviewed for impairment at least annually or when there is an indication of impairment.	Except for major core infrastructure, amortised over periods between 2-5 years; however major core infrastructure may be amortised up to 7 years subject to approval by the Audit Committee. Purchased software is amortised over 2 years unless it is considered integral to other assets with a longer useful life.	Management fee rights with an indefinite life are reviewed for impairment at least annually or when there is an indication of impairment. The contractual rights intangible asset is amortised over 3 years.
Depreciation method	Not applicable.	Straight-line method.	Not applicable to indefinite life intangible assets. Straight line for those with a limited life.

21. GOODWILL AND OTHER INTANGIBLE ASSETS (continued)

KEY JUDGEMENTS AND ESTIMATES

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

Goodwill

A number of key judgements are required in the determination of whether or not a goodwill balance is impaired including:

- the level at which goodwill is allocated – consistent with prior periods the CGUs to which goodwill is allocated are the Group's revenue generating segments that benefit from relevant historical business combinations generating goodwill.
- determination of the carrying amount of each CGU which includes an allocation, on a reasonable and consistent basis, of corporate assets and liabilities that are not directly attributable to the CGUs to which goodwill is allocated.
- assessment of the recoverable amount of each CGU including:
  - selection of the model used to determine the fair value – the Group has used the market multiple approach to estimate the fair value; and
  - selection of the key assumptions in respect of future maintainable earnings, the P/E multiple applied, including selection of an appropriate comparator group and determination of an appropriate control premium, and costs of disposal as described above.

Software and other intangible assets

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

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

22. OTHER PROVISIONS

	Consolidated		The Company	
	2021 $m	2020 $m	2021 $m	2020 $m
ECL allowance on undrawn and contingent facilities[1]	806	898	674	731
Customer remediation	886	1,109	791	969
Restructuring costs	99	105	44	70
Non-lending losses, frauds and forgeries	61	79	54	57
Other	362	388	310	330
Total other provisions	2,214	2,579	1,873	2,157

1. Refer to Note 14 Allowance for Expected Credit Losses for movement analysis.

Consolidated	Customer remediation $m	Restructuring costs $m	Non-lending losses, frauds and forgeries $m	Other $m
Balance at 1 October 2020	1,109	105	79	388
New and increased provisions made during the year	379	89	41	121
Provisions used during the year	(449)	(84)	(56)	(127)
Unused amounts reversed during the year[1]	(153)	(11)	(3)	(20)
Balance at 30 September 2021	886	99	61	362

1. Customer remediation includes a $52 million transfer to the purchaser on completion of divestment of part of Wealth Australia discontinued operations.

The Company	Customer remediation $m	Restructuring costs $m	Non-lending losses, frauds and forgeries $m	Other $m
Balance at 1 October 2020	969	70	57	330
New and increased provisions made during the year	360	37	-	116
Provisions used during the year	(390)	(55)	(1)	(118)
Unused amounts reversed during the year[1]	(148)	(8)	(2)	(18)
Balance at 30 September 2021	791	44	54	310

1. Customer remediation includes a $52 million transfer to the purchaser on completion of divestment of part of Wealth Australia discontinued operations.

22. OTHER PROVISIONS (continued)

Customer remediation

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

Restructuring costs

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

Non-lending losses, frauds and forgeries

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

Other

Other provisions comprise various other provisions including workers compensation, make-good provisions associated with leased premises, warranties and indemnities provided in connection with various disposals of businesses and assets, and contingent liabilities recognised as part of a business combination.

RECOGNITION AND MEASUREMENT

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

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

KEY JUDGEMENTS AND ESTIMATES

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

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

23. SHAREHOLDERS' EQUITY

SHAREHOLDERS' EQUITY

	Consolidated		The Company	
	2021 $m	2020 $m	2021 $m	2020 $m
Ordinary share capital	25,984	26,531	25,907	26,454
Reserves				
Foreign currency translation reserve	611	155	(145)	(131)
Share option reserve	76	85	76	85
FVOCI reserve	170	245	26	129
Cash flow hedge reserve	393	1,038	384	935
Transactions with non-controlling interests reserve	(22)	(22)	-	-
Total reserves	1,228	1,501	341	1,018
Retained earnings	36,453	33,255	29,132	25,800
Share capital and reserves attributable to shareholders of the Company	63,665	61,287	55,380	53,272
Non-controlling interests	11	10	-	-
Total shareholders' equity	63,676	61,297	55,380	53,272

ORDINARY SHARE CAPITAL

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

	2021		2020	
Consolidated	Number of shares	$m	Number of shares	$m
Balance at start of the year	2,840,370,225	26,531	2,834,584,923	26,490
Dividend reinvestment plan ('DRP') Issuances[1]	4,242,368	94	3,373,022	61
Bonus option plan[2]	2,259,507	-	2,412,280	-
Group employee share acquisition scheme	-	13	-	(20)
Share buy-back[3]	(23,308,448)	(654)	-	-
Balance at end of year	2,823,563,652	25,984	2,840,370,225	26,531
Less: Treasury Shares	(4,401,593)	-	(4,927,878)	-
Balance at end of year	2,819,162,059	25,984	2,835,442,347	26,531

	2021		2020	
The Company	Number of shares	$m	Number of shares	$m
Balance at start of the year	2,840,370,225	26,454	2,834,584,923	26,413
Dividend reinvestment plan ('DRP') Issuances[1]	4,242,368	94	3,373,022	61
Bonus option plan[2]	2,259,507	-	2,412,280	-
Group employee share acquisition scheme	-	13	-	(20)
Share buy-back[3]	(23,308,448)	(654)	-	-
Balance at end of year	2,823,563,652	25,907	2,840,370,225	26,454

1. The Company issued 4.2 million shares under the Dividend Reinvestment Plan (DRP) for the 2020 final dividend (3.4 million shares for the 2020 interim dividend). No shares were issued for the 2021 interim dividend and 2019 final dividend as the shares were purchased on-market and provided directly to shareholders participating in the DRP.
2. The Company issued 1.3 million shares under the Bonus Option Plan (BOP) for the 2021 interim dividend and 0.9 million shares for the 2020 final dividend (0.8 million shares for the 2020 interim dividend and 1.6 million shares for the 2019 final dividend).
3. The Company commenced a $1.5 billion on-market share buy-back on 4 August 2021. This resulted in 23 million shares ($654 million) being cancelled in the September 2021 half and a further 2 million shares ($55 million) being cancelled after 30 September 2021 in respect of purchase orders placed but not settled at 30 September 2021.

23. 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.
Transactions with non-controlling interests reserve	Includes the impact of transactions with non-controlling shareholders in their capacity as shareholders.
Non-controlling interests	Share in the net assets of controlled entities attributable to equity interests which the Company does not own directly or indirectly.

24. CAPITAL MANAGEMENT

CAPITAL MANAGEMENT STRATEGY

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

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

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

REGULATORY ENVIRONMENT

Australia

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

Regulatory Capital Definition			
Common Equity Tier 1 (CET1) Capital	**Tier 1 Capital**	**Tier 2 Capital**	**Total Capital**
Shareholders' equity adjusted for specific items.	CET1 Capital plus certain securities with complying loss absorbing characteristics known as Additional Tier 1 Capital.	Subordinated debt instruments which have a minimum term of 5 years at issue date.	Tier 1 plus Tier 2 Capital.

Minimum Prudential Capital Ratios (PCRs)		
CET1 Ratio	**Tier 1 Ratio**	**Total Capital Ratio**
CET1 Capital divided by total risk weighted assets must be at least 4.5%.	Tier 1 Capital divided by total risk weighted assets must be at least 6.0%.	Total Capital divided by total risk weighted assets must be at least 8.0%.

Reporting Levels		
Level 1	**Level 2**	**Level 3**
The ADI on a stand-alone basis (that is the Company and specified subsidiaries which are consolidated to form the ADI's Extended Licensed Entity).	The consolidated Group less certain subsidiaries and associates that are excluded under prudential standards.	A conglomerate Group at the widest level.

APRA also requires the ADI to hold additional CET1 buffers as follows:

- a capital conservation buffer (CCB) of 3.5% which is inclusive of the additional 1% surcharge for domestically systemically important banks (D-SIBs). APRA has determined that ANZ is a D-SIB.
- a countercyclical capital buffer which is set on a jurisdictional basis. The requirement is currently set to zero for Australia.

ANZ reports to APRA on a Level 1 and Level 2 basis, and measures capital adequacy monthly on a Level 1 and Level 2 basis, and is not yet required to maintain capital on a Level 3 basis (APRA have yet to conclude required timing for Level 3 reporting).

24. CAPITAL MANAGEMENT (continued)

Life Insurance and Funds Management

As required by APRA's Prudential Standards, insurance and funds management activities are:

- de-consolidated for the purposes of calculating capital adequacy; and
- excluded from the risk based capital adequacy framework.

We deduct the investment in these controlled entities 100% from CET1 capital, and if we include any profits from these activities in the Group's results, then we exclude them from the determination of CET1 capital to the extent they have not been remitted to the Company.

Outside Australia

In addition to APRA, the Company's branch operations and major banking subsidiary operations are also overseen by local regulators such as the Reserve Bank of New Zealand, the US Federal Reserve, the UK Prudential Regulation Authority, the Monetary Authority of Singapore, the Hong Kong Monetary Authority and the China Banking and Insurance Regulatory Commission. They may impose minimum capital levels on operations in their individual jurisdictions.

CAPITAL ADEQUACY[1]

The following table provides details of the Group's capital adequacy ratios at 30 September:

	Consolidated	
	2021 $m	2020 $m
Qualifying capital		
Tier 1		
Shareholders' equity and non-controlling interests	63,676	61,297
Prudential adjustments to shareholders' equity[2]	3	189
Gross Common Equity Tier 1 capital	63,679	61,486
Deductions[2]	(12,320)	(12,784)
Common Equity Tier 1 capital	51,359	48,702
Additional Tier 1 capital[3]	8,114	7,779
Tier 1 capital	59,473	56,481
Tier 2 capital[4]	17,125	13,957
Total qualifying capital	76,598	70,438
Capital adequacy ratios (Level 2)		
Common Equity Tier 1	12.3%	11.3%
Tier 1	14.3%	13.2%
Tier 2	4.1%	3.3%
Total capital ratio	18.4%	16.4%
Risk weighted assets	416,086	429,384

1. This information is not within the scope of the external audit of the Group Financial Report by the Group's external auditor, KPMG. The information presented in this table is a regulatory requirement disclosed in Part A of the *APRA Reporting Form (ARF) 110 Capital Adequacy* which will be subject to audit in accordance with *Prudential Standard APS 310 Audit and Related Matters*.
2. During 2021, deferred expenses previously netted within Prudential adjustments to shareholders' equity were reclassified to Deductions to better align with the nature of the balances. Comparatives have been restated accordingly (2020: $394 million).
3. This includes Additional Tier 1 capital of $8,506 million (2020: $8,196 million) (refer to Note 16 Debt Issuances), reduced for regulatory adjustments and deductions of $392 million (2020: $417 million).
4. This includes Tier 2 capital of $16,207 million (2020: $12,865 million) (refer to Note 16 Debt Issuances), general reserve for impairment of financial assets of $1,412 million (2020: $1,813 million) and deductions for regulatory adjustments of $494 million (2020: $721 million).

25. CONTROLLED ENTITIES

	Incorporated in	Nature of Business
The ultimate parent of the Group is Australia and New Zealand Banking Group Limited	Australia	Banking
All controlled entities are 100% owned, unless otherwise noted.		
The material controlled entities of the Group are:		
ANZ Bank (Vietnam) Limited[1]	Vietnam	Banking
ANZ Capel Court Limited	Australia	Securitisation Manager
ANZ Funds Pty. Ltd.	Australia	Holding Company
ANZ Bank (Kiribati) Limited[1] (75% ownership)	Kiribati	Banking
ANZ Bank (Samoa) Limited[1]	Samoa	Banking
ANZ Bank (Thai) Public Company Limited[1]	Thailand	Banking
ANZ Holdings (New Zealand) Limited[1]	New Zealand	Holding Company
ANZ Bank New Zealand Limited[1]	New Zealand	Banking
ANZ Investment Services (New Zealand) Limited[1]	New Zealand	Funds Management
ANZ New Zealand (Int'l) Limited[1]	New Zealand	Finance
ANZ Wealth New Zealand Limited[1]	New Zealand	Holding Company
ANZ New Zealand Investments Limited[1]	New Zealand	Funds Management
ANZNZ Covered Bond Trust[1,4]	New Zealand	Finance
ANZ International Private Limited[1]	Singapore	Holding Company
ANZ Singapore Limited[1]	Singapore	Merchant Banking
ANZ International (Hong Kong) Limited[1]	Hong Kong	Holding Company
ANZ Asia Limited[1]	Hong Kong	Banking
ANZ Bank (Vanuatu) Limited[2]	Vanuatu	Banking
ANZcover Insurance Private Ltd[1]	Singapore	Captive-Insurance
ANZ Lenders Mortgage Insurance Pty. Limited	Australia	Mortgage Insurance
ANZ Residential Covered Bond Trust[4]	Australia	Finance
Australia and New Zealand Bank (China) Company Limited[1]	China	Banking
Australia and New Zealand Banking Group (PNG) Limited[1]	Papua New Guinea	Banking
Chongqing Liangping ANZ Rural Bank Company Limited[1]	China	Banking
Citizens Bancorp[3]	Guam	Holding Company
ANZ Guam Inc[3]	Guam	Banking
PT Bank ANZ Indonesia[1] **(99% ownership)**	Indonesia	Banking

1. Audited by overseas KPMG firms — either as part of the Group audit, or for standalone financial statements as required.
2. Audited by Law Partners.
3. Audited by Deloitte Guam.
4. Not owned by the Group. Control exists as the Group retains substantially all the risks and rewards of the operations.

25. CONTROLLED ENTITIES (continued)

RECOGNITION AND MEASUREMENT

The Group's subsidiaries are those entities it controls through:

- being exposed to, or having rights to, variable returns from the entity; and
- being able to affect those returns through its power over the entity.

The Group assesses whether it has power over those entities by examining the Group's existing rights to direct the relevant activities of the entity.

If the Group sells or acquires subsidiaries during the year, it includes their operating results in the Group results to the date of disposal or from the date of acquisition. When the Group's control ceases, it derecognises the assets and liabilities of the subsidiary, any related non-controlling interest and other components of equity.

When the Group ceases to control a subsidiary, it:

- measures any retained interest in the entity at fair value; and
- recognises any resulting gain or loss in profit or loss.

If the Group's ownership interest in a subsidiary changes in a way that does not result in a loss of control, then the Group accounts for that as a transaction with equity holders in their capacity as equity holders.

All transactions between Group entities are eliminated on consolidation.

26. INVESTMENTS IN ASSOCIATES

Significant associates of the Group are:

		Ordinary share interest		Carrying amount $m	
Name of entity	Principal activity	2021	2020	2021	2020
AMMB Holdings Berhad ('AmBank')	Banking and insurance	22%	24%	719	1,056
PT Bank Pan Indonesia ('PT Panin')	Consumer and business bank	39%	39%	1,210	1,084
Aggregate other individually immaterial associates		n/a	n/a	43	24
Total carrying value of associates[1]				1,972	2,164

1. Includes the impact of foreign currency translation recognised in the foreign currency translation reserve.

FINANCIAL INFORMATION ON SIGNIFICANT ASSOCIATES

Set out below is the summarised financial information of each associate that is significant to the Group. The summarised financial information is based on the associates' IFRS financial information and may require the use of unaudited financial information as both associates have different financial years to the Group (PT Panin 31 December, AmBank 31 March).

	AMMB Holdings Berhad		PT Bank Pan Indonesia	
Principal place of business and country of incorporation	Malaysia		Indonesia	
	2021 $m	2020 $m	2021 $m	2020 $m
Summarised results				
Operating income	2,663	3,156	1,222	1,105
Profit/(Loss) for the year	(1,192)	456	298	319
Other comprehensive income/(loss)	(39)	105	(56)	72
Total comprehensive income/(loss)	(1,231)	561	242	391
Less: Total comprehensive (income)/loss attributable to non–controlling interests	(25)	(26)	1	(11)
Total comprehensive income/(loss) attributable to owners of associate	(1,256)	535	243	380
Summarised financial position				
Total assets[1]	55,711	53,301	18,323	19,669
Total liabilities[1]	49,773	48,530	15,377	16,599
Total net assets[1]	5,938	4,771	2,946	3,070
Less: Non–controlling interests of associate	(327)	(343)	(304)	(294)
Net assets attributable to owners of associate	5,611	4,428	2,642	2,776
Reconciliation to carrying amount of Group's interest in associate				
Carrying amount at the beginning of the year	1,056	1,586	1,084	1,350
Group's share of total comprehensive income/(loss)[2]	(313)	126	90	150
Dividends received from associate	-	(32)	-	-
Group's share of other reserve movements of associate and foreign currency translation reserve adjustments	(24)	(29)	36	(128)
Group's equity accounted share of AASB 9 transition adjustment[3]	-	-	-	(68)
Impairment charges[4]	-	(595)	-	(220)
Carrying amount at the end of the year	719	1,056	1,210	1,084
Market value of Group's investment in associate	756	727	675	653

1. Includes market value adjustments (including goodwill) the Group made at the time of acquisition (and adjustments for any differences in accounting policies).
2. Includes the Group's share of settlement provision expenses ($212 million) recorded by AmBank in relation to an agreement with the Malaysian Ministry of Finance to resolve potential claims to its involvement with 1Malaysia Development Berhad and the Group's share of impairments ($135 million) recognised by AmBank during 2021.
3. In 2020, the Group recognised an adjustment of $68 million to the equity accounted earnings of PT Panin. When the Group adopted AASB 9 *Financial Instruments* on 1 October 2018, an estimate of PT Panin's transition adjustment was recognised through opening retained earnings to align accounting policies. PT Panin adopted AASB 9 during the current financial year recognising a transition adjustment in retained earnings.
4. The Group recorded an impairment charge of $815 million in other operating income based on impairment assessments performed in 2020 with AmBank impaired by $595 million and PT Panin impaired by $220 million. No impairment charges were recorded in 2021.

26. INVESTMENTS IN ASSOCIATES (continued)

IMPAIRMENT ASSESSMENT

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

At 30 September 2021, the impairment assessment of non-lending assets identified that two of the Group's associate investments AmBank and PT Panin had indicators of impairment. No impairment was recognised as their carrying values are supported by their value-in-use (VIU) calculations.

RECOGNITION AND MEASUREMENT

An associate is an entity over which the Group has significant influence over its operating and financial policies but does not control. The Group accounts for associates using the equity method. Its investments in associates are carried at cost plus the post-acquisition share of changes in the associate's net assets less accumulated impairments. Dividends the Group receives from associates are recognised as a reduction in the carrying amount of the investment. The Group includes goodwill recognised by the associate in the carrying amount of the investment. It does not individually test the goodwill incorporated in the associates carrying amount for impairment.

At least at each reporting date, the Group reviews investments in associates for any indication of impairment. If an indication of impairment exists, then the Group determines the recoverable amount of the associate using the higher of:

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

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

KEY JUDGEMENTS AND ESTIMATES

The ongoing impact of COVID-19 on the valuation of AmBank and PT Panin remains uncertain. Significant management judgment is required in determining the key assumptions underpinning the VIU calculations. Factors may change in subsequent periods and lead to potential future impairments or reversals of prior period impairments. These include forecast earnings levels in the near term and/or changes in the long term growth forecasts, required levels of regulatory capital and post-tax discount rate.

The key assumptions used in the value-in-use calculations are outlined below:

As at 30 September 2021	AmBank	PT Panin
Post-tax discount rate	10.6%	14.4%
Terminal growth rate	5.0%	5.1%
Expected earnings growth (compound annual growth rate – 5 years)	4.2%	6.4%
Common Equity Tier 1 ratio (5 year average)	13.4%	12.8%

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

- A change in the September 2021 post-tax discount rate by +/- 50 bps would impact the VIU outcome for PT Panin by ($55 million)/$60 million, and ($84 million)/$106 million for AmBank.
- A change in the September 2021 terminal growth rate by +/- 25 bps would impact the VIU outcome for PT Panin by $9 million/($10 million), and $49 million/($45 million) for AmBank.

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

27. STRUCTURED ENTITIES

A Structured Entity (SE) is an entity that has been designed such that voting or similar rights are not the dominant factor in determining who controls the entity. SEs are generally established with restrictions on their ongoing activities in order to achieve narrow and well defined objectives.

SEs are classified as subsidiaries and consolidated when control exists. If the Group does not control a SE, then it is not consolidated. This note provides information on both consolidated and unconsolidated SEs.

The Group's involvement with SEs is as follows:

Type	Details
Securitisation	The Group establishes SEs to securitise customer loans and advances that it has originated, in order to diversify sources of funding for liquidity management. Securitisation programs include customer loans and advances assigned to bankruptcy remote SEs to provide either security for obligations payable on notes issued by the SEs to external investors or create assets held by the Group eligible for repurchase agreements with applicable central banks. The Group retains control over these SEs and therefore they are consolidated. Refer to Note 28 Transfers of Financial Assets for further details. The Group also establishes SEs on behalf of customers to securitise their loans or receivables. The Group may manage these securitisation vehicles or provide liquidity or other support. Additionally, the Group may acquire interests in securitisation vehicles set up by third parties through holding securities issued by such entities. In limited circumstances where control exists, the Group consolidates the SE.
Covered bond issuances	Certain loans and advances have been assigned to bankruptcy remote SEs to provide security for issuances of debt securities by the Group. The Group retains control over these SEs and therefore they are consolidated. Refer to Note 28 Transfers of Financial Assets for further details.
Structured finance arrangements	The Group is involved with SEs established: • in connection with structured lending transactions to facilitate debt syndication and/or to ring-fence collateral; and • to own assets that are leased to customers in structured leasing transactions. The Group may manage the SE, hold minor amounts of the SE's capital, or provide risk management products (derivatives) to the SE. In most instances, the Group does not control these SEs. In limited circumstances where control exists, the Group consolidates the SE.
Funds management activities	The Group is the scheme manager for a number of Managed Investment Schemes (MIS) in New Zealand. These MIS are financed through the issue of units to investors and the Group considers them to be SEs. The Group's interests in these MIS are limited to receiving fees for services or providing risk management products (derivatives). These interests do not create significant exposures that would allow the Group to control the funds. Therefore, these MIS are not consolidated.

CONSOLIDATED STRUCTURED ENTITIES

FINANCIAL OR OTHER SUPPORT PROVIDED TO CONSOLIDATED STRUCTURED ENTITIES

The Group provides financial support to consolidated SEs as outlined below.

Securitisation and covered bond issuances	The Group provides lending facilities, derivatives and commitments to these SEs and/or holds debt instruments that they have issued.
Structured finance arrangements	The assets held by these SEs are normally pledged as collateral for financing provided. Certain consolidated SEs are financed entirely by the Group while others are financed by syndicated loan facilities in which the Group is a participant. The financing provided by the Group includes lending facilities where the Group's exposure is limited to the amount of the loan and any undrawn amount. Additionally, the Group has provided Letters of Support to these consolidated SEs confirming that the Group will not demand repayment of the financing provided for the ensuing 12 month period.

The Group did not provide any non-contractual support to consolidated SEs during the year (2020: nil). Other than as disclosed above, the Group does not have any current intention to provide financial or other support to consolidated SEs.

27. STRUCTURED ENTITIES (continued)

UNCONSOLIDATED STRUCTURED ENTITIES

GROUP'S INTEREST IN UNCONSOLIDATED STRUCTURED ENTITIES

An 'interest' in an unconsolidated SE is any form of contractual or non-contractual involvement with a SE that exposes the Group to variability of returns from the performance of that SE. These interests include, but are not limited to: holdings of debt or equity securities; derivatives that pass-on risks specific to the performance of the SE; lending; loan commitments; financial guarantees; and fees from funds management activities.

For the purpose of disclosing interests in unconsolidated SEs:

- no disclosure is made if the Group's involvement is not more than a passive interest - for example: when the Group's involvement constitutes a typical customer-supplier relationship. On this basis, exposures to unconsolidated SEs that arise from lending, trading and investing activities are not considered disclosable interests - unless the design of the structured entity allows the Group to participate in decisions about the relevant activities (being those that significantly affect the entity's returns).
- 'interests' do not include derivatives intended to expose the Group to market-risk (rather than performance risk specific to the SE) or derivatives through which the Group creates, rather than absorbs, variability of the unconsolidated SE (such as purchase of credit protection under a credit default swap).

The table below sets out the Group's interests in unconsolidated SEs together with the maximum exposure to loss that could arise from those interests:

	Securitisation		Structured finance		Total	
	2021 $m	2020 $m	2021 $m	2020 $m	2021 $m	2020 $m
On-balance sheet interests						
Investment securities	2,624	2,280	-	-	2,624	2,280
Gross loans and advances	7,697	8,479	53	74	7,750	8,553
Total on-balance sheet	10,321	10,759	53	74	10,374	10,833
Off-balance sheet interests						
Commitments (facilities undrawn)	2,034	2,072	-	22	2,034	2,094
Guarantees	50	40	-	-	50	40
Total off-balance sheet	2,084	2,112	-	22	2,084	2,134
Maximum exposure to loss	12,405	12,871	53	96	12,458	12,967

In addition to the interests above, the Group earned funds management fees from unconsolidated investment funds of $192 million (2020: $285 million) during the year.

The Group's maximum exposure to loss represents the maximum amount of loss that the Group could incur as a result of its involvement with unconsolidated SEs if loss events were to take place - regardless of the probability of occurrence. This does not in any way represent the actual losses expected to be incurred. Furthermore, the maximum exposure to loss is stated gross of the effects of hedging and collateral arrangements entered into to mitigate ANZ's exposure to loss.

The maximum exposure to loss has been determined as:

- the carrying amount of Investment securities measured at amortised cost; and
- the carrying amount plus the undrawn amount of any committed loans and advances.

The size of unconsolidated SEs is indicated by total assets which vary by SE with a maximum value of approximately $4.3 billion.

The Group did not provide any non-contractual support to unconsolidated SEs during the year (2020: nil) nor does it have any current intention to provide financial or other support to unconsolidated SEs.

27. STRUCTURED ENTITIES (continued)

SPONSORED UNCONSOLIDATED STRUCTURED ENTITIES

The Group may also sponsor unconsolidated SEs in which it has no disclosable interest.

For the purposes of this disclosure, the Group considers itself the 'sponsor' of an unconsolidated SE if it is the primary party involved in the design and establishment of that SE and:

- the Group is the major user of that SE; or
- the Group's name appears in the name of that SE, or on its products; or
- the Group provides implicit or explicit guarantees of that SE's performance.

The Group has sponsored the ANZ PIE Fund in New Zealand, which invests only in deposits with ANZ Bank New Zealand Limited. The Group does not provide any implicit or explicit guarantees of the capital value or performance of investments in the ANZ PIE Fund. There was no income received from, nor assets transferred to, this entity during the year.

KEY JUDGEMENTS AND ESTIMATES

Significant judgement is required in assessing whether the Group has control over Structured Entities. Judgement is required to determine the existence of:

- power over the relevant activities (being those that significantly affect the entity's returns);
- exposure to variable returns of the entity; and
- the ability to use its power over the entity to affect the Group's returns.

28. TRANSFERS OF FINANCIAL ASSETS

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

SECURITISATIONS

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

In some instances, the Group is also the holder of the securitised notes issued by the SEs. In addition, the Group is entitled to any residual income of the SEs and sometimes enters into derivatives with the SEs. The Group retains the risks and rewards of the residential mortgages and continues to recognise the mortgages as financial assets.

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

During the 2021 financial year, the Company changed its accounting policy regarding intragroup positions with consolidated securitisation SEs in which it holds all of the issued securities of the SE. The Company records a net nil position with the securitisation SE to reflect the economic substance of these fully offsetting intercompany transactions. Refer to Note 35 Impacts of Adoption of New Standards and Other Changes for further details of the change in accounting policy.

28. TRANSFERS OF FINANCIAL ASSETS (continued)

COVERED BONDS

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

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

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

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

REPURCHASE AGREEMENTS

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

STRUCTURED FINANCE ARRANGEMENTS

The Group arranges funding for certain customer transactions through structured leasing and commodity prepayment arrangements. These transactions are recognised on Group's balance sheet as lease receivables or loans. At times, other financial institutions participate in the funding of these arrangements. This participation involves a proportionate transfer of the rights to the assets recognised by the Group. The participating banks have limited recourse to the leased assets or financed commodity and related proceeds. Where the Group continues to be exposed to some of the risks of the transferred assets through a derivative or other continuing involvement, the Group does not derecognise the lease receivable or loan. Instead, the Group recognises an associated liability representing its obligations to the participating financial institutions.

The tables below set out the balance of assets transferred that do not qualify for derecognition, along with the associated liabilities.

	Securitisations[1,2]		Covered bonds		Repurchase agreements		Structured finance arrangements	
	2021	2020	2021	2020	2021	2020	2021	2020
Consolidated	$m	$m	$m	$m	$m	$m	$m	$m
Current carrying amount of assets transferred	**1,430**	1,831	**28,816**	28,559	**51,208**	61,415	**55**	67
Carrying amount of associated liabilities	**1,424**	1,824	**15,399**	15,948	**46,147**	55,716	**55**	67

	Securitisations[1,2]		Covered bonds		Repurchase agreements		Structured finance arrangements	
	2021	2020	2021	2020	2021	2020	2021	2020
The Company	$m	$m	$m	$m	$m	$m	$m	$m
Current carrying amount of assets transferred	**1,430**	1,831	**17,925**	17,937	**48,663**	60,612	**-**	-
Carrying amount of associated liabilities	**1,430**	1,831	**17,925**	17,937	**43,925**	54,951	**-**	-

1. Does not include transfers to internal structured entities where there are no external investors.
2. The securitisation noteholders have recourse only to the pool of residential mortgages which have been securitised. The carrying value of securitised assets and the associated liabilities approximates their fair value.

29. DISCONTINUED OPERATIONS AND ASSETS AND LIABILITIES HELD FOR SALE

DISCONTINUED OPERATIONS

The Group completed the sale of its Aligned Dealer Groups business to IOOF Holdings Limited (IOOF) on 1 October 2018, its life insurance business to Zurich Financial Services Australia (Zurich) on 31 May 2019 and its OnePath pensions and investments business to IOOF on 31 January 2020.

The financial results of these divested businesses are treated as discontinued operations from a financial reporting perspective. The financial results after transaction completion primarily relate to residual operational costs on separation and part recovery based on the respective Transition Service Agreements. The loss after tax from discontinued operations for the year was $17 million (2020: $98 million loss).

INCOME STATEMENT IMPACT RELATING TO DISCONTINUED OPERATIONS AND ASSETS AND LIABILITIES HELD FOR SALE

During the 2021 financial year, the Group recognised the following impacts in relation to discontinued operations:

- $17 million loss after tax attributable to customer remediation charges of $3 million and an associated $1 million tax benefit, and ongoing sale completion costs net of recoveries.

During the 2020 financial year, the Group recognised the following impacts in relation to discontinued operations:

- $13 million loss after tax recorded in operating income attributable to sale completion costs.
- $126 million of customer remediation charges and an associated $30 million tax benefit.
- $101 million charge recognised in operating income offset by a $101 million tax benefit within income tax expense relating to the finalisation of the policyholder tax position associated with the sale of the life insurance business to Zurich.

KEY JUDGEMENTS AND ESTIMATES

A significant level of judgement is used by the Group to determine:

- whether an asset or group of assets is classified and presented as held for sale or as a discontinued operation; and
- the fair value of the assets and liabilities classified as being held for sale.

Management is required to exercise significant judgement when assessing the fair value less costs to sell for assets and liabilities held for sale. The judgemental factors include determining: costs to sell, allocation of goodwill, indemnities provided under the sale contract and consideration received - particularly where elements of consideration are contingent in nature. Any impairment we record is based on the best available evidence of fair value compared to the carrying value before the impairment. The final sale price may be different to the fair value we estimate when recording the impairment. Management regularly assess the appropriateness of the underlying assumptions against actual outcomes and other relevant evidence and adjustments are made to fair value where appropriate. We expect that sales will complete within 12 months after balance date, subject to the relevant regulatory approvals and customary terms of sale for such assets.

30. SUPERANNUATION AND POST EMPLOYMENT BENEFIT OBLIGATIONS

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

	Consolidated		The Company	
	2021 $m	2020 $m	2021 $m	2020 $m
Defined benefit obligation and scheme assets				
Present value of funded defined benefit obligation	(1,477)	(1,478)	(1,319)	(1,282)
Fair value of scheme assets	1,679	1,693	1,514	1,541
Net defined benefit asset	202	215	195	259
As represented in the Balance Sheet				
Net liabilities arising from defined benefit obligations included in payables and other liabilities	(11)	(59)	(11)	(15)
Net assets arising from defined benefit obligations included in other assets	213	274	206	274
Net defined benefit asset	202	215	195	259
Weighted average duration of the benefit payments reflected in the defined benefit obligation (years)	14.9	14.9	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 $109 million (2020 surplus of $104 million). In 2021, the Group made defined benefit contributions totaling $3 million (2020: $4 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 Group participates operate under trust law and are managed and administered on behalf of the members in accordance with the terms of the relevant trust deed and rules and all relevant legislation. These schemes have corporate trustees, which are wholly owned subsidiaries of the Group. The trustees are the legal owners of the assets, which are held separately from the assets of the Group, and are responsible for setting investment policy and agreeing funding requirements with the employer through the triennial actuarial valuation process.

The Group has defined benefit arrangements in Australia, Japan, New Zealand, Philippines, Taiwan and United Kingdom. The defined benefit section of the ANZ Australian Staff Superannuation Scheme, the ANZ UK Staff Pension Scheme and the ANZ National Retirement Scheme in New Zealand are the three largest plans. They have been closed to new members since 1987, 2004 and 1991 respectively. None of the schemes had a material deficit, or surplus, at the last funding valuation. The Group has no present liability under any of the schemes' trust deeds to fund a deficit (measured on a funding basis). A contingent liability of the Group may arise if any of the schemes were wound up.

RECOGNITION AND MEASUREMENT

Defined benefit superannuation schemes

The Group operates a small number of defined benefit schemes. Independent actuaries calculate the liability and expenses related to providing benefits to employees under each defined benefit scheme. They use the Projected Unit Credit Method to value the liabilities. The balance sheet includes:

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

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

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

Defined contribution superannuation schemes

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

30. SUPERANNUATION AND POST EMPLOYMENT BENEFIT OBLIGATIONS (continued)

KEY JUDGEMENTS AND ESTIMATES

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

Consolidated	2021	2020	Sensitivity analysis change in significant assumptions	Increase/(decrease) in defined benefit obligation 2021 $m	2020 $m
Discount rate (% p.a.)	0.4 - 2.15	0.5 - 1.7	0.5% increase	(103)	(103)
Future salary increases (% p.a.)	1.9 - 3.5	1.6 - 3.0			
Future pension indexation					
In payment (% p.a.)/In deferment (% p.a.)	1.05 - 3.35/2.7	1.1 - 2.8/2.2	0.5% increase	84	85
Life expectancy at age 60 for current pensioners			1 year increase	74	73
– Males (years)	26.1 - 28.8	26.0 - 28.7			
– Females (years)	29.0 - 30.5	28.9 - 30.4			

The Company	2021	2020	Sensitivity analysis change in significant assumptions	Increase/(decrease) in defined benefit obligation 2021 $m	2020 $m
Discount rate (% p.a.)	1.95 - 2.15	1.55 - 1.7	0.5% increase	(94)	(91)
Future salary increases (% p.a.)	3.5	2.95			
Future pension indexation					
In payment (% p.a.)/In deferment (% p.a.)	2.0 - 3.35/2.7	1.5 - 2.8/2.15	0.5% increase	75	73
Life expectancy at age 60 for current pensioners			1 year increase	67	65
– Males (years)	26.1 - 28.8	26.0 - 28.7			
– Females (years)	29.0 - 30.5	28.9 - 30.4			

31. EMPLOYEE SHARE AND OPTION PLANS

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

ANZ EMPLOYEE SHARE ACQUISITION PLAN

ANZ Employee Share Acquisition Plan schemes that operated during the 2021 and 2020 years were the Employee Share Offer (2020 only) and the Deferred Share Plan.

Employee Share Offer

The details below relate to the grant of the Employee Share Offer in December 2019.

Eligibility	Most permanent employees employed in either Australia or New Zealand with three years continuous service.
Grant	The Board approved AUD 1,000 in Australia (and AUD 800 in New Zealand) of ANZ shares.
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 were granted to eligible employees for nil consideration. The shares vested on grant and are being 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 were 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 grants	698,862 shares were granted on 2 December 2019 at an issue price of $24.96.

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: Based on the 2020 Performance and Remuneration Review	
Eligibility	All employees excluding the CEO, ExCo and GGM IA (i.e. other BEAR Accountable Executive), and select roles in the United Kingdom (UK)/China[1].
Grant	If VR is at or exceeds AUD 100,000, then 60% of total VR amount is deferred as shares.
Conditions	Deferred over three years from grant date.

iii) ANZIP: Based on the 2019 Performance and Remuneration Review (granted in the 2020 financial year)	
Eligibility	All employees excluding the CEO, ExCo and GGM IA (i.e. other BEAR Accountable Executive), and select roles in the UK/China[1].
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.

iv) Long Term Incentives (LTIs): Based on the 2019 Performance and Remuneration Review (granted in the 2020 financial year)	
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.

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.

31. EMPLOYEE SHARE AND OPTION PLANS (continued)

v) Exceptional circumstances	
Remuneration foregone	In exceptional circumstances, we grant deferred shares to certain employees when they start with ANZ to compensate them for remuneration they have foregone from their previous employer. The vesting period generally aligns with the remaining vesting period of the remuneration they have foregone, and therefore varies between grants.
Retention	We may grant deferred shares to high performing employees who are regarded as a significant retention risk to ANZ.

vi) 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 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.
2021 and 2020 grants	During the 2021 year, we granted 1,653,585 deferred shares (2020: 2,259,897) with a weighted average grant price of $23.31 (2020: $24.94).
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 2021 Remuneration Report. Board discretion was not exercised to adjust downward any deferred shares in 2021 (2020: nil).

Expensing of the ANZ Employee Share Acquisition Plan

Expensing value (fair value)	The fair value of shares we granted during 2021 under the Deferred Share Plan (in 2020 under the Employee Share Offer and the Deferred Share Plan), measured as at the date of grant of the shares, is $38.9 million (2020: $73.4 million) based on 1,653,585 shares (2020: 2,958,759) at VWAP of $23.53 (2020: $24.81).

31. EMPLOYEE SHARE AND OPTION PLANS (continued)

ANZ SHARE OPTION PLAN

Allocation	We may grant selected employees options/rights which entitle them to acquire fully paid ordinary ANZ shares at a fixed price at the time the options/rights vest. Voting and dividend rights will be attached to the ordinary shares allocated on exercise of the options/rights. Each option/right entitles the holder to one ordinary share subject to the terms and conditions imposed on grant. Exercise price of options, determined in accordance with the rules of the plan, is generally based on the VWAP of the shares traded on the ASX in the week leading up to and including the date of grant. For rights, the exercise price is nil.
Rules	Prior to the exercise of the option/right if ANZ changes its share capital due to a bonus share issue, pro-rata new share issue or reorganisation the following adjustments are required: • Issue of bonus shares - When the holder exercises their option, they are also entitled to be issued the number of bonus shares they would have been entitled to had they held the underlying shares at the time of the bonus issue; • Pro-rata share offer - We will adjust the exercise price of the option in the manner set out in the ASX Listing Rules; and • Reorganisation - In respect of rights, if there is a bonus issue or reorganisation of ANZ's share capital, then the Board may adjust the number of rights or the number of underlying shares so that there is no advantage or disadvantage to the holder. Holders otherwise have no other entitlements to participate: • in any new issue of ANZ securities before they exercise their options/rights; or • in a share issue of a body corporate other than ANZ (such as a subsidiary). Any portion of the award which vests may, at the Board's discretion, be satisfied by a cash equivalent payment rather than shares.
Expensing	We expense the fair value of options/rights on a straight-line basis over the relevant vesting period and we recognise the expense as a share-based compensation expense with a corresponding increase in equity.
Cessation	The provisions that apply if the employee's employment ends are in section 8.2.3 of the 2021 Remuneration Report.
Malus (downward adjustment)	ANZ's malus (downward adjustment) provisions are detailed in section 5.3 of the 2021 Remuneration Report.

31. EMPLOYEE SHARE AND OPTION PLANS (continued)

Option Plans that operated during 2021 and 2020

i) Performance Rights	
Allocation	We grant performance rights to the CEO and ExCo 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 and Total Shareholder Return (TSR) performance hurdles. Further details on the performance hurdles are in section 5.2.3a of the 2021 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 2021, the performance rights that vested (previously granted in November/December 2017) were satisfied through a share allocation, other than 36,103 performance rights for which a cash payment was made. In 2020, all performance rights (previously granted in November/December 2016) lapsed due to not meeting the performance hurdles.
2021 and 2020 grants	During the 2021 year, we granted 485,032 performance rights (2020: 520,172).
Malus (downward adjustment)	Board discretion was not exercised to adjust downward any performance rights in 2021 (2020: nil).

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. Also, see section 5.2.3b of the 2021 Remuneration Report.
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 89,296 deferred share rights (2020: 99,891) for which a cash payment was made.
2021 and 2020 grants	During the 2021 year, 2,258,774 deferred share rights (no performance hurdles) were granted (2020: 2,393,424).
Malus (downward adjustment)	Board discretion was exercised to adjust downward 8,414 deferred share rights to zero in 2021 (2020: nil).

31. EMPLOYEE SHARE AND OPTION PLANS (continued)

Options, Deferred Share Rights and Performance Rights on Issue

As at 27 October 2021, there were 442 holders of 4,537,088 deferred share rights on issue and 97 holders of 1,709,028 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 2021 and the movements during 2021:

	Opening balance 1 Oct 2020	Options/ rights granted	Options/ rights forfeited[1]	Options/ rights expired	Options/ rights exercised	Closing balance 30 Sep 2021
Number of options/rights	6,724,557	2,743,806	(918,589)	0	(2,241,996)	6,307,778
WA exercise price	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
WA closing share price						$25.34
WA remaining contractual life						1.8 years
WA exercise price of all exercisable options/rights outstanding						$0.00
Outstanding exercisable options/rights						227,412

This table shows the options/rights over unissued ANZ shares and their related weighted average 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

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 2021 and 2020, were issued at a nil exercise price.

As at the date of the signing of the Directors' Report on 27 October 2021:

- no options/rights over ordinary shares have been granted since the end of 2021; and
- no shares issued as a result of the exercise of options/rights since the end of 2021.

31. EMPLOYEE SHARE AND OPTION PLANS (continued)

Fair Value Assumptions

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

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

	2021		2020	
	Deferred share rights	Performance rights	Deferred share rights	Performance rights[1]
Exercise price ($)	0.00	0.00	0.00	0.00
Share closing price at grant date ($)	23.37	23.32	24.78	24.93
Expected volatility of ANZ share price (%)[2]	26.5	25.0	20.0	20.0
Equity term (years)	2.3	6.0	2.5	6.0
Vesting period (years)	2.0	4.0	2.1	4.0
Expected life (years)	2.0	4.0	2.1	4.0
Expected dividend yield (%)	4.85	5.25	6.0	6.0
Risk free interest rate (%)	0.10	0.21	0.77	0.74
Fair value ($)	21.15	9.56	21.95	9.07

1. Relates to grants made in November 2019.
2. 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 defined 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 2021 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 3,593,574 shares at an average price of $22.03 per share (2020: 4,882,936 shares at an average price of $25.06 per share).

32. RELATED PARTY DISCLOSURES

KEY MANAGEMENT PERSONNEL COMPENSATION

Key Management Personnel (KMP) are defined as all directors of the Group and those personnel with a key responsibility for the strategic direction and management of the Group and report directly to the CEO. KMP compensation included within total personnel expenses in Note 4 Operating Expenses is as follows:

	Consolidated	
	2021 $'000[1]	2020 $'000
Short-term benefits	21,109	19,260
Post-employment benefits	383	414
Other long-term benefits	258	397
Termination benefits	250	-
Share-based payments	5,066	8,198
Total	27,066	28,269

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

KEY MANAGEMENT PERSONNEL LOAN TRANSACTIONS

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

	Consolidated		The Company	
	2021 $'000	2020 $'000	2021 $'000	2020 $'000
Loans advanced[1,2]	26,867	32,452	14,012	19,166
Undrawn facilities[2]	531	1,353	277	1,111
Interest charged[3]	777	888	434	518

1. Prior period balance has been restated to reflect minor timing variances.
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. Comparatives have been amended to include opening balances (at date of commencement) for new KMP in the current period.
3. Interest charged is for all KMP's during the period.

KEY MANAGEMENT PERSONNEL HOLDINGS OF ANZ SECURITIES

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

	Consolidated	
	2021 Number[1]	2020 Number
Shares, options and rights	2,319,807	2,211,879
Subordinated debt	26,672	21,052

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

32. RELATED PARTY DISCLOSURES (continued)

OTHER TRANSACTIONS OF KEY MANAGEMENT PERSONNEL AND THEIR RELATED PARTIES

The aggregate of deposits of KMP and their related parties with the Group were $46 million (2020: $48 million) and with the Company were $38 million (2020: $37 million).

During the year, in recognition of the contribution of David Gonski as Group Chairman over the period from 2014-2020 the Group donated a painting (valued at approximately $325,000) from its collection to the Art Gallery of New South Wales, where he is the president on the Board of Trustees. ANZ has enjoyed an association with the Art Gallery of NSW since 2010, through its sponsorship of various annually awarded art prizes and it has been a Leadership Partner since 2017. The transaction between the Group and the Art Gallery New South Wales is not a related party transaction for accounting purposes.

Other transactions with KMP and their related parties included amounts paid to the Group in respect of investment management service fees, brokerage and bank fees and charges. The Group has reimbursed KMP for the costs incurred for security and secretarial services associated with the performance of their duties. These transactions are conducted on normal commercial terms and conditions no more favourable than those given to other employees or customers. Gifts in the form of charitable donation amounting to $500 were provided on behalf of the related parties of KMP during the year.

ASSOCIATES

We disclose significant associates in Note 26 Investments in Associates. During the course of the financial year, transactions conducted with all associates were on terms equivalent to those made on an arm's length basis.

	Consolidated		The Company	
	2021 $'000	2020 $'000	2021 $'000	2020 $'000
Amounts receivable from associates	7	354	-	-
Amounts payable to associates	1,739	1,354	716	746
Interest expense to associates	2	10	-	-
Other revenue from associates	-	500	-	-
Other expenses paid to associates	9,988	9,018	8,063	7,706
Guarantees given to associates	28	-	28	-
Dividend income from associates	-	32,465	-	-

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

SUBSIDIARIES

We disclose material controlled entities in Note 25 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 2021, 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 Net Interest Income and Note 3 Non-Interest 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.

33. COMMITMENTS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

CREDIT RELATED COMMITMENTS AND CONTINGENCIES

	Consolidated		The Company	
	2021 $m	2020 $m	2021 $m	2020 $m
Contract amount of:				
Undrawn facilities	212,265	227,819	176,077	191,300
Guarantees and letters of credit	30,027	22,778	27,957	20,640
Performance related contingencies	18,303	17,017	17,085	15,505
Total	260,595	267,614	221,119	227,445

UNDRAWN FACILITIES

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

GUARANTEES, LETTERS OF CREDIT AND PERFORMANCE RELATED CONTINGENCIES

Guarantees, letters of credit and performance related contingencies relate to transactions that the Group has entered into as principal – including guarantees, standby letters of credit and documentary letters of credit.

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

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

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

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

OTHER CONTINGENT LIABILITIES

As at 30 September 2021, the Group had contingent liabilities in respect of the matters outlined below. Where relevant, expert legal advice has been obtained and, in the light of such advice, provisions (refer to Note 22 Other Provisions) and/or disclosures as deemed appropriate have been made. In some instances we have not disclosed the estimated financial impact of the individual items either because it is not practicable to do so or because such disclosure may prejudice the interests of the Group.

REGULATORY AND CUSTOMER EXPOSURES

In recent years there has been an increase in the number of matters on which the Group engages with its regulators. There have also been significant increases in the nature and scale of regulatory investigations, surveillance and reviews, civil and criminal enforcement actions (whether by court action or otherwise), formal and informal inquiries, regulatory supervisory activities and the quantum of fines issued by regulators, particularly against financial institutions both in Australia and globally. The Group has received various notices and requests for information from its regulators as part of both industry-wide and Group-specific reviews and has also made disclosures to its regulators at its own instigation. The nature of these interactions can be wide ranging and, for example, include or have included 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) antiracketeering laws, the Commodity Exchange Act, and unjust enrichment principles. In March 2021, the Company reached an agreement to settle the BBSW class action. The settlement is without admission of liability and remains subject to negotiation and execution of complete settlement terms as well as court approval. The financial impact of the settlement is not material and has been fully provided at 31 March 2021. The separate class action in relation to SIBOR is ongoing and is being defended.

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 a number of companies and individuals, including the Company and a senior employee. It is alleged that the joint lead managers of the Company's August 2015 underwritten institutional equity placement engaged in cartel conduct and that the Company and its senior employee were involved in one of those joint lead managers giving effect to a cartel. The Company and its senior employee are defending the allegations. The trial is currently scheduled to start in April 2022.

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.

ONEPATH SUPERANNUATION LITIGATION

In December 2020, a class action was brought against OnePath Custodians, OnePath Life and the Company alleging that OnePath Custodians breached its obligations under superannuation legislation, and its duties as trustee, in respect of superannuation investments and fees. The claim also alleges that the Company was involved in some of OnePath Custodians' investment breaches. The Company is defending the allegations.

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

OTHER CONTINGENT LIABILITIES (continued)

NEW ZEALAND LOAN INFORMATION LITIGATION

In September 2021, a representative proceeding was brought against ANZ Bank New Zealand Limited, alleging breaches of disclosure requirements under consumer credit legislation in respect of variation letters sent to certain loan customers. ANZ Bank New Zealand Limited 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. Following the Royal Commission there have been, and continue to be, additional costs and further exposures, including exposures associated with further regulator activity or potential customer exposures such as class actions, individual claims or customer remediation or compensation activities. The outcomes and total costs associated with these possible exposures remain uncertain.

SECURITY RECOVERY ACTIONS

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

WARRANTIES AND INDEMNITIES

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

CLEARING AND SETTLEMENT OBLIGATIONS

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

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

PARENT ENTITY GUARANTEES

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

SALE OF GRINDLAYS BUSINESSES

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

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

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

CONTINGENT ASSETS

NATIONAL HOUSING BANK

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

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

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

34. AUDITOR FEES

	Consolidated		The Company	
	2021 $'000	2020 $'000	2021 $'000	2020 $'000
KPMG Australia				
Audit or review of financial reports	7,434	8,059	7,021	7,262
Audit-related services[1]	2,772	3,693	2,696	3,540
Non-audit services[2]	106	25	106	25
Total[3]	10,312	11,777	9,823	10,827
Overseas related practices of KPMG Australia				
Audit or review of financial reports	5,511	6,049	1,965	2,107
Audit-related services[1]	1,657	1,677	917	1,008
Non-audit services[2]	85	98	85	44
Total	7,253	7,824	2,967	3,159
Total auditor fees	17,565	19,601	12,790	13,986

1. Group audit-related services comprise prudential and regulatory services of $3.27 million (2020: $3.61 million), comfort letters $0.49 million (2020: $0.75 million) and other services $0.67 million (2020: $1.01 million). Company audit-related services comprise prudential and regulatory services of $2.78 million (2020: $3.07 million), comfort letters $0.45 million (2020: $0.72 million) and other services $0.38 million (2020: $0.76 million).
2. The nature of non-audit services for Group and Company include controls related assessments and methodology and procedural reviews. Further details are provided in the Directors' Report.
3. Inclusive of goods and services tax.

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

35. IMPACT OF ADOPTION OF NEW STANDARDS AND OTHER CHANGES

INTEREST RATE BENCHMARK REFORM

There was no material impact from the early adoption of AASB 2020-8 *Amendments to Australian Accounting Standards - Interest Rate Benchmark Reform – Phase 2*. Refer to Note 1 About Our Financial Statements for further details.

INTRAGROUP TRANSACTIONS WITH CONSOLIDATED SECURITISATION STRUCTURED ENTITIES

During the 2021 financial year, the Company changed its accounting policy relating to intragroup transactions with consolidated securitisation SEs in which it holds all of the issued securities of the SE. These internal securitisation transactions provide an additional source of liquidity for the Group by creating residential mortgage-backed securities (RMBS) which can be sold under repurchase agreements with relevant central banks. A distinguishing feature of these transactions is that all of the RMBS issued by the SE are held by the Company, rather than purchased by third parties. By holding all of the RMBS issued by the SE, the Company retains all of the risk and rewards of the mortgages transferred to the SE which cannot be derecognised for accounting purposes. Furthermore, because the intragroup transactions with the SE fully offset each other, they do not alter the cash position, assets or future cash flows of the Company. Accordingly, under this policy change, these transactions will no longer be recorded on a gross basis. Rather, the Company will recognise a net nil position with the SE in order to better reflect the economic substance of the intragroup transactions.

This accounting policy change has no impact on the Group's consolidated financial statements given the previously recorded intercompany balances were eliminated in consolidation. Comparatives have been restated in the financial statements of the Company as follows:

The Company	2020 $m
Income Statement	
Interest income	(2,377)
Interest expense	2,929
Net interest income	552
Other operating income	(552)
Net profit after tax	-
Balance Sheet	
Due from controlled entities	(76,637)
Total assets	**(76,637)**
Due to controlled entities	(76,637)
Total liabilities	**(76,637)**
Net assets	-

36. EVENTS SINCE THE END OF THE FINANCIAL YEAR

On 22 October 2021, a Group fund that owns 19% of the shares in Cashrewards Limited announced it would make an off-market takeover offer to acquire the remaining 81% of the shares, for ~$80 million. The offer is subject to a number of conditions and completion remains uncertain.

Other than the matter above, there have been no significant events from 30 September 2021 to the date of signing this report.

Directors' Declaration

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

a) in the Directors' opinion, the financial statements and notes of the Company and the Consolidated Entity are in accordance with the *Corporations Act 2001*, including:

   i) section 296, that they comply with the Australian Accounting Standards and any further requirements of the *Corporations Regulations 2001*; and

   ii) section 297, that they give a true and fair view of the financial position of the Company and the Consolidated Entity as at 30 September 2021 and of their performance for the year ended on that date; and

b) the notes to the financial statements of the Company and the Consolidated Entity include a statement that the financial statements and notes of the Company and the Consolidated Entity comply with International Financial Reporting Standards; and

c) the Directors have been given the declarations required by section 295A of the *Corporations Act 2001*; and

d) in the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors.

Paul D O'Sullivan
Chairman

Shayne C Elliott
Managing Director

27 October 2021

TO THE SHAREHOLDERS OF AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL REPORT

OPINION

We have audited the Financial Report of Australia and New Zealand Banking Group Limited (the Company) and the entities it controlled at the year end and from time to time during the financial year (together, the Group).

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

- giving a true and fair view of the Company and Group's financial positions as at 30 September 2021 and of their financial performance for the year ended on that date; and
- complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

The Financial Report comprises the:

- balance sheets as at 30 September 2021;
- income statements, statements of comprehensive income, statements of changes in equity, and cash flow statements for the year then ended;
- notes 1 to 36 including a summary of significant accounting policies; and
- Directors' Declaration.

BASIS FOR OPINION

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

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

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

KEY AUDIT MATTERS

The Key Audit Matters we identified are:

- Allowance for expected credit losses;
- Subjective and complex valuation of financial instruments held at fair value;
- Carrying value of investment in Asian associates;
- Provisions for customer remediation; and
- IT systems and controls.

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

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

KEY AUDIT MATTERS (continued)

ALLOWANCE FOR EXPECTED CREDIT LOSSES (Group $4,882m; Company $4,062m)

Refer to the critical accounting estimates and judgements disclosures in relation to the allowance for expected credit losses in Note 14 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 and Group's Expected Credit Loss 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 and Group to measure ECLs on a forward-looking basis reflecting a range of economic conditions, of which gross domestic product (GDP) and unemployment levels are considered key assumptions. Post-model adjustments are made by the Company and Group to address known ECL model limitations or emerging trends in the loan portfolios. We exercise significant judgement in challenging the economic scenarios used and the judgmental post model adjustments the Company and Group applies to the ECL results.

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

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

Additionally, allowances for individually assessed wholesale loans exceeding specific thresholds are individually assessed by the Company and Group. We exercise significant judgement 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 and Group in respect of the loans.

How the matter was addressed in our audit

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

Testing key controls of the Company and Group in relation to:

- The ECL model governance and validation processes which involved assessment of model performance;
- The assessment and approval of the forward-looking macroeconomic assumptions and scenario weightings through challenge applied by the Company and Group's internal governance processes;
- Reconciliation of the data used in the ECL calculation process to gross balances recorded within the general ledger as well as source systems;
- Customer credit rating (CCR) for wholesale loans (larger customer exposures are monitored individually). This covered elements such as: approval of new lending facilities against the Company and Group's lending policies, monitoring of counterparty credit quality against the Company and Group's exposure criteria for internal factors specific to the counterparty or external macroeconomic factors, and accuracy and timeliness of CCR and security indicator (SI) assessments against the requirements of the Company and Group's lending policies and regulatory requirements; and
- IT system controls which record retail loans lending arrears, group exposures into delinquency buckets, and re-calculate individual allowances. We tested automated calculation and change management controls and evaluated the Company and Group'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 and Group in measuring ECL allowances as detailed in the IT Systems and Controls key audit matter below.

In addition to controls testing, our procedures included:

- Re-performing credit assessments of a sample of wholesale loans controlled by the Company and Group's specialist workout and recovery team assessed as higher risk or impaired, and a sample of other loans, focusing on larger exposures assessed by the Company and Group as showing signs of deterioration, or in areas of emerging risk (assessed against external market conditions and in particular considering the impacts of COVID-19 and climate change). For each loan sampled, we challenged management's assessment of CCR and 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 and Group's loan file, discussed the facts and circumstances of the case with the loan officer, and performed our own assessment of recoverability. Exercising our judgement, our procedures included using our understanding of relevant industries and the macroeconomic environment and comparing data and assumptions used by the Company and Group in recoverability assessments to externally sourced evidence, such as commodity prices, publicly available audited financial statements and comparable external valuations of collateral held. Where relevant we assessed the forecast timing of future cash flows in the context of underlying valuations and approved business plans and challenged key assumptions in the valuations;
- Obtaining an understanding of the Company and Group's processes to determine ECL allowances, evaluating the Company and Group's ECL model methodologies against established market practices and criteria in the accounting standards;

KEY AUDIT MATTERS (continued)

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

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

- Assessing the requirement for additional allowances considering the Company and Group's ECL model and data deficiencies identified by the Company and Group's ECL model validation processes, particularly in light of the extreme volatility in economic scenarios caused by the current COVID-19 pandemic and government responses;
- Evaluating underlying data used in concentration risk and economic cycle allowances by comparing underlying loan portfolio characteristics to recent loss experience, current market conditions and specific risks in the Group's loan portfolios;
- Assessing the impacts on the modelled ECL and the requirement for out of model adjustments to account for the expected increase in delinquencies. 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 and Group's assessment.

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

GROUP

- FAIR VALUE OF LEVEL 3 ASSET POSITIONS $1,497m

- FAIR VALUE OF LEVEL 2 ASSET POSITIONS $57,116m

- FAIR VALUE OF LEVEL 3 LIABILITY POSITIONS $30m

- FAIR VALUE OF LEVEL 2 LIABILITY POSITIONS $41,343m

COMPANY

- FAIR VALUE OF LEVEL 3 ASSET POSITIONS $1,190m

- FAIR VALUE OF LEVEL 2 ASSET POSITIONS $55,533m

- FAIR VALUE OF LEVEL 3 LIABILITY POSITIONS $30m

- FAIR VALUE OF LEVEL 2 LIABILITY POSITIONS $39,146m

Refer to the critical accounting estimates, judgements and disclosures of fair values in Note 18 to the Financial Report.

The Key Audit Matter

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

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

- The high degree of estimation uncertainty and potentially significant range of reasonable outcomes associated with the valuation of financial instruments classified as Level 3 where significant pricing inputs used in the valuation methodology and models are not observable. Level 3 financial instruments represented 0.8% and 0.9% respectively of the Company and Group's financial assets and 0.07% and 0.06% of the Company and Group's financial liabilities carried at fair value; 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 39% and 35% respectively of the Company and Group's financial assets and 88% and 89% of the Company and Group's financial liabilities carried at fair value.

KEY AUDIT MATTERS (continued)

How the matter was addressed in our audit

Our audit procedures for the valuation of financial instruments held at fair value included:

- Performing 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.
- Testing 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 by a control function;
  - Controls over the collateral management process, including review of margin reconciliations with clearing houses; and
  - Controls over fair value adjustments (FVAs), including exit price and portfolio level adjustments.
- With the assistance of our valuation specialists, independently re-valuing a selection of financial instruments and FVAs. This involved sourcing independent inputs from market data providers or external sources and using our own valuation models.
- In relation to the subjective valuation of Level 3 financial instruments, where appropriate, with our valuation specialists:
  - Assessing the reasonableness of key inputs and assumptions using comparable data in the market and available alternatives; and
  - Comparing the Company and Group's valuation methodology to industry practice and the criteria in the accounting standards.
- Assessing the financial statements disclosures, including key judgements and assumptions using our understanding obtained from our testing and against the relevant accounting standard requirements.

CARRYING VALUE OF INVESTMENT IN ASIAN ASSOCIATES (Group $1,929m; Company $Nil)

Refer to the critical accounting estimates, judgements and disclosures in Notes 26 to the Financial Report.

The Key Audit Matter

Carrying value of investment in Asian associates (PT Panin and AmBank) is a key audit matter as:

- The Group's impairment assessment of non-lending assets identified that two of the Group's associate investments (PT Panin and AmBank) had indicators of impairment.
- Significant judgement was required by the Group as a result of the business disruption and economic impacts of the COVID-19 pandemic, raising estimation uncertainty. These conditions and the uncertainty of their continuation increases the possibility of the investments in the associates being impaired, and the risk of inaccurate forecasts or a significantly wider range of possible outcomes in the cash flow models.
- Our evaluation of potential impairment involves critically evaluating the Group's judgement in relation to key forward-looking assumptions for the Group's Asian associates. Instances where the Group's judgement is evaluated include:
  - Forecast earnings and terminal growth rates – The Group's models are highly sensitive to small changes in these assumptions, reducing available headroom or indicating possible impairment. This drives additional audit effort specific to their feasibility and consistency of application; and
  - Discount rates – These are complicated in nature and vary according to the conditions and environment the specific associate investments operate in.
- We involved our valuation specialists to supplement our senior team members in assessing this key audit matter.

How the matter was addressed in our audit

Working with our valuation specialists, our procedures included:

- Considering the appropriateness of the value in use valuation method applied by the Group to perform their annual test for impairment against the requirements of the accounting standards;
- Assessing the integrity of the models used, including the accuracy of the underlying calculation formulas;
- Assessing the Group's key assumptions used in the discounted cash flow model, such as, discount rates, growth rates, forecast earnings and terminal growth rate by comparing to external observable metrics, historical experience, our knowledge of the markets and current market practice;
- Independently developing a discount rate estimate or range considered comparable using publicly available market data for comparable entities, adjusted for factors specific to the Asian associates and the market and industry they operate in;
- Comparing the forecast cash flows contained in the models to recent broker consensus reports, reflecting the COVID-19 impacts;
- Considering and challenging the Group's assessment of the impact of COVID-19 on cash flows and assumptions as well as its assessment of the likely recovery period;
- Considering the sensitivity of the models by varying key assumptions, such as, forecast growth rates, terminal growth rates and discount rates, within a reasonable possible range, including specific analysis of reasonable possible impacts of COVID-19;

KEY AUDIT MATTERS (continued)

- Assessing the recoverable amount at the reporting date against the recoverable amount of each investment when it was last impaired to assess if any reversal of previous impairment loss was required; and
- Assessing the disclosures in the financial report using our understanding obtained from our testing and against the requirements of the accounting standards.

PROVISIONS FOR CUSTOMER REMEDIATION (Group $886m; Company $791m)

Refer to the critical accounting estimates, judgements and disclosures in Notes 22 and 33 to the Financial Report.

The Key Audit Matter

The Company and Group have 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 and Group's determination of:

- The completeness of the population of matters requiring remediation;
- The existence of a present legal or constructive obligation arising from a past event using the conditions of the event against the criteria in the accounting standards;
- Reliable estimates of the amounts which may be paid arising from investigations, including estimates of related costs; and
- 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 and Group's processes and controls for identifying and assessing the potential impact of the investigations into customer remediation activities;
- Enquiring with the Company and Group regarding ongoing legal, regulatory and other investigation into remediation activities;
- Conducting independent discussions on significant matters with external legal counsel;
- Reading the minutes and other relevant documentation of the 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, we evaluate the basis for recognition of a provision and associated costs against the requirements of the accounting standards. We did this by obtaining an understanding of the matter, its status and independently assessing these against the recognition requirements of the accounting standard;
- For a sample of individual customer remediation matters, testing the valuation and accuracy of the provision by:
  - Assessing and challenging the method, data and assumptions;
  - Sample checking data accuracy to underlying systems; and
  - Performing model integrity checks
- Testing completeness by evaluating where exposures may have arisen based upon our knowledge and experience of broader industry matters, the Group's documentation and the current regulatory environment. We also checked the features of these exposures against the criteria defining a provision or a contingency in the accounting standards;
- Assessing the appropriateness of the Company and Group's conclusions against the requirements of Australian Accounting Standards where estimates were unable to be reliably made for a provision to be recognised; and
- Evaluating the related disclosures using our understanding obtained from our testing and against the requirements of Australian Accounting Standards.

KEY AUDIT MATTERS (continued)

IT SYSTEMS AND CONTROLS

The Key Audit Matter

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

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

How the matter was addressed in our audit

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

- Assessing the governance and higher-level controls across the IT Environment, including those regarding 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 and Group;
- Design and operating effectiveness testing of controls used by the Company and Group's technology teams to schedule system jobs and monitor system integrity;
- Design and operating effectiveness testing of controls related to significant IT application programs delivered per the ANZ Delivery Framework;
- Design and operating effectiveness testing of automated business process controls including those relating to enforcing segregation of duties to avoid conflicts from inappropriate role combinations within IT applications. Testing:
  - Configurations in place to perform calculations, mappings and flagging of financial transactions, and automated reconciliation controls (both between systems and intra-system); and
  - Data integrity of critical system reporting used by us in our audit to select samples and analyse data used by management to generate financial reporting.

OTHER INFORMATION

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

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

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

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

RESPONSIBILITIES OF DIRECTORS FOR THE FINANCIAL REPORT

The Directors are responsible for:

- preparing a Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Group and 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 Group and Company or to cease operations or have no realistic alternative but to do so.

KEY AUDIT MATTERS (continued)

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL REPORT

Our objective is:

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

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

A further description of our responsibilities for the audit of the Financial Report is located at the Auditing and Assurance Standards Board website at: https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf. This description forms part of our Auditor's Report.

REPORT ON THE REMUNERATION REPORT

In our opinion, the Remuneration Report of Australia and New Zealand Banking Group Limited for the year ended 30 September 2021, complies with *Section 300A* of the *Corporations Act 2001*.

DIRECTORS' RESPONSIBILITIES

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A* of the *Corporations Act 2001*.

OUR RESPONSIBILITIES

We have audited the Remuneration Report included in the Directors' report for the year ended 30 September 2021.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.

KPMG

Martin McGrath
Partner

Melbourne
27 October 2021