2016

Annual U.S. Disclosure Document

for the fiscal year ended September 30, 2016

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

The date of this 2016 Annual U.S. Disclosure Document is November 10, 2016.

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All references in this document to this "U.S. Disclosure Document" should be read as referring to the 2016 Annual U.S. Disclosure Document of Australia and New Zealand Banking Group Limited for the fiscal year ended September 30, 2016 (the "September 2016 fiscal year"), including the Annexes attached hereto.

This U.S. Disclosure Document is dated November 10, 2016. All references in this document to "the date of this U.S. Disclosure Document" are to November 10, 2016.

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

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

This U.S. Disclosure Document has been prepared in order to provide U.S. investors with certain information regarding ANZ's business and operations, as well as its financial position, as of September 30, 2016, and the results of operations for the fiscal year then ended. All balances disclosed in this U.S. Disclosure Document relate to those of the Group. The Group's 2016 Financial Statements including the notes thereto and the independent auditor's report thereon (hereafter defined as the "2016 Financial Statements"), as prepared and filed by the Company with the Australian Securities Exchange ("ASX") in accordance with its rules, are attached to this U.S. Disclosure Document as part of Annex A.

Forward-looking statements

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

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

- adverse conditions in global debt and equity markets;
- general economic conditions in Australia, New Zealand and the Asia Pacific, Europe & America (“APEA”) region and other jurisdictions in which we or our customers operate, including without limitation changes that impact the natural resources and real estate industries;
- losses associated with the ANZ Group’s counterparty exposures;
- market liquidity and investor confidence;
- changes to our credit ratings;
- inflation, interest rates, exchange rates, markets and monetary fluctuations and longer term changes;
- the impact of current, pending and future legislation, regulation (including capital, leverage and liquidity requirements), regulatory disclosures and taxation laws and accounting standards in Australia and worldwide;
- changes in consumer spending, saving and borrowing habits in Australia, New Zealand, the APEA region and other jurisdictions in which we or our customers operate;
- commercial and residential mortgage lending and real estate market conditions in Australia, New Zealand and the APEA region;
- the effects of competition in the geographic and business environments in which we or our customers operate;
- our ability to adjust to and compete in the APEA geographic markets in which we operate or are seeking to operate;
- the ability to maintain or increase market share and control expenses;
- the timely development and acceptance of new products and services, and the perceived overall value of these products and services by users;
- the reliability and security of our technology and information security risks, including potential cyber-attacks;
- risks associated with changes to information systems;
- operational and environmental factors, including natural disasters, such as earthquakes, floods, volcanic eruptions, bush fires and tsunamis;
- demographic changes and changes in political, social, and economic conditions in any of the jurisdictions in which we or our customers operate;
- our ability to complete, integrate or separate and process acquisitions and dispositions;
- the stability of Australian and international financial systems, disruptions to financial markets and any losses we or our customers may experience as a result;
- adverse impacts on our reputation;
- the impact of existing or potential litigation and regulatory actions applicable to the ANZ Group, its business or its customers;
- the effectiveness of our risk management policies, including our internal processes, systems and employees;
- other risks and uncertainties detailed under “Competition”, “Supervision and regulation”, and “Risk factors” in “Section 2: Information on the Group” and elsewhere throughout this U.S. Disclosure Document; and
- various other factors beyond our control.

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

Basis of preparation

The summary of consolidated balance sheets and selected ratios as of September 30, 2016, 2015, 2014, 2013 and 2012 and the summary of consolidated income statements and selected ratios for the fiscal years ended September 30, 2016, 2015, 2014, 2013 and 2012 have been derived from the Group's Financial Statements. The 2016 Financial Statements are contained within ANZ's 2016 Annual Report (excerpts of which, including the 2016 Financial Statements, are attached to this U.S. Disclosure Document as part of Annex A). The Group's 2015 Financial Statements are contained within ANZ's 2015 Annual Report (excerpts of which, including the 2015 Financial Statements, are attached to this U.S. Disclosure Document as part of Annex B).

The Group's Financial Statements and the financial information included herein, except where otherwise noted, have been prepared in accordance with the relevant provisions of the Banking Act 1959 of Australia (the "Banking Act"), Australian Accounting Standards ("AASs") and other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001(Cth) (the "Corporations Act"). International Financial Reporting Standards ("IFRS") are Standards and Interpretations adopted by the International Accounting Standards Board ("IASB"). IFRS forms the basis of AASs. The Group's application of AASs ensures that the Group's Financial Statements and the financial information included herein comply with IFRS.

Amounts in this U.S. Disclosure Document are presented in Australian Dollars ("$", "AUD" or "A$") unless otherwise stated. Amounts reported in United States Dollars ("USD" or "US$") have been translated at the September 30, 2016 Noon Buying Rate in New York City for cable transfers in Australian Dollars as certified for customs purposes by the Federal Reserve Bank of New York (the "Noon Buying Rate"), which was US$0.7667 = AUD$1.00. For further information on the currency of presentation in this U.S. Disclosure Document, refer to "Currency of presentation and exchange rates" in "Section 2: Information on the Group".

Summary of consolidated income statements and selected ratios

	Years ended September 30						
	2016 USD M[1]	2016 $M	Restated[2] 2015 $M	Originally Reported[2] 2015 $M	2014 $M	2013 $M	2012 $M[8]
Interest income	22,963	29,951	30,526	30,526	29,524	28,627	30,538
Interest expense	(11,390)	(14,856)	(15,910)	(15,910)	(15,714)	(15,869)	(18,428)
Net interest income	11,573	15,095	14,616	14,616	13,810	12,758	12,110
Other operating income[2,3]	4,166	5,434	6,474	6,455	6,244	5,764	5,601
Operating income	15,739	20,529	21,090	21,071	20,054	18,522	17,711
Operating expenses[2]	(7,991)	(10,422)	(9,378)	(9,359)	(8,760)	(8,257)	(8,519)
Profit before credit impairment and income tax	7,748	10,107	11,712	11,712	11,294	10,265	9,192
Credit impairment charge[4]	(1,479)	(1,929)	(1,179)	(1,179)	(986)	(1,188)	(1,198)
Profit before income tax	**6,269**	**8,178**	**10,533**	**10,533**	**10,308**	**9,077**	**7,994**
Income tax expense[5]	(1,885)	(2,458)	(3,026)	(3,026)	(3,025)	(2,757)	(2,327)
Profit for the year	4,384	5,720	7,507	7,507	7,283	6,320	5,667
Profit attributable to non-controlling interests	(8)	(11)	(14)	(14)	(12)	(10)	(6)
Profit attributable to shareholders of the Company	**4,376**	**5,709**	**7,493**	**7,493**	**7,271**	**6,310**	**5,661**
Other operating income as a % of operating income[3]	26.5%	26.5%	30.7%	30.6%	31.1%	31.1%	31.6%
Net interest margin	2.00%	2.00%	2.04%	2.04%	2.13%	2.22%	2.31%
Cost to income ratio	50.8%	50.8%	44.5%	44.4%	43.7%	44.6%	48.1%
Dividends on ordinary shares[6]	3,834	5,001	4,906	4,906	4,694	4,082	3,691
Earnings per fully paid ordinary share (cents)							
Basic	151	197	272	272	267	233	213
Diluted	145	189	257	257	257	226	206
Ordinary share dividend payout ratio (%)[7]	81.9%	81.9%	68.6%	68.6%	67.4%	71.4%	69.4%
Dividend per ordinary share (cents)	123	160	181	181	178	164	145

1. *The USD amounts are disclosed for information purposes only. There is no assurance that the AUD amounts could be translated at the September 30, 2016 Noon Buying Rate applied in this document.*
2. *In 2016, certain cards related fees that are integral to the generation of income have been reclassified from operating expenses to other operating income to better reflect the nature of the items. For the 2015 fiscal year (Restated 2015), $19 million of card related fees have been reclassified from other operating income to operating expenses. Originally Reported 2015, 2014, 2013 and 2012 comparative amounts have not been restated.*
3. *Other operating income comprises net funds management and insurance income, share of associates' profit and other income.*
4. *The credit impairment charge represents the aggregation of the individual and collective credit impairment charges.*
5. *Includes the impact of contribution tax and investment income tax attributable to policyholders.*
6. *Excludes dividends paid on preference shares.*
7. *The dividend payout ratio was calculated by adjusting profit attributable to shareholders of the Company by the amount of preference share dividends paid. The dividend payout ratio calculation is based on the following dividend payments:*

	2016 $M	*2015 $M*	*2014 $M*	*2013 $M*	*2012 $M*
Interim	*2,334*	*2,379*	*2,278*	*2,003*	*1,769*
Final	*2,342**	*2,758*	*2,619*	*2,497*	*2,150*
Total	*4,676*	*5,137*	*4,897*	*4,500*	*3,919*

**Based on the proposed final dividend announced on November 3, 2016 and on the forecast number of ordinary shares on issue at the dividend date.*

8. *In 2014 certain amounts reported as comparative information for 2013 were changed as a result of the adoption of new accounting standards or reclassification to conform with 2014 financial statement presentation. Accordingly, in respect of these matters, the financial information is presented on a comparable basis across the period from 2013 to 2016. The 2012 comparative amounts have not been restated.*

Summary of consolidated balance sheets and selected ratios

	As of September 30					
	2016 USD M[1]	**2016 $M**	**2015 $M**	**2014 $M**	**2013 $M**	**2012 $M[7]**
Shareholders' equity[2]	44,329	57,818	57,247	49,207	45,541	41,171
Subordinated debt[3]	16,840	21,964	17,009	13,607	12,804	11,914
Debt issuances	69,831	91,080	93,747	80,096	70,376	63,098
Deposits and other borrowings	450,969	588,195	570,794	510,079	466,915	397,123
Gross loans and advances	444,713	580,035	574,255	525,685	487,618	432,361
Less: Individual provision for credit impairment	(1,002)	(1,307)	(1,061)	(1,176)	(1,467)	(1,773)
Less: Collective provision for credit impairment[4]	(2,205)	(2,876)	(2,956)	(2,757)	(2,887)	(2,765)
Less: Esanda Dealer Finance assets held for sale	-	-	(8,065)	-	-	-
Net loans and advances	441,506	575,852	562,173	521,752	483,264	427,823
Total assets	701,430	914,869	889,900	772,092	702,995	642,127
Net assets	44,413	57,927	57,353	49,284	45,603	41,220
Risk weighted assets[5]	313,260	408,582	401,937	361,529	339,265	300,119
Summary of consolidated ratios						
Profit attributable to the shareholders of the Company after preference share dividends as a percentage of:						
Average total assets	0.6%	0.6%	0.9%	1.0%	0.9%	0.9%
Average ordinary shareholders' equity[6]	10.0%	10.0%	14.5%	15.8%	15.0%	14.6%
Average ordinary shareholders' equity as a percentage of average total assets[6]	6.3%	6.3%	6.1%	6.1%	6.2%	6.2%
Capital adequacy ratios:[5]						
Common Equity Tier 1	9.6%	9.6%	9.6%	8.8%	8.5%	8.8%
Tier 1	11.8%	11.8%	11.3%	10.7%	10.4%	10.8%
Tier 2	2.5%	2.5%	2.0%	2.0%	1.8%	1.4%
Total	14.3%	14.3%	13.3%	12.7%	12.2%	12.2%
Number of ordinary shares on issue (millions)	2,927.5	2,927.5	2,902.7	2,756.6	2,743.7	2,717.4

1. *The USD amounts are disclosed for information purposes only. There is no assurance that the AUD amounts could be translated at the September 30, 2016 Noon Buying Rate applied in this U.S. Disclosure Document.*
2. *Excludes non-controlling interests.*
3. *For the composition of subordinated debt refer to Note 19 of the 2016 Financial Statements (attached as part of Annex A hereto).*
4. *The collective provision includes amounts for off-balance sheet credit exposures of $631 million at September 30, 2016 (2015: $677 million; 2014: $613 million; 2013: $595 million; 2012: $529 million).*
5. *Risk weighted assets and capital adequacy ratios are calculated using the Australian Prudential Regulation Authority (APRA) Basel 3 methodology (refer to page 13).*
6. *Excludes non-controlling interests and preference shares.*
7. *In 2014 certain amounts reported as comparative information for 2013 were changed as a result of the adoption of new accounting standards or reclassification to conform with 2014 financial statement presentation. Accordingly, in respect of these matters, the financial information is presented on a comparable basis across the period from 2013 to 2016. The 2012 comparative amounts have not been restated.*

Summary of credit risk data

	As of September 30			
	2016 USD M[1]	**2016 $M**	**2015 $M**	**2014 $M**
Gross impaired assets				
Impaired loans	2,029	2,646	2,441	2,682
Restructured items[2]	309	403	184	67
Non-performing commitments and contingencies	95	124	94	140
Total gross impaired assets	**2,433**	**3,173**	**2,719**	**2,889**
Provision for credit impairment:				
Individual provision - impaired loans	980	1,278	1,038	1,130
Individual provision - non-performing commitments and contingencies	22	29	23	46
Collective provision[3]	2,205	2,876	2,956	2,757
Total provision for credit impairment	**3,207**	**4,183**	**4,017**	**3,933**
Total gross loans and advances[4]	**444,713**	**580,035**	**574,255**	**525,685**
Credit Risk Weighted Assets[5]	269,904	352,033	349,751	308,885
Collective provision as a % of credit risk weighted assets[5]	0.82%	0.82%	0.85%	0.89%
Gross impaired assets as a percentage of gross loans and advances	0.55%	0.55%	0.47%	0.60%
Individual provision for credit impairment as a percentage of gross impaired assets	41.2%	41.2%	39.0%	40.7%
Individual provision for impaired loans as a percentage of impaired loans	48.3%	48.3%	42.5%	42.1%
Total provision for credit impairment as a percentage of:				
Gross loans and advances[4]	0.7%	0.7%	0.7%	0.7%
Credit risk weighted assets[5]	1.2%	1.2%	1.1%	1.3%

1. *The USD amounts are disclosed for information purposes only. There is no assurance that the AUD amounts could be translated at the September 30, 2016 Noon Buying Rate applied in this U.S. Disclosure Document.*
2. *Restructured items are facilities in which the original contractual terms have been modified for reasons related to the financial difficulties of the customer. Restructuring may consist of reduction of interest, principal or other payments legally due, or an extension in maturity materially beyond those typically offered to new facilities with similar risk.*
3. *The collective provision includes amounts for off-balance sheet credit exposures of $631 million at September 30, 2016 (2015: $677 million; 2014: $613 million).*
4. *Consists of loans and advances, customer liability for acceptances, capitalized brokerage/mortgage origination fees, Esanda Dealer Finance assets held for sale less unearned income.*
5. *Credit risk weighted assets are calculated using APRA Basel 3 methodology (refer to page 13).*

OVERVIEW

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

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

As of September 30, 2016, ANZBGL had total assets of $915 billion and shareholders' equity of $58 billion. In terms of total assets among banking groups, the Group ranked in the top two in Australia[1] as of September 30, 2016 and first in New Zealand[2] as of June 30, 2016.

ANZBGL's principal ordinary share listing and quotation is on the ASX. Its ordinary shares are also quoted on the New Zealand Stock Exchange (the "NZX"). At the close of trading on September 30, 2016, ANZBGL had a market capitalization of $81 billion, which ranked among the top three largest companies listed on the ASX[3].

1. *Source: Commonwealth Bank of Australia results announcement for the year ended June 30, 2016; National Australia Bank results announcement for the year ended September 30, 2016; Westpac Banking Corporation results announcement for the year ended September 30, 2016.*
2. *Source: ASB Bank disclosure statement for the year ended June 30, 2016; Bank of New Zealand disclosure statement for the 9 months ended June 30, 2016; Westpac New Zealand disclosure statement for the 9 months ended June 30, 2016.*
3. *Source: IRESS.*

BUSINESS MODEL

ANZ's business model primarily consists of raising funds through customer deposits and the wholesale debt markets and lending those funds to customers. In addition, the Group earns revenue from its Wealth business through the provision of insurance, superannuation and funds management services, and its Markets business from sales, trading and risk management activities.

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

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

- Net interest income – represents the difference between the interest income the Group earns on its lending activities and the interest paid on customer deposits and wholesale funding;
- Net fee and commission income – represents fee income earned on lending and non-lending related financial products and services;
- Net funds management and insurance income – represents income earned from the provision of investment, insurance and superannuation solutions; and
- Other income – represents share of associates' profit, net foreign exchange earnings, gains and losses from economic and revenue hedges as well as revenues generated from sales, trading and risk management activities in the Markets business.

STRATEGY

Our strategy is to use our strong Australian and New Zealand foundations, distinctive geographic footprint, service and insights to better meet the needs of customers and capture opportunities linked to regional trade and capital flows. In doing this, ANZ provides shareholders with access to a unique combination of high-returning franchises and direct exposure to long-term Asian growth.

Our strategy has three elements – creating the best bank in Australia and New Zealand for home owners and small business customers, building the best bank in the world for clients driven by regional trade and capital flows, and establishing common, digital-ready infrastructure to provide great customer experience, scale and control. We believe our strategy is underpinned by strong expense, capital and risk management disciplines and the quality of our people.

Strategic Progress

The financial services industry is being reshaped by a set of forces that make it more difficult to achieve the performance levels of the past, with lower economic growth, heightened consumer expectations, increased competitive intensity and greater regulatory, legal and political scrutiny.

Left unchecked, these forces will lower sector growth, reduce profitability and increase the commoditization of the industry. In response, we believe we are creating a simpler, better capitalized bank that is more focused, more innovative and more values-based.

Strategic Priorities
Create a simpler, better capitalized, better balanced and more agile bank. Reduce operating costs and risks by removing product and management complexity, exiting low return and non-core businesses and reducing our reliance on low-returning aspects of Institutional banking in particular.
Focus our efforts on attractive areas where we can carve out a winning position. Make buying and owning a home or starting, running and growing a small business in Australia and New Zealand easy. Be the best bank in the world for customers driven by the movement of goods and capital in our region.

Drive a purpose and values led transformation of the Bank. Create a stronger sense of core purpose, ethics and fairness, investing in leaders who can help sense and navigate a rapidly changing environment.
Build a superior everyday experience for our people and customers to compete in the digital age. Build more convenient, engaging banking solutions to simplify the lives of customers and our people.

PRINCIPAL ACTIVITIES OF THE GROUP

During the 2016 fiscal year, the Group announced changes to the organization's structure to better meet the needs of our retail, commercial and institutional customers. As a result of these organizational changes there are six divisions: Australia, Institutional, New Zealand, Wealth Australia, Asia Retail & Pacific, and Technology, Services & Operations ("TSO") and Group Center.

These divisions were created by removing the Asia Retail & Pacific business from the former International & Institutional Banking ("IIB") division, and repositioning minority investments in Asia from IIB to the Group Center. The residual business has been renamed Institutional. In addition, certain structured finance businesses within Markets and Transaction Banking were transferred within Institutional to Loans & Specialized Finance.

Furthermore, the Group also effected changes to the former Global Wealth division. These changes included repositioning the New Zealand funds management and insurance businesses to the New Zealand division, as well as reorganizing the Private Bank business along geographic lines under the Australia, New Zealand and Asia Retail & Pacific divisions. The residual Global Wealth business has been renamed Wealth Australia.

On October 1, 2016, the Group effected changes to the operating model for TSO in order to further support delivery of the Group's strategic priorities. These changes involved the movement of certain business units from TSO to the operating divisions in order to provide greater end to end control of key customer processes and drive further productivity gains. These changes are not reflected in the divisional level results presented in this U.S. Disclosure Document and do not have an impact on the income statement or balance sheet at the Group level.

As of September 30, 2016, the principal activities of the six divisions were:

Australia

The Australia division comprises the Retail and Corporate & Commercial Banking (C&CB) business units.

- Retail provides products and services to consumer and private banking customers in Australia via the branch network, mortgage specialists, the contact center and a variety of self-service channels (internet banking, phone banking, ATMs, website and digital banking).
- C&CB provides a full range of banking services including traditional relationship banking and sophisticated financial solutions, including asset financing through dedicated managers focusing on privately owned small, medium and large enterprises as well as the agricultural business segment.

Institutional

The Institutional division services global institutional and business customers located in Australia, New Zealand, Asia, Europe, America, Papua New Guinea and the Middle East across three product sets: Transaction Banking, Loans & Specialized Finance and Markets.

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

New Zealand

The New Zealand division comprises the Retail and Commercial business units.

- Retail provides a full range of banking and wealth management services to consumer, private banking and small business banking customers. We deliver our services via our internet and app-based digital solutions and network of branches, mortgage specialists, relationship managers and contact centers.
- Commercial provides a full range of banking services including traditional relationship banking and sophisticated financial solutions (including asset financing) through dedicated managers focusing on privately owned medium to large enterprises and the agricultural business segment.

Wealth Australia

The Wealth Australia division comprises the Insurance and Funds Management business units, which provide insurance, investment and superannuation solutions intended to make it easier for customers to connect with, protect and grow their wealth.

- Insurance includes life insurance, general insurance and ANZ Lenders Mortgage Insurance.
- Funds Management includes the Pensions and Investments business and ANZ Share Investing.

Asia Retail & Pacific

The Asia Retail & Pacific division comprises the Asia Retail and Pacific business units, connecting customers to specialists for their banking needs.

- Asia Retail provides general banking and wealth management services to affluent and emerging affluent retail customers across nine Asian countries via relationship managers, branches, contact centers and a variety of self-service digital channels (internet and mobile banking, phone and ATMs). Core products offered include deposits, credit cards, loans, investments and insurance.
- Pacific 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.

On October 31, 2016, the Group announced it had entered into an agreement to sell its Retail and Wealth businesses in Singapore, China, Hong Kong, Taiwan and Indonesia to DBS Bank Limited. Refer to "Recent Developments" and Annex C to this U.S. Disclosure Document for further information on this agreement. At this stage, the Group's Retail and Wealth businesses in Vietnam, the Philippines and Japan remain under strategic review.

Technology, Services & Operations and Group Center

TSO and Group Center provide support to the operating divisions, including technology, operations, shared services, property, risk management, financial management, strategy, marketing, human resources and corporate affairs. The Group Center also includes Group Treasury, Shareholder Functions and minority investments in Asia.

RECENT DEVELOPMENTS

On May 3, 2016, ANZBGL advised that it was conducting strategic reviews of the Group's Retail and Wealth business in Asia, and its Wealth businesses in Australia and New Zealand. The reviews considered each business within the context of the overall Group strategy including capital efficiency.

Retail and Wealth businesses in Asia

On October 31, 2016 the Group announced it had entered into an agreement to sell its Retail and Wealth businesses in Singapore, China, Hong Kong, Taiwan, and Indonesia to DBS Bank Limited for a premium of approximately $110 million over the book value of net assets, which principally comprised $10,753 million of gross lending assets and $16,710 million of deposits as at September 30, 2016. The final purchase price will be based on the net assets at completion.

The Group anticipates the transaction will generate a net loss of approximately $265 million (post-tax) including write-downs of software, goodwill and fixed assets, as well as separation and transaction costs.

The transaction is subject to regulatory approval in each country, with completion occurring on a rolling country by country basis from mid financial year 2017 with all countries expected to be completed with 18 months.

The book value of net assets, the premium we receive over the book value of net assets, the final purchase price, the amount of gross lending assets and deposits sold to DBS Bank Limited upon the completion of the transaction and the net loss we incur, could vary substantially from the amounts disclosed above because of a variety of factors, including the possibility that the sale of our Retail and Wealth Businesses in one or more of the jurisdictions listed above will not receive regulatory approval or otherwise will not be completed as contemplated or at all.

The assets associated with the Retail and Wealth businesses in Asia were assessed for impairment as at September 30, 2016 on the basis of the businesses being a continuing operation and no impairment was identified. Additionally, the assets did not meet the conditions for "held for sale" classification under AASB 5 – Non-Current Assets Held for Sale and Discontinued Operations.

For information about the contractual arrangements relating to this transaction refer to Annex C to this U.S. Disclosure Document.

ANZBGL intends to clarify plans for the remaining businesses in Retail and Wealth in Asia during the fiscal year ended September 30, 2017.

Wealth Australia and New Zealand

The strategic review of ANZBGL's Wealth businesses in Australia and New Zealand concluded that while the distribution of high quality Wealth products and services should remain a core component of the Group's overall customer proposition, ANZBGL does not need to be a manufacturer of life and investments products.

The initial focus will be on the Australian Wealth business where ANZBGL is exploring a range of possible strategic and capital market options that will maintain strong outcomes for customers. This includes the possible sale of the life insurance, advice and superannuation and investments businesses in Australia. ANZBGL will pursue a disciplined approach to this process and will update the market as appropriate.

The Wealth business in New Zealand will be considered separately during 2017.

Other than the matters described above, there have been no other significant developments since September 30, 2016 to the date of this U.S. Disclosure Document.

COMPETITION

Australia

The Australian banking system is concentrated and highly competitive. As of September 30, 2016 the four major banking groups in Australia (Australia and New Zealand Banking Group, Commonwealth Bank of Australia, National Australia Bank and Westpac Banking Corporation) held approximately 79% of the total Australian lending assets of banks that conduct business in Australia. The operations of the smaller regional banks are typically limited to servicing customers in a particular state or region and generally have an emphasis on retail banking. A number of international banks also provide banking services in Australia and typically focus on specific segments of the retail or institutional markets, holding a minority position in these segments.

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

Competition has historically been greater in the housing lending market, which initially resulted from the rise of mortgage originators, and subsequently from growth in the mortgage broker industry. In recent years, major banks have competed aggressively by offering significant discounts below the advertised rate. Additionally, the market turmoil experienced during the 2008 global financial crisis materially affected the business models of non-bank originators, and as a consequence, there was an overall uplift in mortgage market share to the major banks.

The retail deposit market in Australia is also competitive, particularly in times of higher credit growth to support funding and increased lending demand. An Australian Government Guarantee for retail customer bank deposits was introduced in 2008 during the global financial crisis, which led to increased deposits with the major Australian banks and a decrease in deposits with other deposit fund providers. In addition, changes in the financial services sector have made it possible for non-banks to offer products and services traditionally provided by banks, such as payments, home loans and credit cards.

In the C&CB business, which is part of the Australia division, competition has intensified among the major and regional banks, particularly as business investment and resulting demand for business credit has continued to decline from record highs in 2012. An increased focus on protecting customer relationships and strategies to increase market share is placing increased pressure on lending margins. This sector is also seeing a greater emphasis on providing retail, wealth and institutional (predominantly markets and trade) products to business customers, their owners and employees in order to deepen customer relationships and increase revenue streams.

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

The Institutional division customer relationship teams continue to work closely with specialist product groups, support functions and international networks to support the domestic and international requirements of some of the largest corporate and financial institutions in Australia. Priority is being given to customer flow and value added businesses such as Markets and cash management solutions with less reliance for improved returns on traditional balance sheet lending.

The funds management industry is an area of strong competition among the four major Australian banks and other financial services providers. Competition has increased as the Australian Government has encouraged long-term saving through superannuation by means of taxation concessions and the imposition of a mandatory superannuation guarantee levy on employers.

The retail funds management and life insurance markets in Australia are highly competitive and are dominated by large retail financial institutions. Significant changes in market share over the past five years have been driven by large acquisitions. The large retail institutions are generally well integrated and benefit from extensive aligned distribution networks and controlled product packaging by operating the major platforms, sometimes referred to as “funds supermarkets”.

The banking industry continues to develop innovative product and service solutions to meet customer needs and changing preferences. The industry has seen greater competition in recent years due to developing online and mobile solutions.

New Zealand

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

Competition also exists in specific business segments from other banks. The New Zealand Government-owned Kiwibank Limited is active in retail segments, and Rabobank New Zealand Limited is active in retail deposits and agricultural lending markets. International banks such as Citigroup, HSBC and Deutsche Bank participate in a limited manner in the institutional market. Since late 2013, New Zealand has also seen Industrial and Commercial Bank of China, China Construction Bank and Bank of China obtain banking licenses to establish New Zealand subsidiaries. Their focus appears to be in wholesale banking, in particular, trade banking to and from China.

Competition in the financial services sector can be intense and difficult to predict. Competition in the deposit market has increased rapidly in New Zealand, with banks attempting to grow their share of retail deposits and reduce their wholesale funding. Lending to the residential mortgage market accounts for over half of the lending in New Zealand by registered banks and this market is a key area of competitive tension.

Outside the banking sector, a number of smaller finance companies are active in the personal and commercial property markets through competitive lending and deposit product offerings. The non-banking sector constituted approximately 3% of total financial system assets as of September 30, 2016.

Asia

Banking in Asia is highly competitive. The Group currently operates in 15 Asian countries. There are a large number of global (e.g., Citibank, HSBC & Standard Chartered) and regional (e.g., DBS, CIMB and Maybank) banks operating in the region in addition to the local banks in each market. The Group's most active competitors, particularly in the Institutional business, are global investment banks and large Chinese and Japanese banks.

The Group does not seek to be a full-service bank in many Asian markets in which it currently competes, focusing instead on trade-related finance, institutional banking, and other sectors that it believes provide the most potential benefit to the Group. This approach is reflective of the competitive dynamics and specific strategies that the Group is taking in each market. For instance, in certain markets where the Group does not currently have a significant presence, including Myanmar, China and India, other competing local or international banks benefit from having established brands, developed branch operations and existing customer relationships.

While the Group generally provides a broad suite of financial services to Institutional/Commercial/Retail/Private Bank customers, regulatory conditions in certain Asian markets restrict the ability of the Group to offer a full suite of financial products, limiting our ability to compete fully against local banks. While deregulation may permit us to compete in these markets, it may also serve to attract other international banks to the region.

Competition remains robust as a large number of banks have shown a willingness to commit significant portions of their balance sheet in support of growth opportunities in the region. The Group anticipates that competition in Asia will continue to grow because of its strong appeal to global and regional banks.

As in the Australian market, the Institutional division is giving priority to customer flow and value added businesses such as Markets and cash management solutions along with targeted reduction of assets that are dilutive to returns.

On October 31, 2016, the Group announced it had entered into an agreement to sell its Retail and Wealth businesses in Singapore, China, Hong Kong, Taiwan and Indonesia to DBS Bank Limited. At this stage, the Bank's Retail and Wealth businesses in Vietnam, the Philippines and Japan remain under strategic review. Refer to "Recent Developments" and Annex C to this U.S. Disclosure Document for further information on this agreement. The Group also announced that it would focus its resources in Asia on institutional banking.

SUPERVISION AND REGULATION

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

AUSTRALIA

Overview of APRA's Prudential and Regulatory Supervision

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

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

APRA discharges its responsibilities in part by requiring ADIs subject to its supervision to regularly provide it with reports that set forth a broad range of information, including financial and statistical data relating to their financial position and information in respect of prudential and other matters. APRA gives special attention to capital adequacy, liquidity, earnings, credit quality and associated loan loss experience, concentration of risks, maturity profile of assets and liabilities, operational risks, market risks, interest rate risk in the banking book, exposures to related entities, outsourcing, funds management, securitization activities and international banking operations. APRA may also exercise certain investigative powers if an ADI fails to provide information about its financial condition. Where APRA considers that an ADI may become unable to meet its obligations or suspends payment (among other circumstances), APRA can take control of the ADI's business (including by appointment of an ADI statutory manager). APRA also has power to direct the ADI not to make payments in respect of its indebtedness and to compulsorily transfer some or all of the ADI's assets and liabilities to another ADI in certain circumstances. A counterparty to a contract with an ADI cannot rely solely on the fact that an ADI statutory manager is in control of the ADI's business or on the making of a direction or compulsory transfer order as a basis for denying any obligations to the ADI or for accelerating any debt under that contract or closing out any transaction relating to that contract.

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

Capital Management and Adequacy and Liquidity within APRA's Regulations

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

Capital

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

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

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

Liquidity

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

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

A key component of this framework is the Liquidity Coverage Ratio ("LCR") that was implemented in Australia on January 1, 2015. The LCR is a severe short term liquidity stress scenario, introduced as part of the Basel 3 international framework for liquidity risk measurement, standards and monitoring. As part of meeting the LCR requirements, ANZ has a Committed Liquidity Facility ("CLF") with the RBA. The CLF has been established as a solution to a High Quality Liquid Asset ("HQLA") shortfall in the Australian marketplace and provides an alternative form of RBA-qualifying liquid assets. The total amount of the CLF available to a qualifying ADI is set annually by APRA.

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

Australian Regulatory Developments

Financial System Inquiry ("FSI")

The FSI final report into Australia's financial system was released on December 7, 2014 (the "FSI Final Report"). The contents of the FSI Final Report are wide-ranging and key recommendations that may have an impact on regulatory capital levels include:

- Setting capital standards ensuring that capital ratios of ADIs are "unquestionably strong";
- Raising the average internal ratings-based ("IRB") mortgage risk weights to narrow the difference between average mortgage risk-weights for ADIs, which use IRB models, and those that use standardized risk weights in order to increase competition in mortgage lending;
- Implementing a framework for minimum loss absorption and recapitalization capacity in line with emerging international practice;
- Developing a common reporting template that improves the transparency and comparability of capital ratios of ADIs; and
- Introducing a Leverage Ratio that acts as a backstop to ADIs' risk-based capital requirements, in line with Basel 3.

APRA responded to key recommendations of the FSI Final Report in July 2015 with the following announcements:

- In July 2015, APRA released an information paper entitled "International capital comparison study" (APRA Study) which supported the FSI's recommendation that the capital ratios of ADIs should be unquestionably strong. In an update to the APRA study published in July 2016, APRA acknowledged that the relative capital positions of major Australian ADIs have improved since July 2015 and are now broadly consistent with the benchmark suggested by the FSI. The results of the APRA Study will only inform but will not determine APRA's approach for setting capital adequacy requirements.
- With effect from July 1, 2016, ADIs accredited to use the internal ratings-based (IRB) approach to credit risk are required to hold increased capital for Australian residential mortgage exposures. These new requirements increased the average risk weighting for mortgage portfolios to a minimum of 25%. For ANZ, the impact is a 60 bps reduction to the September 30, 2016 CET1 ratio. Furthermore, APRA will also require refinements to be made to ANZ's residential mortgage risk models which will take effect in the financial year 2017. The precise impact of these model refinements has not been determined, pending review and approval from APRA. However, any changes are expected to increase the average credit risk weighting of ANZ's residential mortgage exposures to fall within the 25% to 30% range. In anticipation of these increased capital requirements for Australian residential mortgages, ANZ raised $3.2 billion of ordinary share capital during the fourth quarter of the 2015 fiscal year.
- Reporting of the Leverage Ratio commenced from July 1, 2015. However, APRA has yet to announce details of the minimum Leverage Ratio that will apply to impacted Australian ADIs such as ANZ.

In its response to the FSI in October 2015, the Australian Government agreed with all of the above capital related recommendations and supports APRA in implementing these recommendations. Apart from the above, APRA has not made any announcements regarding other key FSI recommendations. Therefore, the final outcomes from the FSI, including any impacts and the timing of these impacts on ANZ, remain uncertain.

Net Stable Funding Ratio ("NSFR")

The Basel 3 NSFR standard was released in October 2014. APRA released its NSFR consultation packages and draft standards in March and September 2016 which confirmed that the NSFR will become a minimum requirement on January 1, 2018. In draft standards, APRA also proposed that it may require an ADI to maintain a higher minimum than the stated 100% NSFR minimum should APRA consider it appropriate to do so.

As part of managing future liquidity requirements, ANZ monitors the NSFR in its internal reporting and believe the Group is well placed to meet this requirement by the implementation date.

Level 3 Conglomerates ("Level 3")

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

In August 2016, APRA confirmed the deferral of capital requirements for conglomerate groups until 2019 at the earliest, to allow for the finalization of the capital requirements arising from FSI recommendations as well as from international initiatives that are in progress.

The non-capital components of the Level 3 framework relating to group governance, risk exposures, intragroup transactions and other risk management and compliance requirements will become effective on July 1, 2017. ANZ is not expecting any material impact on its operations based upon the current version of these standards.

Current Proposals from the Basel Committee on Banking Supervision on Risk Weighted Assets ("RWA")

As part of the BCBS agenda to simplify RWA measurement and reduce their variability amongst banks, the BCBS has issued a number of consultation documents associated with:

- Standardized approach to RWA for credit risk;
- Revisions to standardize measurement approach to operational risk;

- Fundamental review of the trading book;
- Interest Rate Risk in the Banking Book;
- Framework on imposition of capital floors based on standardized RWA approaches; and
- Additional constraints on the use of internal models in determining credit RWA.

The BCBS review of the trading book standard has been finalized. The BCBS is currently consulting with the industry on the other proposals. The impact of these changes on ANZ are subject to the final form of these BCBS proposals and any further proposals the BCBS may adopt which APRA will implement for Australian ADIs such as ANZ.

Residential Mortgage Lending Practices

On December 9, 2014, APRA wrote to ADIs, outlining additional steps it may take to reinforce sound residential mortgage lending practices, which is part of APRA's effort to further increase the level of supervisory oversight on mortgage lending. APRA indicated that it will pay particular attention to certain areas of concern, including higher risk mortgage lending, growth in lending to property investors and loan affordability tests for new borrowers. Following this, APRA announced that ADIs will be subject to a 10% formal cap on home loan growth for investor lending purposes. This announcement has resulted in the implementation of differentiated pricing between owner occupier and investor lending as one lever available to ADIs to slow investor lending growth.

Changes to ANZBGL's ability to provide material financial support to its New Zealand Operations

APRA has reviewed the level of exposures that can be provided to the respective New Zealand banking subsidiaries and branches ("New Zealand Operations") of the four Australian parent banks, including ANZBGL. As a consequence, by January 1, 2021, ANZBGL's non-equity exposures (i.e., exposures other than equity investments and investments in capital instruments) to its New Zealand Operations in ordinary times, including senior funding, cannot exceed more than five percent of ANZBGL's Level 1 Tier 1 Capital. Excess exposures must be reduced by at least one-fifth by the end of each calendar year over the five year reduction period and may not exceed exposures as at June 30, 2015 until ANZBGL is, and expects to remain, below the five percent limit. In addition, APRA has stated that ANZBGL's ability to provide its New Zealand Operations with contingent funding during times of financial stress must be provided on terms that are acceptable to APRA and, in aggregate with all other exposures to ANZBGL's New Zealand Operations, must not exceed 50 percent of ANZBGL's Level 1 Tier 1 Capital.

Sections 102.6 and 102.7 of the Australian Criminal Code

Under Sections 102.6 and 102.7 of the Australian Criminal Code (contained in the Criminal Code Act 1995 of Australia), a person commits a criminal offence if the person intentionally receives funds from, makes funds available to, collects funds for or on behalf of, or provides support or resources to a terrorist organization in circumstances where the person knows, or is reckless as to whether, the organization is a terrorist organization. Certain organizations are prescribed as terrorist organizations in regulations under the Criminal Code Act 1995 of Australia.

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

NEW ZEALAND

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

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

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

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

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

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

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

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

The RBNZ implemented the Basel 3 capital adequacy requirements, as modified to reflect New Zealand conditions, on January 1, 2013. From January 1, 2014, the RBNZ required most New Zealand incorporated banks, including ANZ Bank New Zealand Limited, to maintain a conservation buffer of 2.5 percent above the minimum ratios or face restrictions on distributions. The RBNZ also has the discretion (effective from January 1, 2014) to apply a countercyclical buffer of common equity with an indicative range of between 0 and 2.5 percent, although there is no formal upper limit. New counterparty credit risk requirements and new disclosure requirements to incorporate Basel 3 changes took effect on March 31, 2013.

Since April 1, 2010, New Zealand incorporated banks (including ANZ Bank New Zealand Limited) have been required to comply with the RBNZ's Liquidity Policy ("BS13"). The Liquidity Policy requires banks to meet a minimum core-funding ratio of 75 percent, ensuring that a greater proportion of bank funding is met through retail deposits and term wholesale funding. Basel 3 proposes a liquidity policy which the RBNZ considers very similar to the intent of BS13. However, the RBNZ considers that certain aspects of the new liquidity standards are not suitable for adoption in New Zealand. The RBNZ has stated that it will be reviewing its liquidity policy in 2016 in light of BCBS's new liquidity requirements.

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

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

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

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

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

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

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

New Zealand Regulatory Developments

Changes to ANZBGL's ability to provide material financial support

APRA has reviewed the level of exposures that can be provided to the respective New Zealand operations of the four Australian parent banks, including ANZBGL. As a consequence, by January 1, 2021, ANZBGL's non-equity exposures (i.e. exposures other than equity investments and investments in capital instruments) to the ANZ New Zealand Geography in ordinary times, including senior funding, cannot exceed more than five percent of ANZBGL's Level 1 Tier 1 Capital. Excess exposures must be reduced by at least one-fifth by the end of each calendar year over the five year reduction period and may not exceed exposures as at June 30, 2015 until ANZBGL is, and expects to remain, below the five percent limit. In addition, APRA has stated that ANZBGL's ability to provide the ANZ New Zealand Geography with contingent funding during times of financial stress must be provided on terms that are acceptable to APRA and, in aggregate with all other exposures to the ANZ New Zealand Geography, must not exceed 50 percent of ANZBGL's Level 1 Tier 1 Capital.

RBNZ prudential credit controls

The RBNZ imposes restrictions on high Loan-to-Value Ratio ("LVR") residential lending. New Zealand banks must restrict new residential mortgage lending over 80% LVR to no more than 10% of the dollar value of a bank's new residential mortgage lending. New Zealand banks must also restrict residential investment mortgage lending over 60% to no more than 5% of the dollar value of a bank's new residential investment mortgage lending.

The RBNZ has also set a specific asset class for loans to residential property investors. New Zealand banks must hold more capital for those loans.

Financial reporting

In late 2015, the RBNZ announced it is considering removing the requirement for banks to publish "off-quarter" disclosure statements. Instead, banks would report privately to RBNZ and RBNZ would publish a quarterly 'dashboard' of key information on New Zealand's locally incorporated banks. The RBNZ has published a consultation document on the proposed dashboard approach to quarterly disclosure by New Zealand's locally incorporated banks. This consultation closes on December 1, 2016 and the RBNZ expects to announce a response to this consultation in the first quarter of the 2017 calendar year.

RBNZ review of capital requirements

The RBNZ continues to review New Zealand incorporated banks' capital requirements to ensure they reflect global and domestic changes in the banking system. This is in part prompted by the Australian FSI and recent consultations by the BCBS (including on a revised standardized approach, permanent capital floors within the IRB framework, and the modeling approach to operational risk). The RBNZ is deliberating on a number of matters, including risk weights for standardized banks and IRB banks, capital ratios and disclosure requirements. If a preliminary view is reached that changes should be considered, the RBNZ has announced that it will consult stakeholders.

RBNZ review of outsourcing

In May 2016, the RBNZ released its latest consultation paper on the review of its policy on outsourcing by New Zealand banks, such as ANZ Bank New Zealand Limited, to their Australian parents and other parties. The consultation paper discusses the submissions received on an earlier consultation paper, and makes key proposals based on consultation to date, including:

- introduction of a broad definition of outsourcing;
- requiring banks to prepare a separation plan that explains how to 'separate' systems and services outsourced to a parent bank such that the New Zealand subsidiary can stand alone to provide basic banking services;
- making the requirement to keep a compendium of outsourced arrangements a condition of registration; and
- confirming the process for seeking RBNZ 'non-objection' to a proposed outsourcing arrangement.

The consultations are part of the RBNZ's efforts to address its concern that banks in New Zealand have inconsistent interpretations and applications of the RBNZ's existing outsourcing policy.

The RBNZ also announced it would be further consulting on the following key proposals:

- instead of prohibiting activities from being outsourced to a parent or related party, the policy would require banks that outsource certain key functions to have robust and sustainable alternative capabilities able to be deployed;

- instead of including an explicit materiality test, the policy would require that a more extensive white list is developed, where certain activities and functions would not be captured by the definition of outsourcing; and
- the transitional period will be increased to five years (from two years), including the planning phase.

ANZ Bank New Zealand Limited responded to the consultation via a joint submission with the other three Australian-owned New Zealand bank subsidiaries (BNZ, Westpac and ASB) and an individual submission on August 12, 2016. The primary focus of the joint submission was to encourage the RBNZ to seek to further enhance the Trans-Tasman crisis management resolution framework in conjunction with APRA prior to continuing the policy development. ANZ Bank New Zealand Limited's second submission requested that if the RBNZ did not accept the first submission, certain technical changes be made to the key proposals in the Consultation paper so that the policy requirements achieve the RBNZ's aims and are able to be implemented by banks in practice. It is expected that the RBNZ will consult on an exposure draft of the new outsourcing policy by the end of 2016 or early 2017.

The rules proposed in the Consultation Paper are intended to give the RBNZ better assurance about the provision of basic ongoing banking services in the event of parent bank failure or service disruption, while in some instances allowing banks to capture the efficiency benefits of robust outsourcing arrangements. The Consultation Paper identifies a SWIFT gateway and the General Ledger as key functions requiring robust and sustainable alternative capabilities, but it is not yet clear what other integral functions may be caught by this requirement.

Financial Markets Authority ("FMA") Conduct Guide

The FMA is consulting on a draft guidance note setting out the FMA's expectations of good conduct by market participants, focusing on businesses licensed under the Financial Markets Conduct Act 2013. The guidance note poses a series of questions providers should consider when determining whether or not their conduct is appropriate. This consultation closes on October 31, 2016.

Anti-Money Laundering and Countering Financing of Terrorism Act 2009

The Ministry of Justice is consulting on the Phase 2 development of the Anti-Money Laundering and Countering Financing of Terrorism Act 2009 ("AML Act"), which is largely related to extending the AML Act's requirements to additional business sectors, extending suspicious transaction reporting obligations to also include suspicious activity reporting and simplifying certain customer due diligence requirements. This consultation also raises the issue of the supervisory model for anti-money laundering and countering financing of terrorism and whether a single supervisor is appropriate (currently, the supervisors are the RBNZ, the FMA and the Department of Internal Affairs), along with enhanced information sharing powers between supervisors and government agencies. This consultation closed on September 16, 2016.

In addition, new regulations are due to be issued later in 2016 that will obligate all reporting entities to report, from a date yet to be determined, all international funds transfers exceeding NZD 1,000 along with all cash transactions exceeding NZD 10,000 to the Financial Intelligence Unit of the New Zealand Police. This will sit alongside existing obligations for reporting entities to report suspicious transactions.

UNITED STATES

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

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

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

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

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

The Group is subject to certain provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 ("Dodd-Frank"). Dodd-Frank regulates many aspects of the business of banking in the United States and internationally. At this time, the Dodd-Frank Act has not had a material effect on the Group's operations, though the ongoing development and monitoring of required compliance programs may require the expenditure of resources and management attention.

The "Volcker Rule" adopted under Dodd-Frank prohibits banks and their affiliates from engaging in certain "proprietary trading" (but allows certain activities such as underwriting, market making-related and risk-mitigating hedging activities) and limits the sponsorship of, and investment in, private equity funds and hedge funds, subject to certain important exceptions and exemptions, including those listed above as well as exemptions applicable to certain transactions and investments occurring solely outside of the United States.

Other Dodd-Frank regulations require strict margin requirements, the central clearing of standardized OTC derivatives and heightened supervision of over-the-counter ("OTC") derivatives dealers and major market participants. To date, the CFTC has implemented a significant portion of its rules for the regulation of the OTC swaps market, including rules concerning the registration of swap dealers, recordkeeping and reporting of swaps data, and the clearing and trading of certain interest-rate and index credit default swaps. Because ANZBGL is a registered swap dealer under the CFTC regulations, the Group is subject to these CFTC requirements as well as certain additional business conduct rules that apply to the Group's swap transactions with counterparties that are U.S. persons.

The CFTC has issued Cross-Border Guidance which, among other things, provides guidance as to the circumstances in which non-U.S. swap dealers, such as ANZBGL, will not be subject to the CFTC's rules when dealing with non-U.S. counterparties. The Cross-Border Guidance establishes a framework for the CFTC to permit "substituted compliance" by swap dealers located in non-U.S. jurisdictions with regulatory schemes determined by the CFTC to be comparable to its own. The CFTC has made such a determination with respect to certain aspects of Australian law and regulation and ANZBGL is able to rely on substituted compliance with respect to certain aspects of CFTC rules in connection with transactions with non-U.S. counterparties. The CFTC may issue further guidance in the future that could expand or limit the existing substituted compliance regime.

U.S. prudential regulators and the CFTC have finalized and issued their respective rules imposing initial and variation margin requirements on transactions in uncleared swaps and security-based swaps. These requirements become applicable to the Group in March 2017. The margin requirements can be expected to increase the costs of OTC derivative transactions and could adversely affect market liquidity.

Dodd-Frank also requires ANZBGL to submit an annual U.S. resolution plan to the FRB and the FDIC for approval. ANZBGL submitted its most recent annual U.S. resolution plan in December 2015. ANZBGL also is subject to "enhanced prudential regulations" under Reg. YY, Subpart N (effective July 1, 2016), which will require quarterly and annual certification of compliance with the financial and risk oversight requirements thereof.

In 2010, the U.S. enacted the Foreign Account Tax Compliance Act ("FATCA"), which requires non-U.S. banks and other financial institutions to undertake specific customer due diligence and provide information on account holders who are U.S. citizens or residents to the United States Federal tax authority, the Internal Revenue Service ("IRS"). The United States has entered into intergovernmental agreements ("IGAs") with a number of jurisdictions (including Australia and New Zealand) which generally require such jurisdictions to enact legislation or other binding rules pursuant to which local financial institutions and branches provide such information to their local revenue authority to then forward to the IRS. In countries that have not entered into such an agreement, the financial institution must enter into an agreement directly with the IRS to complete similar obligations and provide similar information directly to the United States. If the aforementioned customer due diligence and provision of account holder information is not undertaken and provided in a manner and form meeting the applicable requirements, the Group and/or persons owning assets in accounts with Group members may be subjected to a 30 percent withholding tax on certain amounts. While such withholding tax may currently apply only to certain payments derived from sources within the United States (and, beginning on January 1, 2019, certain gross proceeds from the disposition of assets that can give rise to such U.S. source payments), no such withholding tax will be imposed on any payments derived from sources outside the United States that are made prior to January 1, 2019, at the earliest. Australia and New Zealand have each signed an IGA with the United States and have enacted legislation to implement the respective IGAs. Local guidance in relation to the enacted legislation is still evolving.

In addition to FATCA, the U.S. may require the Group in certain circumstances to provide certain information to U.S. payers (withholding agents, custodians, etc.), and the Group may face adverse consequences in case it does not provide such information in compliance with the applicable rules and regulations.

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

Those regulations require financial institutions operating in the United States to maintain appropriate policies, procedures and controls to detect, prevent, and report money laundering and terrorist financing and to verify the identity of their customers. In addition, the U.S. bank regulatory agencies are imposing heightened standards and U.S. law enforcement authorities have been taking a more active role, resulting in intensified enforcement of such matters. Recent resolutions involving other global financial institutions have involved the payment of substantial penalties, agreements with respect to future operation of their business and actions with respect to relevant personnel. Failure of a financial institution to maintain and implement adequate policies and procedures to combat money laundering and terrorist financing could have serious legal and reputational consequences for the financial institution, as well as result in the imposition of civil, monetary and criminal penalties.

OTHER REGULATORS

In addition to APRA's prudential and regulatory supervision, ANZBGL and its Australian subsidiaries are supervised and regulated in some respects by other regulators including the Australian Securities and Investments Commission (“ASIC”), the Australian Competition and Consumer Commission (“ACCC”), the Australian Transaction Reports and Analysis Center ("AUSTRAC") and various securities exchanges.

ASIC is Australia's corporate, markets and financial services regulator. It regulates Australian companies, financial markets, financial services organizations and professionals who deal and advice in investments, superannuation, insurance, deposit-taking and credit. ANZBGL provides products and participates in markets regulated by ASIC. ASIC has powers to protect consumers against misleading or deceptive and unconscionable conduct affecting all financial products and services, including credit.

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

The Group is required to comply with certain anti-money laundering and counterterrorism financing legislation and regulations under Australian law and the local laws of all the countries in which it operates, including the AML Act. The AML Act is administered by AUSTRAC.

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

In addition to the prudential capital oversight that APRA conducts over ANZBGL and its branch operations and the supervision and regulation described above, local banking operations in all of the ANZBGL offshore branches and banking subsidiaries are subject to host country supervision by their respective regulators, such as the Reserve Bank of New Zealand (the “RBNZ”), the Office of the Comptroller of the Currency in the United States (the "OCC"), the Federal Reserve Board in the United States (the "FRB"), the UK Prudential Regulatory Authority, the Monetary Authority of Singapore, the Hong Kong Monetary Authority, the China Banking Regulatory Commission and other financial regulatory bodies in those countries and in other relevant countries. In addition, the Group's strategy, expansion, and growth in the Asia Pacific region has given rise to a requirement to comply with a number of different legal and regulatory regimes across that region. These regulators, among other things, may impose minimum capitalization requirements on those operations in their respective jurisdictions.

RISK FACTORS

1. Introduction

The Group's activities are subject to risks that can adversely impact its business, operations and financial condition. The risks and uncertainties described below are not the only ones that the Group may face. Additional risks and uncertainties that the Group is unaware of, or that the Group currently deems to be immaterial, may also become important factors that affect it. If any of the listed or unlisted risks actually occur, the Group's business, operations, financial condition, or reputation could be materially and adversely affected, with the result that the trading price of the Group's equity or debt securities could decline, and investors could lose all or part of their investment. These risk factors below should be considered in conjunction with "Forward-looking statements" in Section 1: Key Information".

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

The Group's financial performance is primarily influenced by the economic conditions and the level of business activity in the major countries and regions in which it operates or trades, i.e., Australia, New Zealand, Asia Pacific, Europe and the United States. The Group's business, operations, and financial condition can be negatively affected by changes in economic and business conditions in these markets.

The economic and business conditions that prevail in the Group's major operating and trading markets are affected by domestic and international economic events, political events and natural disasters, and by movements and events that occur in global financial markets.

For example, the global financial crisis that commenced in 2007 saw a sudden and prolonged dislocation in credit and equity capital markets, a contraction in global economic activity and the emergence of many challenges for financial services institutions worldwide that still persist to some extent in many regions. Sovereign risk and its potential impact on financial institutions in Europe and globally subsequently emerged as a significant risk (see risk factor 5 "Sovereign risk may destabilize global financial markets adversely affecting all participants, including the Group").

The impact of the global financial crisis and its aftermath continue to affect regional and global economic activity, confidence and capital markets. Prudential authorities have implemented and continue to implement increased regulations to mitigate the risk of such events recurring, although there can be no assurance that such regulations will be effective. The global financial crisis has also had a lasting effect on consumer and business behavior in the advanced economies. Consumers have acted more cautiously, while businesses have been reluctant to invest and inflation has remained low. Monetary authorities have responded by introducing zero and near-zero interest rates across most countries, while the major central banks have taken unconventional steps to support growth and raise inflation. While some economic factors have recently improved, lasting impacts from the global financial crisis and the potential for escalation in geopolitical risks suggest ongoing vulnerability and potential adjustment of consumer and business behavior.

Additionally, on June 23, 2016 the United Kingdom voted to leave the European Union in a referendum. The Group expects there will be an extended period of increased uncertainty and volatility in the global financial markets while the details of the departure (known as "Brexit") are negotiated. The United Kingdom's decision to leave the European Union may adversely affect the Group's ability to raise medium or long term funding in the international capital markets. There is also potential for further consequences of Brexit to adversely impact the financial markets.

Other current economic conditions impacting the Group and its customers include changes in the commercial and residential real estate markets in Australia and New Zealand (see risk factor 6 "Weakening of the real estate markets in Australia, New Zealand or other markets where the Group does business may adversely affect its business, operations and financial condition"). The demand for natural resources is also an important economic influence given that sector is a significant contributor to Australia's economy and that sector's significant exposure to Asia, particularly China and China's economic growth (see risk factor 22 "An increase in the failure of third parties to honor their commitments in connection with the Group's trading, lending, derivatives and other activities may adversely affect its business, operations and financial condition").

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

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

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

Geopolitical instability, such as threats of, potential for, or actual conflict, occurring around the world, such as the ongoing unrest and conflicts in the Ukraine, North Korea, Syria, Egypt, Afghanistan, Iraq and elsewhere, as well as the current high threat of terrorist activities, may also adversely affect global financial markets, general economic and business conditions and the Group's ability to continue operating or trading in a country, which in turn may adversely affect the Group's business, operations, and financial condition.

Natural and biological disasters such as, but not restricted to, cyclones, floods, droughts, earthquakes and pandemics, and the economic and financial market implications of such disasters on domestic and global conditions can adversely impact the Group's ability to continue operating or trading in the country or countries directly or indirectly affected, which in turn may adversely affect the Group's business, operations and financial condition. For more risks in relation to natural and biological disasters, refer to risk factor 24 "The Group may be exposed to the impact of future climate change, geological events, plant, animal and human diseases, and other extrinsic events which may adversely affect its business, operations and financial condition".

Other economic and financial factors or events that may adversely affect the Group's performance, and give rise to operational and markets risk are covered in risk factors 13 ("The Group is exposed to market risk, which may adversely affect its business, operations and financial condition") and 14 ("Changes in exchange rates may adversely affect the Group's business, operations and financial condition").

3. Competition may adversely affect the Group's business, operations and financial conditions in the markets in which it operates

The markets in which the Group operates are highly competitive and could become even more so. Factors that contribute to competition risk include industry regulation, mergers and acquisitions, changes in customers' needs and preferences, entry of new participants, development of new distribution and service methods and technologies, increased diversification of products by competitors, and regulatory changes in the rules governing the operations of banks and non-bank competitors. For example, changes in the financial services sector in Australia and New Zealand have made it possible for non-banks to offer products and services traditionally provided by banks, such as payments, home loans, and credit cards. In addition, it is possible that existing companies from outside of the traditional financial services sector may seek to obtain banking licenses to directly compete with the Group by offering products and services traditionally provided by banks. In addition, banks organized in jurisdictions outside Australia and New Zealand are subject to different levels of regulation and some may have lower cost structures. Increasing competition for customers could also potentially lead to a compression in the Group's net interest margins or increased advertising and related expenses to attract and retain customers.

Digital technologies are changing customer behavior and the competitive environment. The use of digital channels by customers to conduct their banking continues to rise and emerging competitors are increasingly utilizing new technologies and seeking to disrupt existing business models, including in relation to digital payment services.

Furthermore, increased competition for deposits could also increase the Group's cost of funding and lead the Group to access other types of funding or reduce lending. The Group relies on bank deposits to fund a significant portion of its balance sheet and deposits have been a relatively stable source of funding. The Group competes with banks and other financial services firms for such deposits. To the extent that the Group is not able to successfully compete for deposits, the Group would be forced to rely more heavily on other, potentially less stable or more expensive forms of funding, or reduce lending. This could adversely affect the Group's business, prospects, financial performance or financial condition.

The impact on ANZ of an increase in competitive market conditions, especially in the Group's main markets and products, would potentially lead to a material reduction in the market share and/or margins of the relevant Group business(es), which would adversely affect the Group's financial performance and position.

4. Changes in monetary policies may adversely affect the Group's business, operations and financial condition

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

5. Sovereign risk may destabilize global financial markets adversely affecting all participants, including the Group

Sovereign risk is the risk that foreign governments will default on their debt obligations, be unable to refinance their debts as and when they fall due or nationalize parts of their economy. Sovereign risk remains in many economies, including the United States, United Kingdom, China, Europe and Australia. Should one sovereign default, there could be a cascading effect to other markets and countries, the consequences of which, while difficult to predict, may be similar to or worse than those experienced during the global financial crisis and subsequent sovereign debt crises. Such events could destabilize global financial markets, adversely affecting all participants, including adversely affecting the Group's liquidity, financial performance or financial condition.

6. Weakening of the real estate markets in Australia, New Zealand or other markets where the Group does business may adversely affect its business, operations and financial condition

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

- Residential housing loans, owner occupier and investment; and
- Commercial real estate loans.

During the year the Group reduced the leverage it generally provides for commercial property developers and investors. In addition the Bank has tightened its general lending conditions such as requiring higher levels of pre-commitments for build to sell developments and higher interest cover ratios for investment loans. The Group also ceased retail mortgage lending to non-permanent resident borrowers and reduced its acceptance of foreign sourced income supporting a borrower's serviceability assessment in borrower loan applications.

Declining asset prices could impact customers and counterparties and the value of the security (including residential and commercial property) the Group holds against loans which may impair the Group's ability to recover amounts owing to the Group if customers or counterparties were to default. Since 2009, the world's major central banks have embarked upon unprecedented monetary policy stimulus. The resulting weight of funds searching for yield continues to drive underlying property markets in core ANZ property jurisdictions (Australia, New Zealand, Singapore and Hong Kong). Values for completed tenanted properties and residential house prices, particularly in metro east coast Australian and New Zealand markets, have steadily risen.

A significant decrease in Australian and New Zealand housing valuations triggered by, for example, an event or a series of events in the local or global economy, could adversely impact the Group's home lending activities because borrowers with loans in excess of their property value show a higher propensity to default and, in the event of such defaults our security values would be eroded, causing the Group to incur higher credit losses which could adversely affect the Group's financial performance and condition. The demand for the Group's home lending products may also decline due to buyer concerns about decreases in values or concerns about rising interest rates, which could make the Group's lending products less attractive to potential homeowners and investors.

A significant decrease in commercial property valuations or a significant slowdown in Australia, New Zealand or other commercial real estate markets where the Group does business could result in a decrease in the amount of new lending the Group is able to write and/or increase the losses that the Group may experience from existing loans, which, in either case, could materially and adversely impact the Group's financial condition and operations. The Group's portfolio of commercial property interest only loans, may be particularly susceptible to losses in the event of a decline in property prices as a result of refinance risk and deteriorating security values. A material decline in residential housing prices could also cause losses in the Group's residential build to sell portfolio if customers who are pre-committed to purchase these dwellings are unable or unwilling to complete their contracts and the Group is forced to re-sell these dwellings at a loss.

7. The Group is exposed to liquidity and funding risk, which may adversely affect its business, operations and financial condition

Liquidity risk is the risk that the Group is unable to meet its payment obligations as they fall due (including repaying depositors or maturing wholesale debt) or that the Group has insufficient capacity to fund increases in assets. Liquidity risk is inherent in all banking operations due to the timing mismatch between cash inflows and cash outflows.

Reduced liquidity could lead to an increase in the cost of the Group's borrowings and constrain the volume of new lending, which could adversely affect the Group's profitability. A deterioration in investor confidence in the Group could materially impact the Group's cost of borrowing, and the Group's ongoing operations and funding.

The Group raises funding from a variety of sources, including customer deposits and wholesale funding in Australia and offshore markets to meet its funding obligations and to maintain or grow its business generally. In times of liquidity stress, if there is damage to market confidence in the Group or if funding inside or outside of Australia is not available or constrained, the Group's ability to access sources of funding and liquidity may be constrained and it will be exposed to liquidity risk. In any such cases, the Group may be forced to seek alternative funding. The availability of such alternative funding, and the terms on which it may be available, will depend on a variety of factors, including prevailing market conditions and the Group's credit ratings (which are strongly influenced by Australia's sovereign credit rating). Even if available, the cost of these funding alternatives may be more expensive or on unfavorable terms, which could adversely affect the Group's financial performance, liquidity, capital resources and financial condition.

Since the advent of the global financial crisis in 2007, developments in the United States, European and Chinese markets have adversely affected the liquidity in global capital markets and increased funding costs compared with the period immediately preceding the global financial crisis.

More recently, the provision of significant amounts of liquidity by major central banks globally has helped mitigate near term liquidity concerns, although no assurance can be given that such liquidity concerns will not return, particularly when the extraordinary liquidity is withdrawn by central banks. Future deterioration in market conditions may limit the Group's ability to replace maturing liabilities and access funding in a timely and cost-effective manner necessary to fund and grow the Group's businesses.

8. Regulatory changes or a failure to comply with regulatory standards, law or policies may adversely affect the Group's business, operations or financial condition

As a financial institution, the Group is subject to detailed laws and regulations in each of the jurisdictions in which it operates or obtains funding, including Australia, New Zealand, the United States, Europe and Asia Pacific. The Group is also supervised by a number of different regulatory and supervisory authorities.

The Group is responsible for ensuring that it complies with all applicable legal and regulatory requirements (including accounting standards) and industry codes of practice in the jurisdictions in which it operates or obtains funding.

Compliance risk arises from these legal, regulatory and internal compliance requirements. If the Group, or an employee of the Group, fails to comply, the Group may be subject to fines, penalties or restrictions on its ability to do business and it may lose customer confidence and business, which could have a material adverse impact on the Group. In Australia, an example of the broad administrative power available to regulatory authorities is the power available to APRA under the Banking Act in certain circumstances to investigate the Group's affairs and/or issue a direction to the Group (such as direction to comply with a prudential requirement, to conduct an audit, to remove a director, executive officer or employee or not to undertake a transaction). Other regulators also have the power to investigate the Group. For further information see Note 41 (Contingent Liabilities) of the 2016 Financial Statements (attached as part of Annex A hereto).

Recent public scrutiny of banking culture has also led to a proposal by the Opposition Australian Labor Party for a Royal Commission to investigate Australian banks. Regulatory investigations, fines, penalties or regulator imposed conditions could adversely affect the Group's business, reputation, prospects, financial performance or financial condition.

As with other financial services providers, the Group faces increasing supervision and regulation in most of the jurisdictions in which the Group operates or obtains funding, particularly in the areas of funding, liquidity, product design and pricing, capital adequacy, conduct and prudential regulation, cyber-security, anti-bribery and corruption, anti-money laundering and counter-terrorism financing and trade sanctions.

The Group has fully implemented the requirements of the Basel Committee on Banking Supervision's ("BCBS") and APRA's capital reform packages (and APRA's implementation thereof), known as Basel 3, aimed at implementing Basel 3 and strengthening the resilience of the banking and insurance sectors. Details of these reforms are contained in APRA's prudential standards implementing Basel 3 capital reforms, which took effect from January 1, 2013.

In addition to the above, Basel 3 requirements also include liquidity reforms. Consistent therewith, APRA requires the Group to comply with the Liquidity Coverage Ratio ("LCR") requirements with effect from January 1, 2015 and is currently consulting on the implementation of the Net Stable Funding Ratio ("NSFR") requirements, which are expected to be implemented by January 1, 2018. Certain regulators in jurisdictions where the Group has a presence have also either implemented or are in the process of implementing Basel 3 and equivalent reforms.

Separately, since 2014, the BCBS has also released a number of consultation documents as part of its reforms aimed at simplifying the measurement of risk-weighted assets and reducing their variability across banks and jurisdictions. Consultation and finalization of these reforms are current and on-going. Any impacts on the Group resulting from these reforms cannot be determined as final calibration is still to be finalized by the BCBS and they are also subject to the form of these proposals that APRA will implement in Australia.

In addition, there have also been a series of other regulatory releases from authorities in the various jurisdictions in which the Group operates or obtains funding proposing significant regulatory change for financial institutions. This includes new accounting and reporting standards, or implementation of regulatory changes including global OTC derivatives reforms, the Markets in Financial Instruments Directive ("MiFID") and the United States Dodd-Frank legislation, including the Volcker Rule promulgated thereunder.

The Australian Government conducted a comprehensive inquiry into Australia's financial system and released the FSI Final Report on December 7, 2014. The contents of the FSI Final Report are wide-ranging. Key recommendations from the FSI Final Report that may have an impact on regulatory capital levels include:

- setting capital standards ensuring that capital ratios of ADIs' "unquestionably strong";
- raising the average internal ratings-based ("IRB") mortgage risk weight to narrow the difference between average mortgage risk weights for ADIs, which use IRB models, and those that use standardized risk weights in order to increase competition in mortgage lending;
- implementing a framework for minimum loss absorption and recapitalization capacity in line with emerging international practice;
- developing a common reporting template that improves the transparency and comparability of capital ratios of ADIs; and
- introducing a Leverage Ratio that acts as a backstop to ADIs' risk-based capital requirements, in line with Basel 3.

APRA supported the FSI's recommendation that the capital ratios of ADIs should be unquestionably strong and, with effect from July 2016, increased the capital requirements for Australian residential mortgage exposures for ADIs accredited to use the IRB approach to credit risk (including ANZ).

Apart from the July 2015 announcements (as further described under "Supervision and Regulation - Australia - Australian Regulatory Developments – Financial Systems Inquiry ("FSI")"), APRA has not made any of the other key recommendations in the FSI Final Report to date. Therefore, the final outcome of the FSI, including any impacts and the timing of these impacts on ANZ, remain uncertain. In addition, there are several ongoing Government enquiries and proposals for new enquiries which may affect ANZ and its business, the impact of which is indeterminate at this stage.

APRA is currently undertaking several open consultations, including those related to ADI Counterparty Credit Risk and international exposures reporting requirements as well as other areas of focus. Until these are finalized, the impact to the Group is unknown.

Regulation is becoming increasingly extensive and complex. Some areas of potential regulatory change involve multiple jurisdictions seeking to adopt a coordinated approach. This may result in conflicts with specific requirements of the jurisdictions in which the Group operates and, in addition, such changes may be inconsistently introduced across jurisdictions. Changes may also occur in the oversight approach of regulators. It is possible for example that governments in jurisdictions in which the Group operates or obtains funding might revise their application of existing regulatory policies that apply to, or impact, the Group's business, including for reasons relating to national interest and systemic stability.

Regulatory changes and the timing of their introduction continue to evolve. The nature and impact of future changes are not predictable and are beyond the Group's control. Regulatory change may impact the Group in a range of ways, such as by requiring the Group to change its business mix, incur additional costs as a result of increased management attention, raise additional amounts of higher-quality capital (such as ordinary shares, Additional Tier 1 capital or Tier 2 capital instruments) or retain capital (through lower dividends), and hold significant levels of additional liquid assets and undertake further lengthening of the funding base. Further examples of ways in which regulatory change may impact the Group include: limiting the types, amount and composition of financial services and products the Group can offer, limiting the fees and interest that the Group may charge, increasing the ability of other banks or of non-banks to offer competing financial services or products and changes to accounting standards, taxation laws and prudential regulatory requirements. Regulatory change could adversely affect one or more of the Group's businesses, restrict its flexibility, require it to incur substantial costs and impact the profitability of one or more business lines. Any such costs or restrictions could adversely affect the Group's business, prospects, financial performance or financial condition.

9. The Group is exposed to the risk of receiving significant regulatory fines and sanctions in the event of breaches of regulation and law relating to anti-money laundering, counter-terrorism financing and sanctions

Anti-money laundering, counter-terrorist financing and sanctions compliance have been the subject of increasing regulatory change and enforcement in recent years. The increasingly complicated environment in which the Group operates across the Asia Pacific region has heightened these operational and compliance risks. Furthermore, the upward trend in compliance breaches by global banks and the related fines and settlement sums means that these risks continue to be an area of focus for the Group.

The risk of non-compliance with anti-money laundering, counter-terrorist financing and sanctions laws remains high given the scale and complexity of the Group. A failure to operate a robust program to combat money laundering, bribery and terrorist financing or to ensure compliance with economic sanctions could have serious legal and reputational consequences for the Group and its employees. Consequences can include fines, criminal and civil penalties, civil claims, reputational harm and limitations on doing business in certain jurisdictions. The Group's foreign operations may place the Group under increased scrutiny by regulatory authorities, and may increase the risk of a member of the Group breaching applicable rules, regulations or laws.

10. The Group may experience challenges in managing its capital base, which could give rise to greater volatility in capital ratios

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

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

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

APRA's Prudential Standards implementing Basel 3 are now in effect. Certain other regulators have either implemented or are in the process of implementing regulations, including Basel 3, which seek to strengthen, among other things, the liquidity and capital requirements of banks, funds management entities and insurance entities, though there can be no assurance that these regulations will have their intended effect. Some of these regulations, together with any risks arising from any regulatory changes (including those arising from the requirements of the BCBS or the Australian Government's response to the FSI), are described in risk factor 8 "Regulatory changes or a failure to comply with regulatory standards, law or policies may adversely affect the Group's business, operations or financial condition".

11. The Group is exposed to credit risk, which may adversely affect its business, operations and financial condition

As a financial institution, the Group is exposed to the risks associated with extending credit to other parties. Less favorable business or economic conditions, whether generally or in a specific industry sector or geographic region, or natural disasters, could cause customers or counterparties to fail to meet their obligations in accordance with agreed terms.

For example, the Group's customers and counterparties in:

- the Australian natural resources sector, which is particularly exposed to any prolonged slowdown in the Chinese economy and would be materially and adversely impacted by the current and any future decline in natural resource prices; and
- the dairy industry in Australia and New Zealand, which is particularly exposed to excess milk production from other developed countries being sold into traditional markets, could be materially and adversely impacted by the current and any future decline in commodity prices.

Also, the Group's customers and counterparties may be adversely impacted by more expensive imports due to the reduced strength of the Australian and New Zealand Dollars relative to other currencies.

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

The Group holds provisions for credit impairment. The amount of these provisions is determined by assessing the extent of impairment inherent within the current lending portfolio, based on current information. This process, which is critical to the Group's financial condition and results, requires subjective and complex judgments, including forecasts of how current and future economic conditions might impair the ability of borrowers to repay their loans. However, if the information upon which the assessment is made proves to be inaccurate or if the Group fails to analyze the information correctly, the provisions made for credit impairment may be insufficient, which could have a material adverse effect on the Group's business, operations and financial condition.

12. The Group is exposed to the risk that its credit ratings could change, which could adversely affect its ability to raise capital and wholesale funding and constrain the volume of new lending, which may adversely affect the Group's business, operations and financial condition

The Group's credit ratings have a significant impact on both its access to, and cost of, capital and wholesale funding. Credit ratings may be withdrawn, qualified, revised or suspended by credit rating agencies at any time. The methodologies by which they are determined may also be revised in response to legal or regulatory changes, market developments or for any other reason. On July 7, 2016 ANZ announced that Standard & Poor's decision to revise the outlook on the Commonwealth of Australia to ratings watch negative, resulting in a change in the credit rating outlook of ANZ and its strategically important entities, along with other major Australian banks, from stable to negative.

On August 19, 2016 ANZ announced that Moody's decision to revise Australia's macro profile resulted in a change in the outlook for major Australian banks, including ANZ, from stable to negative. The Group's credit ratings could be revised at any time in response to a change in the credit rating of the Commonwealth of Australia.

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

In addition, the ratings of individual securities (including, but not limited to, certain Tier 1 capital and Tier 2 capital securities and covered bonds) issued by the Group (and other banks globally) could be impacted from time to time by changes in the regulatory requirements for those instruments as well as the ratings methodologies used by rating agencies.

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

13. The Group is exposed to market risk, which may adversely affect its business, operations and financial condition

Market risk is the potential of loss arising from adverse changes in interest rates, currency exchange rates, credit spreads, or from fluctuations in bond, commodity or equity prices. For purposes of financial risk management, the Group differentiates between traded and non-traded market risks. Traded market risks principally arise from the Group's trading operations in interest rates, foreign exchange, commodities and securities. The non-traded market risk is predominantly interest rate risk in the banking book. Other non-traded markets risks include transactional and structural foreign exchange risk arising from capital investments in offshore operations, market risk arising from the insurance business, non-traded equity risk and lease residual value risk. For a description of these specific risks, see Note 20 to the 2016 Financial Statements (attached as part of Annex A hereto).

14. Changes in exchange rates may adversely affect the Group's business, operations and financial condition

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

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

15. The Group is exposed to operational risk, which may adversely affect its business, operations and financial condition

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, and the risk of loss of reputation or damage arising from inadequate or failed internal processes, people and systems, but excludes strategic risk.

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

Operational risk is typically classified into the risk event type categories to measure and compare risks on a consistent basis. Examples of operational risk events according to category are as follows:

- Internal Fraud: is associated with ANZ employees acting outside their normal employment conditions/procedures to create a financial advantage for themselves or others;
- External Fraud: fraudulent acts or attempts which originate from outside the Group, more commonly associated with digital banking, lending, and cards products. Specific threats include ATM skimming, malware and phishing attacks and fraudulent applications, where financial advantage is obtained;

- Employment Practices and Workplace Safety: employee relations, diversity and discrimination, and health and safety risks to the Group's employees;
- Clients, Products and Business Practices: risk of market manipulation, product defects, incorrect advice, money laundering and misuse or unauthorized disclosure of customer information;
- Technology: the risk of loss resulting from inadequate or failed information technology;
- Business Disruption (including systems failures): risk that the Group's banking operating systems are disrupted or fail;
- Damage to physical assets: risk that a natural disaster or terrorist or vandalism attack damages the Group's buildings or property; and
- Execution, Delivery and Process Management: is associated with losses resulting from, among other things, process errors made by ANZ employees caused by inadequate or poorly designed internal processes, or the poor execution of standard processes, vendor, supplier or outsource provider errors or failed mandatory reporting errors.

Direct or indirect losses that occur as a result of operational failures, breakdowns, omissions or unplanned events could adversely affect the Group's financial results.

16. The Group is exposed to reputational risk, which may adversely affect its business, operations and financial condition

Reputational risk may arise as a result of an external event or the Group's own actions, and adversely affect perceptions about the Group held by the public (including the Group's customers), shareholders, investors, regulators or rating agencies. The impact of a risk event on the Group's reputation may exceed any direct cost of the risk event itself and may adversely impact the Group's business, operations and financial condition.

Damage to the Group's reputation may also have wide-ranging impacts, including adverse effects on the Group's profitability, capacity and cost of sourcing funding, increased regulatory scrutiny and availability of new business opportunities. The Group's ability to attract and retain customers could also be adversely affected if the Group's reputation is damaged, which could adversely affect the Group's business prospects, financial performance or financial condition.

17. The Group regularly considers acquisition and divestment opportunities, and there is a risk that the Group may undertake an acquisition or divestment that could result in a material adverse effect on its business, operations and financial condition

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

There can be no assurance that any acquisition (or divestment) would have the anticipated positive results, including the consummation of the contractual and commercial terms, results relating to the total cost of integration (or separation), the time required to complete the integration (or separation), the regulatory approvals required, the amount of longer-term cost savings, the overall performance of the combined (or remaining) entity, or an improved price for the Group's securities. The Group's operating performance, risk profile and capital structure may be affected by these corporate opportunities, impairments may be recorded for certain divestments and there is a risk that the Group's credit ratings may be placed on credit watch or downgraded if these opportunities are pursued.

Integration (or separation) of an acquired (or divested) business can be complex and costly, sometimes including combining (or separating) relevant accounting and data processing systems, and management controls, as well as managing relevant relationships with employees, customers, regulators, counterparties, suppliers and other business partners. Integration (or separation) efforts could create inconsistencies in standards, controls, procedures and policies, as well as diverting management attention and resources. This could adversely affect the Group's ability to conduct its business successfully and impact the Group's operations or results. Additionally, there can be no assurance that employees, customers, counterparties, suppliers and other business partners of newly acquired (or retained) businesses will remain post-acquisition (or post-divestment), and the loss of employees, customers, counterparties, suppliers and other business partners could adversely affect the Group's operations or results.

18. The Group may be exposed to conduct-related risks relating to the provision of advice, recommendations or guidance about financial products and services, or behaviors which do not appropriately consider the interests of consumers, the integrity of financial markets and the expectations of the community, in the course of its business activities

Such risks can result from:

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

The Group is regulated under various legislative regimes in the countries in which it operates that provide for customer protection in relation to advisory, marketing and sales practices. These may include, but are not limited to, appropriate management of conflicts of interest, appropriate accreditation standards for staff authorized to provide advice about financial products and services, disclosure standards, standards for ensuring adequate assessment of client/product suitability, quality assurance activities, adequate record keeping, and procedures for the management of complaints and disputes.

Inappropriate advice about financial products and services may result in material litigation (and associated financial costs) and together with the failure to avoid or manage conflicts of interest, may expose the Group to regulatory actions, restrictions or conditions on banking licenses and/or reputational consequences.

19. Disruption of information technology systems or failure to successfully implement new technology systems could significantly interrupt the Group's business, which may adversely affect its business, operations and financial condition

The Group and its service offerings (including digital banking) are highly dependent on information systems applications and technology. Therefore, there is a risk that these information systems applications and technology, or the services the Group uses or is dependent upon, might fail, including because of unauthorized access or use.

Most of the Group's daily operations are computer-based and information systems applications and technology are essential to maintaining effective communications with customers. The Group is also conscious that threats to information systems applications and technology are continuously evolving and that cyber threats and risk of attacks are increasing. The Group may not be able to anticipate or implement effective measures to prevent or minimize disruptions that may be caused by all cyber threats because the techniques used can be highly sophisticated and those perpetuating the attacks may be well resourced. The exposure to systems risks includes the complete or partial failure of information technology systems or data center infrastructure, the inadequacy of internal and third-party information technology systems due to, among other things, failure to keep pace with industry developments and the capacity of the existing systems to effectively accommodate growth, prevent unauthorized access and integrate existing and future acquisitions and alliances.

To manage these risks, the Group has disaster recovery and information technology governance in place. However, there can be no guarantee that the steps the Group is taking in this regard will be effective and any failure of these systems could result in business interruption, customer dissatisfaction, legal or regulatory breaches and liability and ultimately loss of customers, financial compensation, damage to reputation and/or a weakening of the Group's competitive position, which could adversely impact the Group's business and have a material adverse effect on the Group's financial condition and operations.

In addition, the Group has an ongoing need to update and implement new information systems applications and technology, in part to assist it to satisfy regulatory demands, ensure information security, enhance digital banking services for the Group's customers and integrate the various segments of its business. The Group may not implement these projects effectively or execute them efficiently, which could lead to increased project costs, delays in the ability to comply with regulatory requirements, failure of the Group's information security controls or a decrease in the Group's ability to service its customers. ANZ New Zealand relies on ANZ to provide a number of information technology systems, and any failure of ANZ's systems could directly affect ANZ New Zealand.

20. The Group is exposed to risks associated with information security, which may adversely affect its financial results and reputation

Information security means protecting information and information systems from unauthorized access, use, disclosure, disruption, modification, perusal, inspection, recording or destruction. As a bank, the Group handles a considerable amount of personal and confidential information about its customers and its own internal operations, including in Australia, New Zealand and India. ANZ operates in 33 countries and the risks to our systems are inherently higher in certain countries where, for example, political threats or targeted cyber-attacks by terrorist or criminal organizations are greater. The Group employs a team of information security experts who are responsible for the development and implementation of the Group's Information Security Policy. The Group also uses third parties to process and manage information on its behalf, and any failure by such third parties could adversely affect the Group's business. The Group is conscious that threats to information systems are continuously evolving and that cyber threats, including but not limited to, cyber compromise, advanced persistent threats, distributed denial of service, malware attacks, and the risk of such attacks are increasing, and as such the Group may be unable to develop policies and procedures to adequately address or mitigate such risks. Accordingly, information about the Group and/or our clients may be inadvertently accessed, inappropriately distributed or illegally accessed or stolen. The Group may not be able to anticipate or to implement effective measures to prevent or minimize damage that may be caused by all information security threats because the techniques used can be highly sophisticated and those perpetuating the attacks may be well resourced. Any unauthorized access of the Group's information systems or unauthorized use of its confidential information could potentially result in disruption of the Group's operations, breaches of privacy laws, regulatory sanctions, legal action, and claims for compensation or erosion to the Group's competitive market position, which could adversely affect the Group's financial results and reputation.

21. Unexpected changes to the Group's license to operate in any jurisdiction may adversely affect its business, operations and financial condition

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

22. An increase in the failure of third parties to honor their commitments in connection with the Group's trading, lending, derivatives and other activities may adversely affect its business, operations and financial condition

The Group is exposed to the potential risk of credit-related losses that can occur as a result of a counterparty being unable or unwilling to honor its contractual obligations. As with any financial services organization, the Group assumes counterparty risk in connection with its lending, trading, derivatives, insurance and other businesses where it relies on the ability of a third party (including reinsurers) to satisfy its financial obligations to the Group on a timely basis. The Group is also subject to the risk that its rights against third parties may not be enforceable in certain circumstances.

The risk of credit-related losses may also be increased by a number of factors, including deterioration in the financial condition of the economy, a sustained high level of unemployment, a deterioration of the financial condition of the Group's counterparties, a reduction in the value of assets the Group holds as collateral, and a reduction in the market value of the counterparty instruments and obligations it holds.

The Group is directly and indirectly exposed to the natural resources sector, including contractors and related industries. Lower commodity prices, mining activity, demand for resources, or corporate investment in the natural resources sector may adversely affect the amount of new lending the Group is able to write, or lead to an increase in lending losses from this sector. The ongoing low oil prices have resulted in reduced investment and increased asset write downs with challenges migrating through the energy supply chain. Upstream exploration and production firms and related services operators are currently the most directly exposed as new project investment is wound back and operations rationalized. Services to mining customers are also subject to heightened oversight given the cautious outlook for the services sector. This industry-specific revenue decline may lead to a broader regional economic downturn with a long recovery period.

Credit losses can and have resulted in financial services organizations realizing significant losses and in some cases failing altogether. Should material unexpected credit losses occur to the Group's credit exposures, it could have an adverse effect on the Group's business, operations and financial condition.

23. The unexpected loss of key staff or inadequate management of human resources may adversely affect the Group's business, operations and financial condition

The Group's ability to attract and retain suitably qualified and skilled employees is an important factor in achieving its strategic objectives. The Chief Executive Officer and the management team of the Chief Executive Officer have skills and reputation that are critical to setting the strategic direction, successful management and growth of the Group, and whose unexpected loss due to resignation, retirement, death or illness may adversely affect the Group's business, operations and financial condition. If the Group had difficulty retaining or attracting highly qualified people for important roles, particularly in times of strategic change, the Group's business, operations and financial condition could be adversely affected.

24. The Group may be exposed to the impact of future climate change, geological events, plant, animal and human diseases, and other extrinsic events which may adversely affect its business, operations and financial condition

The Group and its customers are exposed to climate related events, including climate change. These events include severe storms, drought, fires, cyclones, hurricanes, floods and rising sea levels. The Group and its customers may also be exposed to other events such as geological events (including volcanic seismic activity or tsunamis), plant, animal and human diseases or a pandemic.

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

25. The Group is exposed to insurance risk, which may adversely affect its business, operations and financial condition

Insurance risk is the risk of loss due to unexpected changes in current and future insurance claim rates. In the Group's life insurance business, insurance risk arises primarily through mortality (death) and morbidity (illness and injury) risks being greater than expected and, in the case of annuity business, should annuitants live longer than expected. In August 2015, ANZ ceased to issue home, car and travel insurance and became a distributor only of these products. Existing business has been transitioned to QBE Insurance Group Limited on renewal. The only general insurance risk insured now is a small amount of involuntary unemployment benefits as part of consumer credit insurance sold in Australia. The Group has exposure to insurance risk in both its life insurance and general insurance business, which may adversely affect its businesses, operations and financial condition.

26. The Group is exposed to increased compliance costs and the risk of penalties and regulatory scrutiny with respect to the significant obligations imposed by global tax reporting regimes which are still evolving

FATCA requires non-U.S. banks and other financial institutions to undertake specific customer due diligence and provide information on account holders who are U.S. citizens or tax residents to the United States Federal tax authority, the Internal Revenue Service ("IRS") either directly or via local tax authorities. If the required customer due diligence and provision of account holder information is not undertaken and provided in a manner and form meeting the applicable requirements, the Group and/or persons owning assets in accounts with Group members may be subjected to a 30 percent withholding tax on certain amounts. While such withholding tax may currently apply only to certain payments derived from sources within the United States (and, beginning on January 1, 2019 certain gross proceeds from the disposition of assets that can give rise to such U.S. source payments), no such withholding tax will be imposed on any payments derived from sources outside the United States that are made prior to January 1, 2019 at the earliest.

- In addition to FATCA, the U.S. may require the Group in certain circumstances to provide certain information to U.S. payers (withholding agents, custodians, etc.) and the Group may face adverse consequences in case it does not provide such information in compliance with the applicable rules and regulations.
- The OECD's Common Reporting Standard ("CRS") provides for the automatic exchange of (financial account) information ("AEOI") in tax matters. Over 90 jurisdictions have committed to implement the CRS in 2016 or 2017, with the first exchange of information to take place in 2017 or 2018. Countries with a start date of January 1, 2016 include Cayman Islands, France, Germany, India, the United Kingdom and South Korea. Australia has legislated for the CRS to apply from July 1, 2017 (with the government to government exchange of information to take place by September 2018). Australian financial institutions that do not fully comply with all the requirements of the CRS (as modified by the implementing legislation), will be subject to administrative penalties.The New Zealand Government has released draft legislation

implementing the CRS with similar timelines as Australia. CRS requirements, though generally similar to FATCA, have significant differences and a higher standard of compliance in many aspects, including penalties for non-collection of prescribed customer information.

In line with other global financial institutions, ANZ has made and is expected to make significant investments in order to comply with, in all the countries that it operates in, the extensive requirements of FATCA, the CRS and the various other in-country tax reporting initiatives.

27. The Group may experience changes in the valuation of some of its assets and liabilities that may have a material adverse effect on its earnings and/or equity

Under AASs, the Group recognizes the following instruments at fair value with changes in fair value recognized in earnings or equity:

- derivative instruments, including in the case of fair value hedging, the fair value adjustment on the underlying hedged exposure with changes in fair value recognized in earnings with the exception of derivatives designated in qualifying cash flow or net investment hedges where the change is recognized in equity and released to earnings together with the underlying hedged exposure;
- assets and liabilities held for trading;
- available-for-sale assets with changes in fair value recognized in equity unless the asset is impaired, in which case, the decline in fair value is recognized in earnings; and
- assets and liabilities designated at fair value through profit and loss with changes recognized in earnings with the exception of changes in fair value attributable to the own credit component of liabilities that is recognized in equity.

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

In addition, the Group may be exposed to a reduction in the value of non-lending related assets as a result of impairments loss which is recognized in earnings. The Group is required to assess the recoverability of the goodwill balances at least annually and other non-financial assets including premises and equipment, investment in associates, capitalized software and other intangible assets (including acquired portfolio of insurance and investment business and deferred acquisition costs) where there are indicators of impairment.

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

In respect of other non-financial assets, in the event that an asset is no longer in use, or that the cash flows generated by the asset do not support the carrying value, impairment may be recorded.

28. Changes to accounting policies may adversely affect the Group's financial position or performance

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

In some cases, management must select an accounting policy or method from two or more alternatives, any of which might comply with the generally accepted accounting principles applicable to the Group and be reasonable under the circumstances, yet might result in reporting materially different outcomes than would have been reported under another alternative.

29. Litigation and contingent liabilities may adversely affect the Group's business, operations and financial condition

From time to time, the Group may be subject to material litigation, regulatory actions, legal or arbitration proceedings and other contingent liabilities which may adversely affect the Group's business, operations and financial condition.

The Group had contingent liabilities as at September 30, 2016 in respect of the matters outlined in Note 41 to the 2016 Financial Statements (attached as part of Annex A hereto).

Note 41 to the 2016 Financial Statements includes, among other things, descriptions of:

- bank fees litigation;
- proceedings in relation to Bank Bill Swap Rate;
- regulator investigations into foreign exchange trading; and
- security recovery actions.

In recent years there have been significant increases in the nature and scale of regulatory investigations and reviews, enforcement actions (whether by court action or otherwise) and the quantum of fines issued by regulators, particularly against financial institutions both in Australia and globally. The nature of these investigations and reviews can be wide ranging and, for example, currently include a range of matters including responsible lending practices, wealth advice and product suitability, conduct in financial markets and capital market transactions. During the year, ANZ has received various notices and requests for information from its regulators as part of both industry-wide and ANZ-specific reviews. The outcomes and total costs associated with such reviews remain uncertain.

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

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which ANZ is aware) that have arisen since September 30, 2016 up to the date of this 2016 U.S. Disclosure Document which may have a significant effect on the financial position or profitability of ANZ and its subsidiaries taken as a whole.

CURRENCY OF PRESENTATION AND EXCHANGE RATES

Currency of presentation

ANZ publishes consolidated financial statements in Australian Dollars. In this U.S. Disclosure Document, unless otherwise stated or the context otherwise requires, references to “US$”, “USD” and “U.S. dollars” are to U.S. Dollars and references to “$”, “AUD” and “A$” are to Australian Dollars. For the convenience of the reader, this U.S. Disclosure Document contains translations of certain Australian Dollar amounts into U.S. Dollars at specified rates. These translations should not be construed as representations that the Australian Dollar amounts actually represent such U.S. Dollar amounts or could be converted into U.S. Dollars at the rate indicated. Unless otherwise stated, the translations of Australian Dollars into U.S. Dollars have been made at the rate of US$0.7667 = A$1.00, the Noon Buying Rate in New York City for cable transfers in Australian Dollars as certified for customs purposes by the Federal Reserve Bank of New York (the “Noon Buying Rate”) on September 30, 2016. On October 31, 2016 the Noon Buying Rate was US$0.7611 = A$1.00.

For each of the periods indicated, the high, low, average, and period-end Noon Buying Rates for Australian Dollars were:

Noon Buying Rates for Australian Dollars

	USD per AUD1.00			
Year ended September 30	**High**	**Low**	**Average[1]**	**Period-end**
2012	1.0806	0.9453	1.0371	1.0388
2013	1.0579	0.8901	0.9885	0.9342
2014	0.9705	0.8715	0.9155	0.8737
2015	0.8904	0.6917	0.7781	0.7020
2016	0.7817	0.6855	0.7372	0.7667

1. *The fiscal year average is calculated based on the Noon Buying Rate on the last business day of each month during the period.*

Major Exchange Rates

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

	Balance Sheet As of September 30			Profit & Loss Average Year ended September 30		
	2016	**2015**	**2014**	**2016**	**2015**	**2014**
Chinese Yuan	**5.0809**	4.4573	5.3787	**4.8064**	4.8803	5.6547
Euro	**0.6789**	0.6229	0.6895	**0.6626**	0.6838	0.6779
Pound Sterling	**0.5874**	0.4625	0.5383	**0.5159**	0.5074	0.5552
Indian Rupee	**50.764**	46.142	53.941	**49.179**	49.522	56.166
Indonesian Rupiah	**9,900**	10,281	10,660	**9,887**	10,199	10,787
Japanese Yen	**76.844**	84.072	95.677	**82.039**	93.515	94.133
Malaysian Ringgit	**3.1576**	3.1176	2.8632	**3.0430**	2.8761	2.9749
New Taiwan Dollar	**23.895**	23.066	26.639	**23.904**	24.543	27.587
New Zealand Dollar	**1.0487**	1.1003	1.1219	**1.0737**	1.0785	1.0931
Papua New Guinean Kina	**2.4143**	2.0123	2.1717	**2.2606**	2.0940	2.2353
United States Dollar	**0.7617**	0.7013	0.8752	**0.7361**	0.7839	0.9201

For the September 2016 fiscal year, 35% (2015: 37%, 2014: 36%, 2013: 33%, and 2012: 32%) of ANZ's operating income was derived from the New Zealand and Asia Pacific, Europe & America ("APEA") geographic regions. Refer to Note 9 of the 2016 Financial Statements (attached as part of Annex A hereto) for a breakdown of total operating income by geographical location.

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

Australian Dollar movement against foreign currencies[1]

Year ended September 30	2016	2015	2014	2013	2012
Chinese Yuan	-2%	-14%	-8%	-6%	-3%
Euro	-3%	1%	-10%	-4%	8%
Pound Sterling	2%	-9%	-13%	-2%	2%
Indian Rupee	-1%	-12%	0%	4%	17%
Indonesian Rupiah	-3%	-5%	9%	4%	5%
Japanese Yen	-12%	-1%	3%	13%	-3%
Malaysian Ringgit	6%	-3%	-4%	-3%	2%
New Taiwan Dollar	-3%	-11%	-6%	-4%	2%
New Zealand Dollar	0%	-1%	-10%	-6%	-1%
Papua New Guinean Kina	8%	-6%	4%	-1%	-15%
United States Dollar	-6%	-15%	-7%	-3%	0%

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

ANZ monitors its exposure to revenues, expenses and invested capital denominated in currencies other than Australian Dollars. These currency exposures are managed in accordance with established hedging policies.

The Group has taken out economic hedges against larger foreign exchange denominated revenue streams (primarily New Zealand Dollar, US Dollar and US Dollar correlated). Refer to Note 20 of the 2016 Financial Statements (attached as part of Annex A hereto) for further details.

OPERATING AND FINANCIAL REVIEW

The following discussion of statutory profit is based on the 2016 Financial Statements (attached as part of Annex A hereto) prepared under AASs (refer to the section headed "Basis of preparation" within Section 1: Key information for a description of AASs).

ANZ's results for the past three fiscal years are summarized below and are also discussed under the headings of "Analysis of major income and expense items" and "Results by division", which follow. The analysis that follows discusses results before income tax, unless otherwise stated.

2015 comparative information at the divisional level has been restated throughout the document to reflect the impact of the organizational changes effected during the 2016 fiscal year as described under "Principal Activities of the Group" and cost reallocations between divisions due to continued realignment of support functions. The "2015 Originally Reported" column represents the results as published in the 2015 U.S. Disclosure Document. Accordingly divisional results are not presented on a comparable basis across all periods and references to divisions should be interpreted as set out in the following table:

Division	2016 and 2015 Restated	2015 Originally Reported and 2014
Australia	Australia Division as reported in 2015 adjusted for the inclusion of the Private Bank business in Australia previously reported in Global Wealth.	Former Australia Division as described on page 9 of the of the 2015 Annual U.S Disclosure Document.
Institutional	Residual business after removal of the Asia Retail & Pacific business from the former International & Institutional Banking ("IIB") division, and repositioning of minority investments in Asia from IIB to the Group Center.	Former International and Institutional Banking ("IIB") Division as described on page 9 of the of the 2015 Annual U.S Disclosure Document.
New Zealand	New Zealand Division as reported in 2015 adjusted for the inclusion of the New Zealand funds management and insurance businesses and the Private Bank business in New Zealand, both of which were previously reported in Global Wealth.	Former New Zealand Division as described on page 10 of the of the 2015 Annual U.S Disclosure Document.
Wealth Australia / Global Wealth	Residual Australian component of the former Global Wealth business after removal of the Private Bank business in Australia, New Zealand and Asia and the New Zealand funds management and insurance businesses.	Former Global Wealth division as described on page 10 of the 2015 Annual U.S Disclosure Document.
Asia Retail & Pacific	Former Asia Retail & Pacific business previously reported in IIB plus the former Private Bank business in Asia previously reported in Global Wealth.	Not applicable.

Specified Items

During the September 2016 fiscal year, the Group recognized the impact of a number of items collectively referred to as 'specified items' which form part of the Group's statutory profit. The specified items are described below to assist readers to understand the ongoing business performance of the group.

- **Software capitalization changes**

  During the September 2016 fiscal year, the Board resolved to amend the application of the Group's software capitalization policy by increasing the threshold for capitalization of software development costs to $20 million, reflecting the increasingly shorter useful life of smaller items of software, and directly expensing more project related costs.

  For software assets at October 1, 2015 with an original cost below the revised threshold, the carrying values were expensed through an accelerated amortization charge of $556 million (recognized in TSO & Group Center). Of this, $183 million would otherwise have been amortized in the September 2016 fiscal year (i.e. the fiscal year amortization charge increased by $373 million).

  In addition, application of the software capitalization changes also increased operating expenses by $370 million for the September 2016 fiscal year relating to software development costs that would otherwise have been capitalized and amortized in future periods.

  Going forward, these changes will result in higher project expenditure being expensed in the profit and loss which will be offset by lower amortization charges.

	Year ended September 30, 2016			
Operating expense increase/(decrease) by division	**Accelerated amortization $M**	**Amortization benefit $M**	**Application of policy to new project expenditure $M**	**Total impact $M**
Australia	-	(42)	123	**81**
Institutional	-	(54)	78	**24**
New Zealand	-	(17)	51	**34**
Wealth Australia	-	(28)	37	**9**
Asia Retail & Pacific	-	(7)	3	**(4)**
TSO and Group Center	556	(35)	78	**599**
Total	556	(183)	370	**743**

- **Asian minority investments adjustments**

During the September 2016 fiscal year, the Group recognized a $260 million impairment to its equity accounted investment in AMMB Holdings Berhad ("Ambank"), bringing the carrying value in line with value-in-use calculation (refer to Note 34 of the 2016 Financial Statements (attached as part of Annex A hereto)).

On March 30, 2016, Bank of Tianjin (BoT), an equity accounted investment, completed a capital raising and listing on the Hong Kong Stock Exchange through an Initial Public Offering (IPO). As the Group did not participate in the capital raising, its ownership interest decreased from 14% to 12%. As a consequence, the Group ceased equity accounting the investment in BoT and commenced accounting for the investment as an available-for-sale asset. A net gain of $29 million was recognized in relation to the remeasurement of the investment to fair value and recycling the associated equity accounted reserves.

- **Restructuring**

The Group is in the process of reshaping the workforce in response to its evolving strategy. This includes simplification of the Institutional and Wealth businesses, restructure of Asia Retail & Pacific, and simplification and digitization in Australia, New Zealand and TSO and Group Center. A restructuring expense of $278 million was recognized in the September 2016 fiscal year.

	Years ended September 30	
Restructuring expense by division	**2016 $M**	**2015 $M**
Australia	49	2
Institutional	90	8
New Zealand	18	3
Wealth Australia	20	1
Asia Retail & Pacific	12	-
TSO and Group Center	89	17
Total	**278**	31

- **Esanda Dealer Finance divestment gain**

On November 1, 2015, the Group sold the Esanda Dealer Finance portfolio with the majority of the business transferred by December 31, 2015. The divestment gain of $66 million was recognized in other operating income in the TSO and Group Center division.

- **Derivative CVA methodology change**

In determining the fair value of a derivative, the Group recognizes a derivative credit valuation adjustment (CVA) to reflect the probability that the counterparty may default and the Group may not receive the full market value of outstanding transactions. It represents an estimate of the credit adjustment a market participant would include when deriving a purchase price to acquire the exposure. During the September 2016 fiscal year, the Group revised its methodology for determining the derivative credit valuation adjustment to make greater use of market information and enhanced modelling, and to align with leading market practice. The impact to profit before income tax associated with this methodology change is an incremental derivative credit valuation adjustment charge of $237 million.

Group Profit and Loss

	Years ended September 30			
	2016 $M	Restated 2015[1] $M	Originally Reported 2015[1] $M	2014 $M
Net interest income	15,095	14,616	14,616	13,810
Other operating income[1]	5,434	6,474	6,455	6,244
Operating income	20,529	21,090	21,071	20,054
Operating expenses[1]	(10,422)	(9,378)	(9,359)	(8,760)
Profit before credit impairment and income tax	10,107	11,712	11,712	11,294
Credit impairment charge	(1,929)	(1,179)	(1,179)	(986)
Profit before income tax	8,178	10,533	10,533	10,308
Income tax expense	(2,458)	(3,026)	(3,026)	(3,025)
Non-controlling interests	(11)	(14)	(14)	(12)
Profit after income tax	**5,709**	**7,493**	**7,493**	**7,271**

1. *In 2016, certain cards related fees that are integral to the generation of income have been reclassified from operating expenses to other operating income to better reflect the nature of the items. For the 2015 fiscal year (Restated 2015), $19 million of card related fees have been reclassified from other operating income to operating expenses. Originally Reported 2015 and 2014 comparative amounts have not been restated.*

Comparison of 2016 with Restated 2015

Profit after income tax decreased $1,784 million (-24%) compared to the 2015 fiscal year mainly due to a number of specified items: software capitalization changes, Asian minority investments adjustments, restructuring expenses, the Esanda Dealer Finance divestment gain and the derivative CVA methodology change. Excluding these items, profit after income tax decreased $727 million (-10%). Key factors affecting the result were:

- Net interest income increased $479 million (+3%) with 5% growth in average interest earning assets, partly offset by a 4 basis point decrease in net interest margin. Adjusting for the $96 million favorable impact of foreign currency translation and the $224 million impact from divesting the Esanda Dealer Finance loan portfolio, net interest income increased by $607 million (+4%) and net interest margin fell by 1 basis point. Average interest earning assets increased by $37.1 billion (+5%) reflecting a $10.2 billion increase due to foreign currency translation impact, lending growth of $13.7 billion, an $8.5 billion increase in trading securities and available-for-sale assets and a $3.8 billion increase in collateral paid. Loan growth occurred primarily in Australia and New Zealand home loans, partially offset by a decrease in Institutional loans as a result of the strategic repositioning of that business to improve capital efficiency and returns. The net interest margin decline was primarily due to increased wholesale funding costs, growth in the lower margin liquidity portfolio and lower earnings from financial market activities, partially offset by improved Australian home loan margins.
- Other operating income decreased $1,040 million (-16%). This decrease was primarily driven by economic hedges which decreased from an unrealized gain of $256 million to an unrealized loss of $180 million, partially offset by a favorable foreign currency translation impact of $225 million as well as a $60 million reduction in realized and unrealized revenue hedge losses. Adjusting for this, other operating income decreased by $889 million which was mainly due to the $260 million impairment of the investment in Ambank (refer to Note 34 of the 2016 Financial Statements (attached as part of Annex A hereto)), the $237 million derivative CVA methodology change, a $261 million decrease in Institutional as a result of the strategic repositioning of that business to improve capital efficiency and returns, along with lower sales revenue in Markets as well as a $51 million decrease in net funds management and insurance income.
- Operating expenses increased $1,044 million (+11%) with foreign currency translation having a $114 million unfavorable impact. Adjusting for this, operating expenses increased $930 million (+10%) mainly due to a $743 million increase related to software capitalization changes and a $247 million increase in restructuring charges. Excluding specified items and foreign currency translation impacts, operating expenses decreased $60 million (-1%) with personnel expenses decreasing by $230 million (-4%) due to a 7% FTE reduction (-5% average) and lower incentive expenses, offset by higher technology expenses which increased $189 million (+13%) from higher depreciation and amortization of digital-enabling and other core infrastructure, as well as higher licensing and outsourced services costs.
- Credit impairment charges increased $750 million (+64%) with foreign currency translation having a $9 million unfavorable impact. Adjusting for this, individual credit impairment charges increased by $819 million (+76%) predominantly from a small number of Australian and multinational resource related exposures in Institutional; increased provisions in the Australia division due to growth in Small Business Banking and higher delinquencies in the retail and commercial portfolios in Queensland and Western Australia; as well as the commercial settlement of the legal dispute with Pankaj and Radhika Oswal in Institutional. This was partially offset by a $78 million (-82%) decrease in the collective credit impairment charge.

Comparison of Originally Reported 2015 with 2014

Profit after income tax increased $222 million (+3%). Key factors affecting the result were:

- Net interest income increased $806 million (+6%) with 11% growth in average interest earning assets, partly offset by a 9 bps decrease in net interest margin. $276 million of the increase in net interest income was due to foreign currency translation. The $71.2 billion increase in average interest earning assets was primarily due to foreign currency translation of $20.9 billion, loan growth of $26.7 billion in home loans and commercial lending and $24.7 billion growth in Markets driven by the Group liquidity portfolio and cash reserves. The decrease in net interest margin was due to asset competition, lower earnings on capital and higher liquid asset holdings, partly offset by favorable deposit pricing.
- Other operating income increased $211 million (+3%) driven by a $198 million (+13%) increase in net funds management and insurance income primarily due to growth in funds under management, insurance in-force premium growth, improved insurance lapse rates as well as a $47 million one-off loss in 2014 due to the exit of a Group Life Insurance plan. In addition, other operating income was impacted by a $166 million increase in mark-to-market gains from economic hedging partially offset by a $139 million decrease in unrealized gains from revenue hedges. The remaining $14 million decrease was primarily driven by a reduction in Markets' other operating income of $218 million and the one-off $125 million gain on sale of

ANZ Trustees in 2014, offset by a $194 million positive impact from foreign currency translation, a $64 million increase in share of associates' profit and a $42 million increase in fee income in Institutional[1] from volume growth.

- Operating expenses increased $599 million (+7%) with $324 million of the increase due to foreign currency translation. Personnel expenses increased $177 million from annual salary increases, and technology expenses increased by $166 million primarily from higher depreciation and amortization of key infrastructure projects. These increases were partially offset by an $82 million decrease in restructuring expenses.
- Total credit impairment charges increased $193 million (+20%) due to a $250 million increase in collective credit impairment charges, offset by a $57 million decrease in individual impairment charges. The $95 million collective credit impairment charge for the year reflects lending growth in Australia, credit downgrades of a few Institutional[1] customers, partially offset by associated economic cycle releases. This compares to a $155 million release in 2014 resulting from credit upgrades in Institutional[1] and New Zealand, and net decreases in the economic cycle overlay.

[1] *As described at page 34, Institutional as used here refers to the former International & Institutional Banking ('IIB') division.*

Analysis of major income and expense items

Net interest income

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

Group	Years ended September 30			
	2016 $M	Restated 2015 $M	Originally Reported 2015 $M	2014 $M
Net interest income [1]	15,095	14,616	14,616	13,810
Average interest earning assets[2]	754,160	717,012	718,147	646,997
Average deposits and other borrowings	586,453	559,779	559,779	507,856
Net interest margin (%)	2.00	2.04	2.04	2.13

1. *The divested Esanda Dealer Finance portfolio contributed $31 million to the net interest income for the year ended September 30, 2016 (2015: $255 million).*
2. *During the September 2016 fiscal year, individual provisions for credit impairment were moved from non-interest earning assets to more accurately reflect the yield on impaired loans and advances. 2015 comparatives (Restated 2015) for average interest earning assets have been restated but there was no impact on the net interest margin. Originally Reported 2015 and 2014 comparatives have not been restated.*

Net interest margin by major division	Years ended September 30			
	2016 $M	Restated 2015[1] $M	Originally Reported 2015[1,2] $M	2014[2] $M
Australia				
Net interest margin (%)	2.55	2.55	2.50	2.52
Average interest earning assets	322,012	302,074	300,609	280,702
Average deposits and other borrowings	183,104	170,857	163,713	156,418
Institutional				
Net interest margin (%)	1.13	1.20	1.34	1.50
Average interest earning assets	305,468	299,426	311,487	267,028
Average deposits and other borrowings	232,919	229,563	246,987	221,371
New Zealand				
Net interest margin (%)	2.38	2.50	2.48	2.49
Average interest earning assets	103,166	95,207	93,513	87,210
Average deposits and other borrowings	75,417	68,079	63,157	55,852

1. *Certain 2015 amounts (Restated 2015) reported as comparative information at the divisional level have been restated as a result of business unit reallocations between the divisions. These reallocations do not have an impact on the comparative information at the Group level. Originally Reported 2015 and 2014 comparative amounts have not been restated.*
2. *As described at page 34, Institutional as used here refers to the former International & Institutional Banking ('IIB') division.*

Comparison of 2016 with Restated 2015

The increase in net interest income of $479 million (+3%) was driven by a $37.1 billion increase in average interest earning assets, partially offset by a 4 bps decrease in net interest margin.

Net interest margin (-4 bps)

- Asset and funding mix (+1 bps): favorable mix impact from a higher proportion of capital and run-off of lower margin trade loans was partially offset by adverse asset mix impact from the Esanda Dealer Finance divestment.
- Funding costs (-1 bps): impact from unfavorable wholesale funding costs.
- Deposit competition (0 bps): minimal pricing impacts across the portfolio.
- Asset competition and risk mix (+4 bps): improved Australian Home Loan margins following repricing was partially offset by lending margin compression in New Zealand and lower spreads within Institutional and Commercial Lending.
- Markets and treasury (-8 bps): adverse impact of lower earnings on capital from lower interest rates, growth in liquidity portfolio and lower earnings from financial market activities.

Average interest earning assets (+$37.1 billion or +5%)

- Average gross loans and advances (+$18.7 billion or +3%): excluding the impact of foreign currency translation, growth was +$13.7 billion or +2% driven by growth in Australia and New Zealand Home Loans. This was partially offset by a decline in Institutional lending due to the strategic repositioning of that business, as well as the Esanda Dealer Finance divestment.
- Average collateral paid (+$4.1 billion or +49%): excluding the impact of foreign currency translation, increase was +$3.8 billion or +44% due to mark-to-market declines on positions with collateralized derivative counterparties.
- Average trading and available-for-sale assets (+$9.7 billion or +11%): excluding the impact of foreign currency translation, growth was +$8.5 billion or +9% driven by growth in the liquidity portfolio.

- Average cash (+$2.6 billion or +6%): excluding the impact of foreign currency translation, growth was +$0.9 billion or +2% driven by management of liquidity requirements.

Average deposits and other borrowings (+$26.7 billion or +5%)

- Average deposits and other borrowings (+$26.7 billion or +5%): excluding the impact of foreign currency translation, growth was +$16.7 billion or +3% driven by customer deposits growth across Australia and New Zealand businesses.

Comparison of Originally Reported 2015 with 2014

The increase in net interest income of $806 million (+6%) was driven by an increase in average interest earning assets, partially offset by a reduction in the net interest margin.

Net interest margin (-9 bps)

- Asset competition and risk mix (-9 bps): unfavorable impact of home loan competition in Australia and New Zealand and switching from variable rates to fixed rate loans in New Zealand, as well as competition in Loans & Specialized Finance and Corporate & Commercial Banking.
- Markets and treasury (-8 bps): driven by lower earnings on capital due to lower interest rates and higher liquid asset holdings which have a lower rate of return.
- Asset mix and funding mix (+1 bp): favorable funding mix from a higher proportion of capital. Asset mix had no impact on margin as lower margin Home Loans were offset by a reduced proportion of Trade Loans.
- Funding costs (+1 bp): benefit from favorable wholesale funding costs.
- Deposit competition (+6 bps): benefits from deposit pricing, particularly term deposits across Australia and New Zealand.

Average interest earning assets (+$71.2 billion or +11%)

- Institutional[1] (+$44.5 billion or +17%): excluding foreign currency translation, growth was $25.1 billion or +9%. $24.7 billion of this increase was in Markets driven by a $17.0 billion increase in the Group liquidity portfolio in response to regulatory requirements, a $3.8 billion increase in reverse repos and a $2.2 billion increase in collateral paid against derivative liabilities. Lending in Loans & Specialized Finance increased by $4.2 billion. Trade volumes contracted by $4.6 billion due to the impact of lower commodity prices.
- Australia (+$19.9 billion or +7%): driven by growth in home loans where market share continued to increase.
- New Zealand (+$6.3 billion or +7%): excluding foreign currency translation, growth was $5.1 billion or +6% driven by market share gains in Retail, as well as Commercial loan growth.
- Global Wealth[2] and Group Center (+$0.5 billion or 4%): broadly unchanged during the period.

Average deposits and other borrowings (+$51.9 billion or +10%)

- Institutional[1] (+$25.6 billion or +12%): excluding foreign currency translation, deposits and other borrowings increased $5.7 billion or +2% driven by $6.7 billion growth in customer deposits in Transaction Banking, particularly in Asia, partially offset by $1.8 billion in certificates of deposit.
- Australia (+$7.3 billion or +5%): driven by growth in customer deposits within Retail and Commercial.
- New Zealand (+$7.3 billion or +13%): excluding foreign currency translation, growth was $6.5 billion or +12% due to increased customer deposits across Retail and Commercial, particularly in Retail savings products.
- Global Wealth[2] and Group Center (+$11.7 billion or 16%): growth mainly in Treasury securities sold under repurchase agreement.

1 *As described at page 34, Institutional as used here refers to the former International & Institutional Banking ('IIB') division.*

2 *As described at page 34, Global Wealth as used here refers to the former Global Wealth division prior to the changes effected during the 2016 fiscal year.*

Other operating income

	Years ended September 30			
	2016 $M	Restated 2015[1,2,3] $M	Originally Reported 2015[1,2,3] $M	2014 $M
Net fee and commission income[1,2,3,4]	**2,420**	2,527	2,448	2,364
Net funds management and insurance income[2,4]	**1,764**	1,815	1,736	1,538
Markets other operating income[3,5]	**765**	1,062	1,185	1,285
Share of associates profit[4]	**544**	625	625	510
Net foreign exchange earnings[2,3,4]	**290**	123	79	96
Economic hedging[6]	**(180)**	256	256	90
Revenue hedges[7]	**(93)**	4	4	143
Other[1,2,3,4,8]	**(76)**	62	122	218
Total other operating income[9]	**5,434**	6,474	6,455	6,244

	Years ended September 30			
Markets operating income	2016 $M	Restated 2015[3] $M	Originally Reported 2015[3] $M	2014 $M
Net interest income[3]	**1,035**	1,107	1,099	1,043
Other operating income[3,5]	**765**	1,062	1,185	1,285
Markets operating income	**1,800**	2,169	2,284	2,328

1. *In 2016, certain cards related fees that are integral to the generation of income have been reclassified from operating expenses to other operating income to better reflect the nature of the items. For the 2015 fiscal year (Restated 2015), $19 million of card related fees have been reclassified from other operating income to operating expenses. Originally Reported 2015 and 2014 comparatives have not been restated.*
2. *Income from certain insurance and other wealth related products has been reclassified within other operating income to better reflect the nature of the items. For the 2015 fiscal year (Restated 2015), $79 million of insurance and other wealth related income has been reclassified from net fee and commission income and other to net funds management and insurance income. Originally Reported 2015 and 2014 comparatives have not been restated.*
3. *Certain 2015 amounts (Restated 2015) reported as comparative information have been restated as a result of business unit reallocations from Markets to Asia Retail & Pacific and other Institutional business units. Originally Reported 2015 and 2014 comparative amounts have not been restated.*
4. *Excluding Markets.*
5. *Markets other operating income for the 2016 fiscal year includes a charge of $237 million related to the derivative CVA methodology change described on page 35.*
6. *Represents gains and losses on economic hedges used to manage interest rate and foreign exchange risk and the ineffective portion of designated accounting hedges.*
7. *Represents gains and losses on revenue hedges used to hedge large foreign exchange denominated revenue streams.*
8. *Other income for the 2016 fiscal year includes the $260 million impairment of the investment in Ambank, $29 million gain on cessation of equity accounting of BoT and a $66 million gain on the Esanda Dealer Finance divestment.*
9. *The divested Esanda Dealer Finance portfolio contributed $12 million to the other operating income for the year ended September 30, 2016 (2015: $51 million).*

Comparison of 2016 with Restated 2015

Other operating income decreased $1,040 million (-16%). Excluding specified items (impairment of the investment in Ambank, gain on cessation of equity accounting of BoT, gain on the Esanda Dealer Finance divestment and the derivative CVA methodology change), Other operating income decreased by 10%. Key factors affecting the result were:

Net fee and commission income

Decreased by $107 million (-4%). Key factors included:

- $24 million favorable impact due to foreign currency translation.
- $16 million increase in New Zealand mainly due to volume driven growth.
- $105 million decrease in Institutional as a result of exiting lower returning business and a slowdown in natural resource related projects.
- $19 million decrease in Asia Retail & Pacific due to lower demand for investment and insurance products in Asia.
- $17 million decrease in fees in Australia resulting from the Esanda Dealer Finance divestment, partially offset by volume driven growth in home loans.

Net funds management and insurance income

Increased by $51 million (-3%). Key factors included:

- $7 million favorable impact of foreign currency translation.
- $24 million increase driven by higher premiums in life insurance.
- $14 million increase in management fees, mainly in KiwiSaver driven by an increase in volumes.
- $23 million decrease in revenue due to the non-reoccurrence of a GST recovery on Adviser service fees in 2015.
- $31 million increase in contribution tax and investment income tax attributable to policyholders.
- $29 million decrease due to the impact of changes in market discount rates on the re-measurement of insurance policy liabilities.

Markets operating income

Decreased by $369 million (-17%). Key factors included:

- $47 million favorable impact of foreign currency translation.
- $237 million charge due to the derivative CVA methodology change.

- $130 million (-11%) decrease in Sales income driven by lower rates and foreign exchange income as a result of lower demand for hedging products, as well as decreased commodities income due to lower demand for gold financing from Asian customers.
- $32 million (-8%) decrease in Balance sheet income primarily as a result of higher funding valuation adjustments, partly offset by the benefit of narrowing credit spreads in 2016.
- $17 million (-3%) decrease in Trading income primarily as a result of higher funding valuation adjustments, partly offset by higher credit trading income.

Share of associates' profit

Decreased by $81 million (-13%). Key factors included:

- $6 million favorable impact of foreign currency translation.
- $36 million increase in Shanghai Rural Commercial Bank primarily driven by higher investment and fee income.
- $6 million increase in Metro Card Corporation Inc. driven by lending growth and expense management.
- $76 million decrease in BoT mainly due to cessation of equity accounting in the March 2016 half.
- $36 million decrease in Ambank due to margin contraction, lower fee income and subdued Malaysian economic conditions.
- $17 million decrease in P.T. Bank Pan Indonesia mainly due to higher credit provisions.

Net foreign exchange earnings

Increased by $167 million due to:

- Lower losses in 2016 on realized USD and NZD revenue hedges ($157 million) compared with 2015.

Economic hedging

Decreased by $436 million. Key factors included:

- During the 2016 year, the majority of the $180 million loss related to funding related swaps, most notably in the first half where losses were impacted due to strengthening of the AUD against a number of major currencies, most notably the USD and EUR.
- During the 2015 year, the majority of the $256 million gain arose in the second half and mainly related to funding related swaps that were impacted due to weakening of the AUD across a number of major currencies, most notably the USD and EUR.

Revenue hedges

Decreased by $97 million. Key factors included:

- During the 2016 year, a $148 million loss was recorded during the second half which was principally attributable to weakening of the AUD against the NZD exchange rate. This loss was partially offset by a $55 million gain in the first half which resulted from the recycling of prior period losses on USD positions that settled during that period.
- During the 2015 year, a $256 million gain recorded during the second half principally attributable to the strengthening of the AUD against the NZD exchange rate was partially offset by losses attributable to the weakening of the AUD against the USD. This gain reversed a $252 million loss in the first half attributable to the weakening of the AUD against both the USD and NZD exchange rates.

Other

Decreased by $138 million. Key factors included:

- $5 million favorable impact due to foreign currency translation.
- $66 million increase due to a gain on the Esanda Dealer Finance divestment.
- $29 million increase due to a gain on cessation of equity accounting for BoT.
- $26 million increase due to a cash dividend from BoT.
- $260 million decrease due to the impairment of the investment in Ambank (refer to Note 34 of the 2016 Financial Statements (attached as part of Annex A hereto)).

Comparison of Originally Reported 2015 with 2014

Other operating income increased $211 million (+3%). Key factors affecting the result were:

Net fee and commission income

Increased by $84 million (+4%). Key factors included:

- $65 million positive impact due to foreign currency translation.
- Increased fee income of $42 million in Institutional[1] from Retail Asia & Pacific[2] and Transaction Banking volume growth.
- Partially offset by the divestment of the ANZ Trustees business in July 2014.

Net funds management and insurance income

Increased by $198 million (+13%). Key factors included:

- Insurance premium income increased by $227 million primarily as a result of increased in-force premium growth, improved lapse rates and a one-off $47 million loss in 2014 due to the exit of a Group life insurance plan.
- $808 million decrease in investment income due to subdued investment market conditions in 2015.

- Changes in policy liabilities decreased by $713 million consistent with the decrease in investment income during the period.

Markets operating income

Decreased by $44 million (-2%). Key factors included:

- Balance Sheet income decreased 30% driven by widening credit spreads on balance sheet trading positions, particularly in the last weeks of the financial year where there was market dislocation.
- Credit decreased 23% as European debt and Chinese economic concerns drove widening credit spreads impacting Asian and European bond holdings.
- Sales income increased 7%, with global volatility increasing demand for Foreign Exchange, Commodities and Rates products.
- Foreign Exchange income increased 7%, with increased customer activity.
- Commodities income increased 52%, with continued demand for gold from Asian clients and falling commodity prices.
- Rates income increased 39% with increased customer hedging activities in the prevailing lower interest rate environment.

Share of associates' profit

Increased by $115 million (+23%) with foreign currency translation driving an increase of $51 million and the remaining increase explained by:

- Shanghai Rural Commercial Bank ("SRCB") increased $53 million due to lending growth and the impairment of an investment held by SRCB in 2014.
- Bank of Tianjin ("BoT") increased $45 million due to asset growth.
- AMMB Holdings Berhad ("AMMB") decreased $22 million mainly due to net interest margin contraction from a change in lending mix, and the divestment of its insurance business in September 2014.
- P.T. Bank Pan Indonesia decreased $13 million mainly due to lower earnings and a $10 million loan recovery in 2014.

Net foreign exchange earnings

Decreased by $17 million (-18%). Key factors included:

- $12 million positive impact of foreign currency translation.
- Higher realized losses of $68 million on foreign currency hedges in TSO and Group Center, these offset translation gains elsewhere in the Group.
- Higher unrealized gains of $19 million on foreign currency balances held in Institutional[1].
- Transaction Banking increased $14 million due to volume growth in Australia and New Zealand.

Economic hedging

Increased by $166 million. Key factors included:

- During the 2015 year, the majority of the $256 million gain arose in the second half and mainly related to funding related swaps that were impacted by the significant weakening in the AUD against a number of major currencies, most notably the USD and EUR.
- During the 2014 year, the $203 million gain during the second half was mainly attributable to funding related swaps due to widening basis spreads from movements in currency pairs (primarily AUD/USD and USD/EUR). These were partially offset by a $100 million loss during the first half which was mainly driven from a narrowing of basis spreads from the same currency pairs.

Revenue hedges

Decreased by $139 million (-97%). Key factors included:

- During the 2015 year, a $256 million gain recorded during the second half was principally attributable to the strengthening of the AUD against the NZD exchange rate partially offset by losses attributable to the weakening of the AUD against the USD. This gain reversed a $252 million loss in the first half attributable to the weakening of the AUD against both the USD and NZD exchange rates.
- During the 2014 year, the $143 million gain was primarily the result of significant strengthening in the AUD against NZD exchange rate during the second half.

Other income

Decreased by $96 million (-44%). Key factors included:

- $39 million positive impact due to foreign currency translation.
- The $125 million gain on sale of ANZ Trustees recognized in 2014.

1 *As described at page 34, Institutional as used here refers to the former International & Institutional Banking ('IIB') division.*

2 *As described at page 34, Asia Retail & Pacific formed part of the former International & Institutional Banking ('IIB') division (presented as Institutional in this disclosure document) in 2015 Originally Reported and 2014.*

Operating expenses

	Years ended 30 September			
	2016 $M	Restated 2015[1] $M	Originally Reported 2015[1] $M	2014 $M
Personnel expenses[2]	5,541	5,479	5,479	5,088
Premises expenses	928	922	922	888
Technology expenses[2]	2,150	1,462	1,462	1,266
Restructuring expenses	278	31	31	113
Other expenses[1,2]	1,525	1,484	1,465	1,405
Total operating expenses[3]	**10,422**	**9,378**	**9,359**	**8,760**
Full time equivalent staff (FTE)	**46,554**	**50,152**	**50,152**	**50,328**
Average full time equivalent staff (FTE)	**48,633**	**50,953**	**50,953**	**49,886**

1. *In 2016, certain cards related fees that are integral to the generation of income have been reclassified from operating expenses to other operating income to better reflect the nature of the items. For the 2015 fiscal year (Restated 2015), $19 million of card related fees have been reclassified from other operating income to operating expenses. Originally Reported 2015 and 2014 comparative amounts have not been restated.*
2. *The $743 million charge associated with the software capitalization changes included in the September 2016 fiscal year comprises $213 million of personnel expenses, $492 million of technology expenses, and $38 million of other expenses. Refer to page 34 for further details.*
3. *The divested Esanda Dealer Finance portfolio contributed $17 million to the operating expenses for the year ended September 30, 2016 (2015: $43 million).*

Comparison of 2016 with Restated 2015

Operating expenses increased $1,044 million (+11%) compared to the September 2015 fiscal year due to a number of specified items (software capitalization and restructuring). Excluding these, and the impact of foreign currency translation, operating expenses were slightly down.

- Personnel expenses increased $62 million (+1%). Excluding an unfavorable foreign currency translation impact of $79 million and $213 million due to software capitalization changes (personnel expenses that would have otherwise been capitalized), personnel expenses decreased $230 million (-4%) due to a 7% decrease in FTE (-5% on average), primarily managed through restructuring activities across the Group and natural attrition, and lower incentive expenses, partially offset by annual salary inflation.
- Premises expenses increased $6 million (+1%). Excluding an unfavorable foreign currency translation impact of $9 million, premises expenses decreased by $3 million (0%) driven by lower repairs and maintenance costs, partially offset by annual inflationary rent increases.
- Technology expenses increased $688 million (+47%). Excluding an unfavorable foreign currency translation impact of $7 million and $492 million due to software capitalization changes (comprising $373 million of accelerated amortization for software assets and $119 million of expenditure which would otherwise have been capitalized), technology expenses increased $189 million (+13%) driven by higher depreciation and amortization of digital-enabling and other core infrastructure, as well as higher licensing and outsourced services costs.
- Restructuring expenses increased $247 million. The Group is in the process of reshaping the workforce in response to its evolving strategy. This includes simplification of the Institutional and Wealth businesses, restructure of Asia Retail & Pacific, and simplification and digitization in Australia, New Zealand, and TSO and Group Center.
- Other expenses increased $41 million (+3%). Excluding an unfavorable foreign currency translation impact of $16 million and $38 million due to software capitalization changes (other expenses that would otherwise have been capitalized), other expenses decreased $13 million (-1%) with lower discretionary expenses offsetting higher professional fees and non-lending losses.

Comparison of Originally Reported 2015 with 2014

Operating expenses increased $599 million (+7%). Key factors affecting the results were:

- Personnel expenses increased $391 million (+8%), with $214 million of the increase due to foreign currency translation and $177 million driven by annual salary increases and related costs.
- Premises expenses increased $34 million (+4%), with $29 million of the increase driven by foreign currency translation and $5 million primarily due to the impact of rent increases linked to CPI.
- Technology expenses increased $196 million (+15%), with $30 million of the increase due to foreign currency translation and $166 million due to increased depreciation and amortization on key infrastructure projects, higher data storage and software license costs and the increased use of outsourced and managed services.
- Restructuring expenses decreased $82 million (-73%), with $2 million of the decrease due to foreign currency translation and $80 million due to decreased restructuring costs across all divisions.
- Other expenses increased $60 million (+4%), with $49 million of the increase due to foreign currency translation and $11 million from higher spend related to compliance and regulatory remediation activities, partly offset by GST recoveries and the write down of intangible assets in Global Wealth[1] in 2014.

1 *As described at page 34, Global Wealth as used here refers to the former Global Wealth division prior to the changes effected during the 2016 fiscal year.*

Credit Risk

Under AASs, the credit impairment charge represents management's best estimate of incurred loss. The estimated incurred loss is calculated as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

The credit impairment charge consists of two components: the individual credit impairment charge and the collective credit impairment charge.

Provisions for credit impairment are raised when there is objective evidence of impairment. Impairment is assessed individually for financial assets that are individually known to be impaired and are individually significant (or on a portfolio basis for small value homogenous loans) and then on a collective basis for those loans not individually known to be impaired.

Under AASs, the collective provision for credit impairment is calculated for financial assets for which there is an incurred loss but the financial assets have not been individually identified as impaired.

The collective credit impairment charge is calculated as the change in the collective provision for credit impairment during the reporting period. The collective provision for credit impairment at the end of the reporting period reflects the impact on estimated future cash flows for loans where there is an incurred loss and that loss will become observable over an emergence period. The emergence period represents the time from when a loss event occurs until the Group assesses the loan for individual impairment and raises an individual provision. The impact on estimated future cash flows is calculated based on historical loss experience for assets with credit characteristics similar to those in the collective pool. The collective provision also takes into account management's assessment of the impact of large concentrated losses within the portfolio and the economic cycle.

Credit Impairment Charge

	Year ended 30 September					
	2016 $M			Restated 2015 $M		
Division	Individual charge	Collective charge	Total charge	Individual charge	Collective charge	Total charge
Australia	898	22	920	761	91	852
Institutional	774	(33)	741	206	(8)	198
New Zealand	104	16	120	54	1	55
Asia Retail & Pacific	163	11	174	86	12	98
TSO & Group Center	(27)	1	(26)	(23)	(1)	(24)
Total[1]	**1,912**	**17**	**1,929**	**1,084**	**95**	**1,179**

	Year ended 30 September					
	Originally Reported 2015 $M			2014 $M		
Division	Individual charge	Collective charge	Total charge	Individual charge	Collective charge	Total charge
Australia	761	92	853	787	31	818
Institutional[2]	291	4	295	290	(74)	216
New Zealand	54	1	55	63	(71)	(8)
Global Wealth[3]	-	-	-	1	(3)	(2)
TSO & Group Center	(22)	(2)	(24)	-	(38)	(38)
Total[1]	**1,084**	**95**	**1,179**	**1,141**	**(155)**	**986**

1. *The divested Esanda Dealer Finance portfolio contributed $23 million to the credit impairment charge for the year ended September 30, 2016 (2015: $130 million).*
2. *As described at page 34, Institutional as used here refers to the former International & Institutional Banking ('IIB') division.*
3. *As described at page 34, Global Wealth as used here refers to the former Global Wealth division prior to the changes effected during the 2016 fiscal year.*

Comparison of 2016 with Restated 2015

- The individual credit impairment charge increased $828 million (+76%), driven by increases in new and existing provisions of $688 million (+39%), combined with a $140 million (-21%) reduction in recoveries and write-backs. New and existing provisions increased in the Institutional division from a small number of Australian and multi-national resource related exposures, continued commodity and manufacturing sector weaknesses and the commercial settlement of the legal dispute with Pankaj and Radhika Oswal. In the Australia division, the increase was predominantly due to growth in Small Business Banking, higher delinquencies in the retail and commercial portfolios in Queensland and Western Australia, and higher write-backs in Corporate Banking in 2015 (not repeated in 2016). In the New Zealand division, the increase was driven by new provisions in the Agri and Commercial portfolios and lower levels of write-backs.
- The collective credit impairment charge decreased $78 million (-82%) due to portfolio contraction in Institutional, lower portfolio growth in Australia division and customer migration from collective to individual provisioning in Institutional, partially offset by release of economic cycle overlay in 2015 not repeated in 2016.

Comparison of Originally Reported 2015 with 2014

- The individual credit impairment charge decreased $57 million (-5%) primarily due to lower new impairment charges in New Zealand and to a lesser extent Australia, partly offset by an increase in Institutional[1]. Recoveries and write-backs remained consistent year on year.
- The collective credit impairment charge increased by $250 million compared to the prior year. The $155 million release in 2014 was attributable to customer credit rating upgrades in Institutional[1] and New Zealand divisions as well as net decreases in the economic cycle overlay provisions. The $95 million charge in 2015 was attributable to customer credit rating downgrades for a few large Institutional[1] customers and lending growth in Australia division, partially offset by associated economic cycle overlay releases.

1 *As described at page 34, Institutional as used here refers to the former International & Institutional Banking ('IIB') division.*

Provision for credit impairment

	As of September 30					
	2016 $M			Restated 2015 $M		
Division	Individual provision	Collective provision[1]	Total provision	Individual provision	Collective provision[1]	Total provision
Australia	606	1,188	1,794	590	1,244	1,834
Institutional	566	1,114	1,680	300	1,179	1,479
New Zealand	117	374	491	139	340	479
Asia Retail & Pacific	18	196	214	32	190	222
TSO & Group Center	-	4	4	-	3	3
Total	**1,307**	**2,876**	**4,183**	**1,061**	**2,956**	**4,017**

	As of September 30					
	Originally Reported 2015 $M			2014 $M		
Division	Individual provision	Collective provision[1]	Total provision	Individual provision	Collective provision[1]	Total provision
Australia	589	1,239	1,828	629	1,148	1,777
Institutional[2]	331	1,366	1,697	352	1,266	1,618
New Zealand	139	337	476	190	330	520
Global Wealth[3]	2	11	13	5	10	15
TSO & Group Center	-	3	3	-	3	3
Total	**1,061**	**2,956**	**4,017**	**1,176**	**2,757**	**3,933**

1. *The collective provision includes amounts for off-balance sheet credit exposures of $631 million at September 30, 2016 (Sep 2015: $677 million). The impact on the income statement for the fiscal year ended September 30, 2016 was a $32 million release (Sep 2015 fiscal year: $27 million charge).*
2. *As described at page 34, Institutional as used here refers to the former International & Institutional Banking ('IIB') division.*
3. *As described at page 34, Global Wealth as used here refers to the former Global Wealth division prior to the changes effected during the 2016 fiscal year.*

Impaired assets and loans

	As of September 30		
	2016 $M	2015 $M	2014 $M
Gross impaired assets			
Impaired loans	2,646	2,441	2,682
Restructured items[1]	403	184	67
Non-performing commitments and contingencies[2]	124	94	140
Gross impaired assets	**3,173**	**2,719**	**2,889**
Individual provisions			
Impaired loans	(1,278)	(1,038)	(1,130)
Non-performing commitments and contingencies	(29)	(23)	(46)
Net impaired assets	**1,866**	**1,658**	**1,713**

1. *Restructured items are facilities in which the original contractual terms have been modified for reasons related to the financial difficulties of the customer. Restructuring may consist of reduction of interest, principal or other payments legally due, or an extension in maturity materially beyond those typically offered to new facilities with similar risk.*
2. *Off balance sheet facilities (such as standby letters of credit, bill endorsements, documentary letters of credit, or guarantees to third parties) and undrawn on balance sheet facilities where the customer is defined as impaired.*

	As of September 30			
	2016 $M	Restated 2015[1] $M	Originally Reported 2015[1,2] $M	2014[2] $M
Gross impaired assets by division				
Australia	**1,170**	1,194	1,193	1,253
Institutional	**1,403**	960	1,183	1,093
New Zealand	**346**	338	338	532
Global Wealth[3]	**-**	-	5	11
Asia Retail & Pacific	**254**	227	-	-
Total gross impaired assets	**3,173**	2,719	2,719	2,889

1. *Certain 2015 amounts (Restated 2015) reported as comparative information at the divisional level have been restated as a result of business unit reallocations between the divisions. These reallocations do not have an impact on the comparative information at the Group level. Originally Reported 2015 and 2014 comparative amounts have not been restated.*
2. As described at page 34, Institutional as used here refers to the former International & Institutional Banking ('IIB') division.
3. *As described at page 34, Global Wealth as used here refers to the former Global Wealth division prior to the changes effected during the 2016 fiscal year.*

	As of September 30		
	2016 $M	2015 $M	2014 $M
Gross impaired assets by size of exposure			
Less than $10 million	**1,784**	1,748	1,896
$10 million to $100 million	**899**	708	683
Greater than $100 million	**490**	263	310
Total gross impaired assets	**3,173**	**2,719**	**2,889**

Comparison of 2016 with Restated 2015

- Gross impaired assets increased $454 million (+17%) primarily driven by Institutional ($443 million) impairments on a small number of Australian and multi-national resource and manufacturing related exposures, along with the commercial settlement of the legal dispute with Pankaj and Radhika Oswal. The Group's individual provision coverage ratio on impaired assets was 41.2% at 30 September 2016 (39.0% at 30 September 2015).

Comparison of Originally Reported 2015 with 2014

- Gross impaired assets decreased $170 million (-6%) primarily driven by the continued workout of the impaired asset portfolio combined with lower levels of new impairment. The Group has an individual provision coverage ratio on impaired assets of 39.0% at 30 September 2015 down from 40.7% at 30 September 2014.

	As of September 30		
	2016 $M	2015 $M	2014 $M
New impaired assets			
Impaired loans	3,267	2,848	2,734
Restructured items	274	30	17
Non-performing commitments and contingencies	87	102	117
Total new impaired assets	**3,628**	**2,980**	**2,868**

	As of September 30			
	2016 $M	Restated 2015 $M [1]	Originally Reported 2015 $M [1, 2]	2014 $M [2]
New impaired assets by division				
Australia	1,704	1,618	1,618	1,588
Institutional	1,150	760	976	699
New Zealand	484	368	368	571
Global Wealth[3]	-	-	18	10
Asia Retail & Pacific	290	234	-	-
TSO and Group Center	-	-	-	-
Total new impaired assets	**3,628**	**2,980**	**2,980**	**2,868**

1. *Certain 2015 amounts (Restated 2015) reported as comparative information at the divisional level have been restated as a result of business unit reallocations between the divisions. These reallocations do not have an impact on the comparative information at the Group level. Originally Reported 2015 and 2014 comparative amounts have not been restated.*
2. *As described at page 34, Institutional as used here refers to the former International & Institutional Banking ('IIB') division.*
3. *As described at page 34, Global Wealth as used here refers to the former Global Wealth division prior to the changes effected during the 2016 fiscal year.*

Comparison of 2016 with Restated 2015

- New impaired assets increased $648 million (+22%) with increases in Institutional ($390 million) related to a small number of Australian and multi-national resource related exposures and continued commodity and manufacturing sector weaknesses. The New Zealand division increase ($116 million) is driven by the deterioration in the Agri portfolio. The increase in Australia division ($86 million) was predominantly driven by delinquencies in Queensland and Western Australia.

Comparison of Originally Reported 2015 with 2014

- New impaired assets increased $112 million (+4%) driven by an increase in Institutional[1] due to the downgrade of a few large customers. This was partially offset by New Zealand with decreases in the retail and commercial portfolios.

1 *As described at page 34, Institutional as used here refers to the former International & Institutional Banking ('IIB') division.*

Other potential problem loans

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

Accruing loans – past due 90 days or more

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

	As of September 30			
	2016 $M	Restated 2015[1] $M	Originally Reported 2015[1,2] $M	2014[2] $M
Australia	2,454	2,070	2,074	1,728
Institutional	30	35	97	96
New Zealand	145	201	201	154
Global Wealth[3]	-	-	6	4
Asia Retail & Pacific	70	68	-	-
TSO and Group Center	4	4	-	-
Total past due loans	2,703	2,378	2,378	1,982

1. *Certain 2015 amounts (Restated 2015) reported as comparative information at the divisional level have been restated as a result of business unit reallocations between the divisions. These reallocations do not have an impact on the comparative information at the Group level. Originally Reported 2015 and 2014 comparative amounts have not been restated.*
2. *As described at page 34, Institutional as used here refers to the former International & Institutional Banking ('IIB') division.*
3. *As described at page 34, Global Wealth as used here refers to the former Global Wealth division prior to the changes effected during the 2016 fiscal year.*

Comparison of 2016 with Restated 2015

- The 90 days past due but not impaired increased $325 million (+14%), primarily driven by Australia division due to Home Loans portfolio growth and deterioration across Home Loans and Small Business Banking portfolios in Queensland and Western Australia.

Comparison of Originally Reported 2015 with 2014

- The 90 days past due but not impaired increased by 20% primarily within Australia division due to a change in the management and reporting of the 90 days past due mortgages book in line with regulatory requirements, along with some deterioration in Western Australia and Queensland.

Concentrations of credit risk/loans and advances by industry category

Concentrations of credit risk arise when a number of customers are engaged in similar business activities or activities within the same geographic region, or when they have similar risk characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

The Group monitors its portfolios, to identify and assess risk concentrations. The Group's strategy is to maintain well-diversified credit portfolios focused on achieving an acceptable risk-return balance. Credit risk portfolios are actively monitored and frequently reviewed to identify, assess and guard against unacceptable risk concentrations. Concentration analysis will typically include geography, industry, credit product and risk grade. The Group also applies single customer counterparty limits to protect against unacceptably large exposures to single name risk. These limits are established based on a combination of factors including the nature of counterparty, probability of default and collateral provided.

For additional information relating to the Group's credit risk exposures, refer to Note 20 of the 2016 Financial Statements included in ANZ's 2016 Annual Report (attached as part of Annex A hereto).

Income tax expense

	Years ended September 30		
	2016 $M	2015 $M	2014 $M
Income tax expense charged to the income statement	2,458	3,026	3,025
Effective tax rate	30.1%	28.7%	29.3%
Australian corporate tax rate	30.0%	30.0%	30.0%

Comparison of 2016 with 2015

- The effective tax rate increased from 28.7% to 30.1%. The increase of 140 bps is primarily due to the impairment of our investment in Ambank, a lower average tax rate on decreased offshore earnings and an increase in contribution tax and investment income tax attributable to policyholders, partially offset by an increased release of tax provisions. In addition, 2015 included a one off favorable Wealth Australia tax consolidation benefit.

Comparison of 2015 with 2014

- The Group's income tax expense increased slightly by $1 million (0%). The effective tax rate decreased by 0.6%. The decrease was predominantly due to a favorable Global Wealth1 tax consolidation benefit, higher earnings from equity accounted associates, a decrease in contribution tax and investment income tax attributable to policyholders in 2015, offset by a lower release of tax provisions in 2015.

1 *As described at page 34, Global Wealth as used here refers to the former Global Wealth division prior to the changes effected during the 2016 fiscal year.*

Condensed balance sheet

	As of September 30		
	2016 $B	2015 $B	2014 $B
Assets			
Cash / Settlement balances owed to ANZ / Collateral paid	**83.3**	82.5	58.3
Trading and available-for-sale assets	**110.3**	92.7	80.6
Derivative financial instruments	**87.5**	85.6	56.4
Net loans and advances[1]	**575.9**	570.2	521.8
Investments backing policy liabilities	**35.7**	34.8	33.6
Other	**22.2**	24.1	21.4
Total assets	**914.9**	889.9	772.1
Liabilities			
Settlement balances owed by ANZ / Collateral received	**17.0**	19.1	15.7
Deposits and other borrowings	**588.2**	570.8	510.1
Derivative financial instruments	**88.7**	81.3	52.9
Debt issuances	**91.1**	93.7	80.1
Policy liabilities and external unit holder liabilities	**39.5**	38.7	37.7
Other	**32.5**	28.9	26.3
Total liabilities	**857.0**	832.5	722.8
Total equity	**57.9**	57.4	49.3

1. Net loans and advances as at September 30, 2015 include the Esanda Dealer Finance assets divested to Macquarie Group Limited in the September 2016 fiscal year.

Comparison of 2016 with 2015

- Trading and available-for-sale assets increased $17.6 billion (+19%). Adjusting for a $1.5 billion decrease due to foreign currency translation, the $19.1 billion increase was driven by increased liquidity portfolio holdings due to balance sheet growth, and the reclassification of the BoT investment as an available-for-sale asset upon cessation of equity accounting.
- Derivative financial assets increased $1.9 billion (+2%) and derivative financial liabilities increased $7.4 billion (+9%) respectively as foreign exchange rate and interest rate movements resulted in higher derivative fair values.
- Net loans and advances increased $5.7 billion (+1%). Adjusting for a $0.5 billion decrease due to foreign currency translation, the $6.2 billion increase is primarily driven by a $12.0 billion increase in Australia division due to growth in Home Loans and Business Lending, a $6.1 billion increase in New Zealand division reflecting growth across both the housing and non-housing portfolios, partially offset by a $11.8 billion decrease in Institutional division as a result of the strategic repositioning of that business to improve capital efficiency and returns.
- Deposits and other borrowings increased $17.4 billion (+3%). Adjusting for a $5.9 billion decrease due to foreign currency translation, the $23.3 billion increase is primarily driven by $10.7 billion growth in Institutional deposits from banks and certificates of deposits, a $10.3 billion increase in Australia division due to growth in term deposits and home loan offset balances and a $5.1 billion increase in New Zealand division primarily driven by customer deposits.
- Total equity increased $0.5 billion (+1%) primarily due to $5.7 billion profits generated over the year, partially offset by the payment (net of dividend reinvestment) of the 2015 final and 2016 interim dividends of $5.0 billion.

Comparison of 2015 with 2014

- Cash, settlement balances and collateral paid increased by $24.2 billion (+42%), with $7.0 billion due to foreign currency translation. The remaining increase was primarily driven by increased short term deposits with the US Federal Reserve and Bank of England, following the introduction of Basel 3 liquidity risk standards in Australia on January 1, 2015, and higher collateral paid on derivative liabilities with collateralized counterparties.
- Trading and available-for-sale assets increased $12.1 billion (+15%), with $4.6 billion due to foreign currency translation. The increase was primarily driven by growth in the size of the Liquidity portfolio influenced by new liquidity requirements.
- Derivative financial instruments increased on higher customer demand for interest rate hedging products in light of low interest rates, along with increased customer demand for foreign exchange spot and forward products driven by volatility in the Asia market. Net derivative financial instruments increased by $0.8 billion (+23%) primarily driven by movements in foreign exchange and interest rates, along with the impact of foreign currency translation.
- Net loans and advances increased $48.4 billion (+9%), with $18.7 billion due to foreign currency translation, $25.9 billion growth in Australia division on home loan and non-housing term loans, a $7.2 billion increase in New Zealand home loans and non-housing term loans and a $3.3 billion decrease in Institutional[1] term loans.
- Deposits and other borrowings increased $60.7 billion (+12%), with $31.8 billion of the increase due to foreign currency translation impacts, $31 billion increase in interest bearing deposits, a $17.6 billion growth in Group Treasury certificates of deposit and commercial paper, and a $17.2 billion decrease in term deposits composed of a $10.6 billion decrease in Institutional[1] and an $8.0 billion decrease in Australia division partially offset by a $1.3 billion increase in New Zealand.
- Total equity increased $8.1 billion (+16%) primarily due to $7.5 billion of profits generated over the year, $3.2 billion from an institutional placement and retail share purchase plan, and other comprehensive income of $1.8 billion, offset by the payment (net of reinvestment) of the 2014 final and 2015 interim dividends of $3.8 billion.

1 *As described at page 34, Institutional as used here refers to the former International & Institutional Banking ('IIB') division.*

Results by division

Certain 2015 amounts reported as comparative information at the divisional level have been restated as a result of business unit reallocations between divisions due to changes to the organizational structure (described on page 9) as well as from cost reallocations between divisions due to continued realignment of support functions. However, 2014 comparative amounts have not been restated. These reallocations do not have an impact on comparative information in the income statement or balance sheet at the Group level.

For further information on the composition of the divisions refer to the "Principal Activities of the Group" section on page 9 and Note 9 of the 2016 Financial Statements (attached as part of Annex A hereto).

September 2016 Fiscal Year

$M	Australia	Institutional	New Zealand	Wealth Australia	Asia Retail & Pacific	TSO & Group Center	Group
Net interest income	8,200	3,452	2,451	10	698	284	**15,095**
Other operating income	1,208	1,723	639	1,244	477	143	**5,434**
Operating income	9,408	5,175	3,090	1,254	1,175	427	**20,529**
Operating expenses	(3,389)	(2,935)	(1,225)	(796)	(813)	(1,264)	**(10,422)**
Profit before credit impairment and income tax	6,019	2,240	1,865	458	362	(837)	**10,107**
Credit impairment (charge)/release	(920)	(741)	(120)	-	(174)	26	**(1,929)**
Profit before income tax	5,099	1,499	1,745	458	188	(811)	**8,178**
Income tax expense and non-controlling interests	(1,526)	(442)	(478)	(131)	(36)	144	**(2,469)**
Profit/(loss) after income tax	3,573	1,057	1,267	327	152	(667)	**5,709**

September 2015 Fiscal Year (Restated)[1]

$M	Australia	Institutional	New Zealand	Wealth Australia	Asia Retail & Pacific	TSO & Group Center	Group
Net interest income	7,698	3,585	2,381	8	643	301	14,616
Other operating income	1,214	2,177	604	1,265	480	734	6,474
Operating income	8,912	5,762	2,985	1,273	1,123	1,035	21,090
Operating expenses	(3,193)	(2,806)	(1,197)	(751)	(834)	(597)	(9,378)
Profit before credit impairment and income tax	5,719	2,956	1,788	522	289	438	11,712
Credit impairment (charge)/release	(852)	(198)	(55)	-	(98)	24	(1,179)
Profit before income tax	4,867	2,758	1,733	522	191	462	10,533
Income tax expense and non-controlling interests	(1,454)	(791)	(479)	(94)	(52)	(170)	(3,040)
Profit/(loss) after income tax	3,413	1,967	1,254	428	139	292	7,493

1. *Certain 2015 amounts (Restated 2015) reported as comparative information at the divisional level have been restated as a result of business unit and cost reallocations between the divisions. These reallocations do not have an impact on comparative information at the Group level. Originally Reported 2015 and 2014 amounts have not been restated.*

September 2015 Fiscal Year (Originally Reported)[1]

$M	Australia	Institutional[2]	New Zealand	Global Wealth[3]	TSO & Group Center	Group
Net interest income	7,509	4,173	2,316	178	440	14,616
Other operating income	1,169	3,246	368	1,552	120	6,455
Operating income	8,678	7,419	2,684	1,730	560	21,071
Operating expenses	(3,157)	(3,616)	(1,064)	(975)	(547)	(9,359)
Profit before credit impairment and income tax	5,521	3,803	1,620	755	13	11,712
Credit impairment (charge)/release	(853)	(295)	(55)	-	24	(1,179)
Profit before income tax	4,668	3,508	1,565	755	37	10,533
Income tax expense and non-controlling interests	(1,394)	(844)	(438)	(154)	(210)	(3,040)
Profit/(loss) after income tax	3,274	2,664	1,127	601	(173)	7,493

September 2014 Fiscal Year

$M	Australia	Institutional[2]	New Zealand	Global Wealth[3]	TSO & Group Center	Group
Net interest income	7,077	4,009	2,171	168	385	13,810
Other operating income	1,116	3,096	349	1,577	106	6,244
Operating income	8,193	7,105	2,520	1,745	491	20,054
Operating expenses	(3,015)	(3,275)	(1,031)	(1,004)	(435)	(8,760)
Profit before credit impairment and income tax	5,178	3,830	1,489	741	56	11,294
Credit impairment (charge)/release	(818)	(216)	8	2	38	(986)
Profit before income tax	4,360	3,614	1,497	743	94	10,308
Income tax expense and non-controlling interests	(1,306)	(906)	(419)	(201)	(205)	(3,037)
Profit/(loss) after income tax	3,054	2,708	1,078	542	(111)	7,271

1. *Certain 2015 amounts (Restated 2015) reported as comparative information at the divisional level have been restated as a result of business unit and cost reallocations between the divisions. These reallocations do not have an impact on comparative information at the Group level. Originally Reported 2015 and 2014 amounts have not been restated.*
2. *As described at page 34, Institutional as used here refers to the former International & Institutional Banking ('IIB') division.*
3. *As described at page 34, Global Wealth as used here refers to the former Global Wealth division prior to the changes effected during the 2016 fiscal year.*

Australia

As described at page 34, the information set out below is not presented on a comparable basis across all periods. The information is presented on the following basis:

- 2016 and 2015 Restated represent the Australia Division as reported in 2015 adjusted for the inclusion of the Private Bank business in Australia previously reported in Global Wealth; and
- 2015 Originally Reported and 2014 represent the former Australia Division as described on page 9 of the of the 2015 Annual U.S Disclosure Document.

Australia	2016 $M	Restated[1] 2015 $M	Originally Reported[1] 2015 $M	2014 $M
	Years ended September 30			
Net interest income	8,200	7,698	7,509	7,077
Other operating income	1,208	1,214	1,169	1,116
Operating income	9,408	8,912	8,678	8,193
Operating expenses	(3,389)	(3,193)	(3,157)	(3,015)
Profit before credit impairment and income tax	6,019	5,719	5,521	5,178
Credit impairment charge	(920)	(852)	(853)	(818)
Profit before income tax	5,099	4,867	4,668	4,360
Income tax expense and non-controlling interests	(1,526)	(1,454)	(1,394)	(1,306)
Profit after income tax	**3,573**	**3,413**	**3,274**	**3,054**
Consisting of:				
Retail	2,423	2,118	2,021	1,843
Corporate and Commercial Banking	1,150	1,295	1,253	1,211
Profit after income tax	**3,573**	**3,413**	**3,274**	**3,054**
Balance Sheet				
Net loans & advances[2]	327,108	315,080	313,672	287,750
Other external assets	2,932	2,916	2,911	2,814
External assets	330,040	317,996	316,583	290,564
Customer deposits	187,640	177,293	169,280	160,683
Other external liabilities	11,674	12,394	11,398	12,001
External liabilities	199,314	189,687	180,678	172,684
Risk weighted assets[3]	157,381	129,899	128,428	110,752
Average gross loans and advances	322,549	302,069	300,605	280,706
Average deposits and other borrowings	183,104	170,857	163,713	156,418
Ratios				
Return on assets	1.10%	1.13%	1.09%	1.08%
Net interest margin	2.55%	2.55%	2.50%	2.52%
Operating expenses to operating income	36.0%	35.8%	36.4%	36.8%
Operating expenses to average assets	1.05%	1.05%	1.05%	1.07%
Individual credit impairment charge/(release)	898	761	761	787
Individual credit impairment charge/(release) as a % of average GLA	0.28%	0.25%	0.25%	0.28%
Collective credit impairment charge/(release)	22	91	92	31
Collective credit impairment charge/(release) as a % of average GLA	0.01%	0.03%	0.03%	0.01%
Gross impaired assets	1,170	1,194	1,193	1,253
Gross impaired assets as a % of GLA	0.36%	0.38%	0.38%	0.43%
Total full time equivalent staff (FTE)	8,864	9,161	9,781	9,904

1. *Certain 2015 amounts (Restated 2015) reported as comparative information at the divisional level have been restated as a result of changes to the Group's organizational structure and cost reallocations between the divisions. These changes do not have an impact on comparative information at the Group level. Originally Reported 2015 and 2014 amounts have not been restated.*
2. *Net loans & advances as at September 30, 2015 include the Esanda Dealer Finance assets divested to Macquarie Group Limited in the September 2016 fiscal year.*
3. *Risk weighted assets at September 30, 2016 includes APRA's revised average mortgage risk weight targets introduced on July 1, 2016.*

Comparison of 2016 with Restated 2015

Profit after income tax increased 5%. Excluding specified items[1], profit after income tax increased 7% driven by a 6% increase in operating income, partially offset by a 2% increase in operating expenses and a 8% increase in credit impairment charges.

Key factors affecting the result were:

- Net interest income increased $502 million (+7%) driven by growth in Home Loans, Business lending and Retail deposits, partially offset by the impact of the Esanda Dealer Finance divestment of $224 million. Net interest margin was stable.
- Other operating income decreased $6 million (-0%) primarily due to the impact of the Esanda Dealer Finance divestment offset by fee income growth in Small Business Banking, Home Loans and Deposits and Payments.
- Operating expenses increased $196 million (+6%). Excluding specified items[1], operating expenses increased 2% driven by investments supporting our growth strategy (particularly in priority areas of Home Loans, Small Business and Digital) and wage inflation, partially offset by productivity initiatives that resulted in a 3% decrease in FTE during the year and the impact of the Esanda Dealer Finance divestment.
- Credit impairment charges increased $68 million (+8%). Individual impairment charges increased $137 million (+18%) predominantly due to growth in Small Business Banking, higher delinquencies in the retail and commercial portfolios in Queensland and Western Australia, and higher write-backs in Corporate Banking in 2015 (not repeated in 2016), partially offset by the impact of the Esanda Dealer Finance divestment. The decrease in the collective impairment charge of $69 million (-76%) reflects lower growth in Home Loans, Consumer Cards and Commercial in comparison to 2015, and the impact of the Esanda Dealer Finance divestment. The 2015 collective impairment charge also included methodology changes.

Comparison of Originally Reported 2015 with 2014

Profit after income tax increased +7%.

Key factors affecting the result were:

- Net interest income increased by $432 million (+6%) primarily due to Home Loans and Small Business Banking lending growth of 10% and 12% respectively. Lending margin contraction from competition was partially offset by favorable deposit pricing.
- Other operating income increased $53 million (+5%) primarily due to increased net interchange fee revenue, and lending fee income driven by Small Business Banking lending growth.
- Operating expenses increased $142 million (+5%). This was primarily due to investments supporting our sales force growth strategy (particularly in New South Wales and in digital capabilities), as well as wage inflation.
- Credit impairment charges increased $35 million (+4%), with a lower individual impairment charge partially offsetting a higher collective charge. The lower individual charge reflected write-backs in Corporate Banking partially offset by higher charges in Personal Loans, Small Business Banking and Esanda[2]. The collective charge increase was mainly due to lending growth in Cards and Small Business Banking, along with methodology adjustments in Esanda[2] and changes to hardship policy also contributing to the increase.

1. *Specified items relevant to Australia division are software capitalization changes and restructuring. The $66 million gain on the sale of Esanda Dealer Finance portfolio was recognized in TSO and Group Center (refer to page 34 and 35).*
2. *Part of the Esanda business (specifically "Esanda Dealer Finance") was sold to Macquarie Group Limited during the September 2016 fiscal year. The residual business has been renamed to Asset Finance.*

Institutional

As described at page 34, the information set out below is not presented on a comparable basis across all periods. The information is presented on the following basis:

- 2016 and 2015 Restated represent the residual business after removal of the Asia Retail & Pacific business from the former International & Institutional Banking ('IIB') division, and repositioning of minority investments in Asia from IIB to the Group Center; and
- 2015 Originally Reported and 2014 represent the former International and Institutional Banking Division as described on page 9 of the of the 2015 Annual U.S Disclosure Document.

	Years ended September 30			
Institutional	**2016 $M**	**Restated[1] 2015 $M**	**Originally Reported[1] 2015 $M**	**2014 $M**
Net interest income	3,452	3,585	4,173	4,009
Other operating income	1,723	2,177	3,246	3,096
Operating income	5,175	5,762	7,419	7,105
Operating expenses	(2,935)	(2,806)	(3,616)	(3,275)
Profit before credit impairment and income tax	2,240	2,956	3,803	3,830
Credit impairment charge	(741)	(198)	(295)	(216)
Profit before income tax	1,499	2,758	3,508	3,614
Income tax expense and non-controlling interests	(442)	(791)	(844)	(906)
Profit after income tax	**1,057**	**1,967**	**2,664**	**2,708**
Consisting of:				
Transaction Banking	387	574	602	557
Loans & Specialized Finance	384	802	762	866
Markets	380	618	701	841
Retail Asia Pacific	n/a	n/a	62	46
Asia Partnerships	n/a	n/a	589	488
Central Functions	(94)	(27)	(52)	(90)
Profit after income tax	**1,057**	**1,967**	**2,664**	**2,708**
Balance Sheet				
Net loans & advances	125,940	142,196	154,741	141,986
Other external assets	281,475	261,308	268,267	200,998
External assets	**407,415**	**403,504**	**423,008**	**342,984**
Customer deposits	171,122	183,040	202,495	183,126
Other external liabilities	177,399	151,439	151,201	117,974
External liabilities	**348,521**	**334,479**	**353,696**	**301,100**
Risk weighted assets	168,254	197,880	209,826	191,286
Average gross loans and advances	133,725	144,862	156,598	140,939
Average deposits and other borrowings	232,919	229,563	246,987	221,371
Ratios				
Return on assets	0.26%	0.51%	0.67%	0.83%
Net interest margin	1.13%	1.20%	1.34%	1.50%
Net interest margin (excluding Markets)	2.19%	2.06%	2.33%	2.45%
Operating expenses to operating income	56.7%	48.7%	48.7%	46.1%
Operating expenses to average assets	0.72%	0.73%	0.90%	1.01%
Individual credit impairment charge/(release)	774	206	291	290
Individual credit impairment charge/(release) as a % of average GLA	0.58%	0.14%	0.19%	0.21%
Collective credit impairment charge/(release)	(33)	(8)	4	(74)
Collective credit impairment charge/(release) as a % of average GLA	(0.02%)	(0.01%)	0.00%	(0.05%)
Gross impaired assets	1,403	960	1,183	1,093
Gross impaired assets as a % of GLA	1.10%	0.67%	0.76%	0.76%
Total full time equivalent staff (FTE)	3,640	4,218	7,578	7,749

[1] *Certain 2015 amounts (Restated 2015) reported as comparative information at the divisional level have been restated as a result of business unit and cost reallocations between the divisions. These reallocations do not have an impact on comparative information at the Group level. Originally Reported 2015 and 2014 amounts have not been restated.*

Comparison of 2016 with Restated 2015

Profit after income tax decreased 46%. Excluding specified items[1], profit after income tax decreased 34% driven by a 10% decrease in other operating income, 4% decrease in net interest income and higher credit impairment charges.

Key factors affecting the result were:

- Net interest income decreased $133 million (-4%) driven by decreases in Markets, Loans & Specialized Finance and Transaction Banking. Markets net interest income fell due to reduced gold financing and lower Balance Sheet earnings in Asia. The Loans & Specialized Finance reduction was due to a continued focus on improving capital efficiency and the exit of lower returning business. Net interest margin decreased 7 bps driven by growth in lower margin liquidity portfolios in Markets. Excluding Markets, net interest margin increased 13 bps reflecting the impact of exiting lower returning assets and an improved funding mix.
- Other operating income decreased $454 million (-21%). Excluding specified items[1], other operating income decreased 10%. Loans & Specialized Finance and Transaction Banking decreased due to the exit of low returning business as well as a slowdown in natural resource related projects. The reduction in Markets was primarily driven by Sales income, due to lower demand for interest rate products and gold financing from Asian customers.
- Operating expenses increased $129 million (+5%). Excluding specified items[1], operating expenses increased 1% reflecting the part year benefit of the 14% FTE reduction arising from productivity and organizational changes.
- Credit impairment charges increased $543 million driven by higher individual impairment charges due to a small number of Australian and multi-national resource related exposures, continued commodity and manufacturing sector weaknesses and the commercial settlement of the legal dispute with Pankaj and Radhika Oswal.

Comparison of Originally Reported 2015 with 2014

Profit after income tax decreased 2%.

Key factors affecting the result were:

- Net interest income increased by $164 million (+4%). The increase in net interest income was driven by Retail Asia Pacific, Markets and Transaction Banking, partially offset by a decrease in Loans & Specialized Finance[2]. Average deposits and other borrowings increased 12% and average gross loans and advances increased 11%. Net interest margin declined 16 bps, mainly due to excess liquidity in Australia.
- Other operating income increased by $150 million (+5%), due to increased Transaction Banking fees reflecting deposit volume growth in all geographies, along with income growth in Asia Partnerships, higher Investment and Insurance income in Retail Asia Pacific, higher Markets Sales income and increased fee income from Loans & Specialized Finance[2]. These increases were partially offset by a decrease in Markets Balance Sheet Trading income which was negatively impacted by widening credit spreads towards the end of the year.
- Operating expenses increased by $341 million (+10%), with ongoing investment in key growth, infrastructure, and compliance-related projects.
- Credit impairment charges increased by $79 million (+37%). Individual credit impairment charges were flat, with higher provisions in Loans & Specialized Finance partially offset by lower provisions in Transaction Banking. Collective credit impairment charges increased due to non-recurring provision releases in Retail Asia Pacific and a higher level of customer credit rating upgrades in Loans & Specialized Finance in the prior year.

1. *Specified items relevant to Institutional are software capitalization changes, restructuring and the derivative CVA methodology change (refer to page 34 and 35).*
2. *The Loans and Specialized Finance business was previously known as Global Loans.*

New Zealand

As described at page 34, the information set out below is not presented on a comparable basis across all periods. The information is presented on the following basis:

- 2016 and 2015 Restated represent the New Zealand Division as reported in 2015 adjusted for the inclusion of the New Zealand funds management and insurance businesses and the Private Bank business in New Zealand, both of which were previously reported in Global Wealth; and
- 2015 Originally Reported and 2014 represent the former New Zealand Division as described on page 10 of the of the 2015 Annual U.S Disclosure Document.

	Years ended September 30			
New Zealand	2016 NZD M	Restated[1] 2015 NZD M	Originally Reported[1] 2015 NZD M	2014 NZD M
Net interest income	2,632	2,568	2,498	2,372
Other operating income	329	309	397	382
Net funds management and insurance income	357	342	n/a	n/a
Operating income	3,318	3,219	2,895	2,754
Operating expenses	(1,315)	(1,291)	(1,148)	(1,127)
Profit before credit impairment and income tax	2,003	1,928	1,747	1,627
Credit impairment (charge)/release	(129)	(59)	(59)	9
Profit before income tax	1,874	1,869	1,688	1,636
Income tax expense and non-controlling interests	(514)	(516)	(473)	(459)
Profit after income tax	**1,360**	**1,353**	**1,215**	**1,177**
Consisting of:				
Retail	941	872	734	673
Commercial	413	478	478	501
Central Functions	6	3	3	3
Profit after income tax	**1,360**	**1,353**	**1,215**	**1,177**
Balance Sheet				
Net loans & advances	113,145	106,747	104,756	96,555
Other external assets	4,398	3,858	3,514	3,791
External assets	**117,543**	**110,605**	**108,270**	**100,346**
Customer deposits	76,361	71,395	65,689	57,621
Other deposits and borrowings	5,358	4,940	4,963	6,057
Deposits and other borrowings	81,719	76,335	70,652	63,678
Other external liabilities	21,397	21,132	21,501	18,313
External liabilities	**103,116**	**97,467**	**92,153**	**81,991**
Risk weighted assets	62,215	60,008	59,024	54,620
Average gross loans and advances	110,559	102,278	100,452	94,810
Average deposits and other borrowings	80,974	73,424	68,116	61,050
In-force premiums[2]	190	210	n/a	n/a
Funds under management	26,485	22,740	n/a	n/a
Average funds under management	24,775	21,669	n/a	n/a
Ratios				
Return on assets	1.19%	1.28%	1.17%	1.20%
Net interest margin	2.38%	2.50%	2.48%	2.49%
Operating expenses to operating income	39.6%	40.1%	39.7%	40.9%
Operating expenses to average assets	1.15%	1.22%	1.11%	1.15%
Individual credit impairment charge/(release)	112	58	58	69
Individual credit impairment charge/(release) as a % of average GLA	0.10%	0.06%	0.06%	0.07%
Collective credit impairment charge/(release)	17	1	1	(78)
Collective credit impairment charge/(release) as a % of average GLA	0.02%	0.00%	0.00%	(0.08%)
Gross impaired assets	363	372	372	597
Gross impaired assets as a % of GLA	0.32%	0.35%	0.35%	0.61%
Insurance expenses to in-force premiums	32.2%	31.5%	n/a	n/a
Retail Insurance lapse rates	15.3%	15.5%	n/a	n/a
Funds Management expenses to average FUM[3]	0.36%	0.29%	n/a	n/a
Total full time equivalent staff (FTE)	5,240	5,359	5,068	5,059

1. *Certain 2015 amounts (Restated 2015) reported as comparative information at the divisional level have been restated as a result of changes to the Group's organizational structure and cost reallocations between the divisions. These changes do not have an impact on comparative information at the Group level. Originally Reported 2015 and 2014 amounts have not been restated.*
2. *In-force premiums reflect the disposal of the New Zealand medical business in the September 2016 fiscal year.*
3. *Funds Management expense and FUM only relates to the Pensions & Investments business.*

New Zealand results and commentary are reported in NZD. AUD results are shown on page 61.

Comparison of 2016 with Restated 2015

Profit after income tax increased 1%. Excluding specified items[1], profit after income tax increased 3% primarily driven by lending volume growth and disciplined cost management, partially offset by higher credit impairment charges.

Key factors affecting the result were:

- Net interest income increased by NZD 64 million (+2%) driven by 8% growth in average gross loans and advances, with growth across both the housing and non-housing portfolios. This was partially offset by a decrease in net interest margin of 12 bps, driven by competition for lending assets, unfavourable lending mix with customers continuing to favour lower margin fixed rate products, and the impact of capital notes issued in March 2015 and June 2016.
- Other operating income increased by NZD 20 million (+6%) driven by the gain on sale of a real estate asset, volume driven growth in fee income, and rebates and dividends received, partially offset by loss on sale of the medical insurance business (nil impact after tax).
- Net funds management and insurance income increased by NZD 15 million (+4%) driven by 24% growth in KiwiSaver funds under management.
- Operating expenses increased by NZD 24 million (+2%). Excluding specified items[1], operating expenses decreased 2% with disciplined cost management and productivity gains more than offsetting inflationary impacts.
- Credit impairment charges increased by NZD 70 million. The individual impairment charges increased NZD 54 million due to higher new provisions in the Agri and Commercial portfolios and lower write-backs. The collective impairment charges increased NZD 16 million driven by a deteriorating Agri risk profile.

Comparison of Originally Reported 2015 with 2014

Profit after income tax increased 3%.

Key factors affecting the result were:

- Net interest income increased NZD 126 million (+5%), primarily due to above system growth in lending[2]. Average gross loans and advances grew 6%, with growth across both the housing and non-housing portfolios. Margins were broadly flat, despite competitive market conditions.
- Other operating income increased by NZD15 million (+4%) driven by increased sales of KiwiSaver and insurance products via the branch network.
- Operating expenses increased by NZD 21 million (+2%) driven by inflationary impacts and investment activity partly offset by productivity measures.
- Credit impairment charges increased NZD 68 million from a net release of NZD 9 million in 2014 to a charge of NZD 59 million in 2015. The individual credit impairment charge decreased 16%, reflecting lower levels of new and top-up provisions, partially offset by lower write-backs in Commercial. The collective provision was NZD 79 million higher due to portfolio growth, a lower release of economic overlay provisions and reduced rate of improvement in credit quality compared to 2014.

1. *Specified items relevant to New Zealand division are software capitalization changes and restructuring (refer to page 34 and 35).*
2. *Source: RBNZ August 2015.*

New Zealand

Table reflects AUD for New Zealand.
NZD results shown on page 56.

New Zealand	2016 $M	Restated[1] 2015 $M	Originally Reported[1] 2015 $M	2014 $M
	Years ended September 30			
Net interest income	2,451	2,381	2,316	2,171
Other operating income	306	287	368	349
Net funds management and insurance income	333	317	n/a	n/a
Operating income	3,090	2,985	2,684	2,520
Operating expenses	(1,225)	(1,197)	(1,064)	(1,031)
Profit before credit impairment and income tax	1,865	1,788	1,620	1,489
Credit impairment (charge)/release	(120)	(55)	(55)	8
Profit before income tax	1,745	1,733	1,565	1,497
Income tax expense and non-controlling interests	(478)	(479)	(438)	(419)
Profit after income tax	**1,267**	**1,254**	**1,127**	**1,078**
Consisting of:				
Retail	877	808	681	617
Commercial	385	443	443	460
Central Functions	5	3	3	1
Profit after income tax	**1,267**	**1,254**	**1,127**	**1,078**
Balance Sheet				
Net loans & advances	107,893	97,020	95,211	86,063
Other external assets	4,195	3,507	3,194	3,380
External assets	**112,088**	**100,527**	**98,405**	**89,443**
Customer deposits	72,818	64,890	59,703	51,360
Other external liabilities	25,512	23,696	24,054	21,722
External liabilities	**98,330**	**88,586**	**83,757**	**73,082**
Risk weighted assets	59,327	54,540	53,646	48,682
Average gross loans and advances	102,972	94,832	93,138	86,737
Average deposits and other borrowings	75,417	68,079	63,157	55,852
In-force premiums[2]	181	191	n/a	n/a
Funds under management	25,256	20,668	n/a	n/a
Average funds under management	23,075	20,092	n/a	n/a
Ratios				
Return on assets	1.19%	1.28%	1.17%	1.20%
Net interest margin	2.38%	2.50%	2.48%	2.49%
Operating expenses to operating income	39.6%	40.1%	39.7%	40.9%
Operating expenses to average assets	1.15%	1.22%	1.11%	1.15%
Individual credit impairment charge/(release)	104	54	54	63
Individual credit impairment charge/(release) as a % of average GLA	0.10%	0.06%	0.06%	0.07%
Collective credit impairment charge/(release)	16	1	1	(71)
Collective credit impairment charge/(release) as a % of average GLA	0.02%	0.00%	0.00%	(0.08%)
Gross impaired assets	346	338	338	532
Gross impaired assets as a % of GLA	0.32%	0.35%	0.35%	0.61%
Insurance expenses to in-force premiums	32.2%	31.5%	n/a	n/a
Retail Insurance lapse rates	15.3%	15.5%	n/a	n/a
Funds Management expenses to average FUM[3]	0.36%	0.29%	n/a	n/a
Total full time equivalent staff (FTE)	5,240	5,359	5,068	5,059

1. *Certain 2015 amounts (Restated 2015) reported as comparative information at the divisional level have been restated as a result of business unit and cost reallocations between the divisions. These reallocations do not have an impact on comparative information at the Group level. Originally Reported 2015 and 2014 amounts have not been restated.*
2. *In-force premiums reflect the disposal of the New Zealand medical business in the September 2016 fiscal year.*
3. *Funds Management expense and FUM only relates to the Pensions & Investments business.*

Wealth Australia

As described at page 34, the information set out below is not presented on a comparable basis across all periods. The information is presented on the following basis:

- 2016 and 2015 Restated represent the residual Australian component of the former Global Wealth business after removal of the Private Bank business in Australia, New Zealand and Asia and the New Zealand funds management and insurance businesses; and
- 2015 Originally Reported and 2014 represent the former Global Wealth division as described on page 10 of the 2015 Annual U.S Disclosure Document.

	Years ended September 30	
Wealth Australia	**2016 $M**	**Restated[1] 2015 $M**
Net interest income	**10**	8
Other operating income	**88**	87
Net funds management and insurance income	**1,156**	1,178
Operating income	**1,254**	1,273
Operating expenses	**(796)**	(751)
Profit before income tax	**458**	522
Income tax expense	**(131)**	(94)
Profit after income tax	**327**	428
Consisting of		
Insurance	**255**	243
Funds Management	**89**	130
Corporate and Other[2]	**(17)**	55
Profit after income tax	**327**	428
Income from invested capital[3]	**110**	107
Key metrics		
In-force premiums		
Life	**1,603**	1,516
General Insurance[4]	**226**	510
Average in-force premiums		
Life	**1,560**	1,440
General Insurance[4]	**367**	505
Funds under management	**48,251**	46,801
Average funds under management	**47,621**	48,048
Risk weighted assets	**415**	526
Ratios		
Operating expenses to operating income	**63.5%**	59.0%
Insurance expenses to in-force premiums	**11.6%**	11.2%
Retail Insurance lapse rates	**14.0%**	13.3%
Funds Management expenses to average FUM[5]	**0.53%**	0.51%
Total full time equivalent staff (FTE)	**1,379**	1,532
Aligned adviser numbers[6]	**1,545**	1,688

1. *Certain 2015 amounts (Restated 2015) reported as comparative information at the divisional level have been restated as a result of changes to the Group's organizational structure. This reorganization does not have an impact on comparative information at the Group level. Originally Reported 2015 and 2014 amounts have not been restated.*
2. *Corporate and Other includes a one-off tax consolidation benefit of $56 million in the September 2015 fiscal year.*
3. *Income from invested capital represents after tax revenue generated from investing all Insurance and Funds Management business's capital balances held for regulatory purposes. The invested capital as of September 30, 2016 was $3.4 billion (Sep 15: $3.3 billion), which comprises fixed interest securities of 48% and cash deposits of 52% (Sep 15: 47% fixed interest securities and 53% cash deposits).*
4. *General insurance in-force premiums reflect the impact of ceasing the underwriting of new home, content, travel and motor insurance in September 2015.*
5. *Funds Management expense and FUM only relates to the Pensions & Investments business.*
6. *Includes corporate authorized representatives of dealer groups wholly or partially owned by ANZ Wealth Australia and ANZ employed financial planners.*

Comparison of 2016 with Restated 2015

Profit after income tax decreased 24%. Excluding the specified items[1] and the $56 million one-off tax consolidation benefit in September 2015, profit after income tax decreased 7%.

Key factors affecting the result were:

- Net funds management and insurance income decreased by $22 million (-2%). Funds Management operating income decreased $44 million (-9%), driven by the business's strategy to rationalize legacy platforms which adversely impacted margins. This is partially offset by an increase in insurance operating of $34 million (+6%), reflecting favorable retail and group lapse experience, partially offset by adverse claims experience. This experience relates to actual experience differing from plan.
- Operating expenses increased by $45 million (+6%). Excluding specified items[1], operating expenses increased by 2%, due to wage inflation and higher spend on regulatory, compliance and remediation projects, partially offset by productivity initiatives that resulted in a 10% decrease in FTE during the year.

1. *Specified items relevant to Wealth Australia are software capitalization changes and restructuring (refer to page 34 and 35).*

Global Wealth

As described at page 34, the information set out below is not presented on a comparable basis across all periods. The information is presented on the following basis:

- 2016 and 2015 Restated represent the residual Australian component of the former Global Wealth business after removal of the Private Bank business in Australia, New Zealand and Asia and the New Zealand funds management and insurance businesses; and
- 2015 Originally Reported and 2014 represent the former Global Wealth division as described on page 10 of the 2015 Annual U.S Disclosure Document.

Global Wealth	Years ended September 30 Originally Reported[1] 2015 $M	2014 $M
Net interest income	178	168
Other operating income[2]	191	328
Net funds management and insurance income	1,361	1,249
Operating income	1,730	1,745
Operating expenses	(975)	(1,004)
Profit before credit impairment and income tax	755	741
Credit impairment (charge)/release	-	2
Profit before income tax	755	743
Income tax expense	(154)	(201)
Profit after income tax	601	542
Consisting of		
Insurance	296	224
Funds Management	157	120
Private Wealth[2]	93	181
Corporate and Other[3,4]	55	17
Profit after income tax	601	542
Income from invested capital[5]	114	108
Key metrics		
In-force premiums	2,217	2,038
Funds under management	65,392	61,411
Average funds under management	65,805	61,329
Net loans and advances	6,468	5,678
Customer deposits	18,467	13,844
Ratios		
Operating expenses to operating income	56.4%	57.5%
Insurance expenses to in-force premiums		
Australia	10.1%	11.2%
New Zealand	34.4%	35.4%
Retail Insurance lapse rates		
Australia	13.3%	13.5%
New Zealand	15.8%	16.1%
Funds management expenses to average FUM[6]		
Australia	0.51%	0.59%
New Zealand	0.29%	0.38%
Total full time equivalent staff (FTE)	2,489	2,290
Aligned adviser numbers[7]	1,819	2,022

1. *Certain 2015 amounts (Restated 2015) reported as comparative information at the divisional level have been restated as a result of changes to the Group's organizational structure. This reorganization does not have an impact on comparative information at the Group level. Originally Reported 2015 and 2014 amounts have not been restated.*
2. *Other operating income within Private Wealth for the 2014 year includes a $125 million gain on the sale of ANZ Trustees.*
3. *Corporate and Other includes a one-off tax consolidation benefit of $56 million in the September 2015 fiscal year.*
4. *Includes a $26 million cross-border settlement of an insurance claim in the 2014 year involving both Australia and New Zealand on a net basis. For statutory purposes, the individual components of this settlement have been recognized in their respective geographies.*
5. *Income from invested capital represents after tax revenue generated from investing all Insurance and Funds Management business's capital balances held for regulatory purposes. The invested capital as of September 30, 2015 was $3.6 billion (2014: $3.3 billion), which comprised of fixed interest securities of 49% and cash deposits of 51% (2014: 49% fixed interest securities and 51% cash deposits).*
6. *Funds Management expense and FUM only relates to Pensions & Investments business.*
7. *Includes corporate authorized representatives of dealer groups wholly or partially owned by ANZ Wealth and ANZ Group financial planners. 2014 aligned adviser numbers included 211 authorized representatives of a dealer group no longer owned by ANZ Wealth.*

Comparison of Originally Reported 2015 with 2014

Profit after income tax increased by $59 million (+11%).

Key factors affecting the result were:

- Net interest income increased by $10 million (+6%) primarily attributable to increased Customer deposits and Net loans and advances and improved margins in the Private Wealth business.
- In 2014, other operating income included a gain of $125 million arising from the sale of ANZ Trustees and ANZ Trustees related income of $17 million. Excluding this, other operating income increased by 3%.
- Net funds management and insurance income increased by $112 million (+9%). Funds Management income increased by 6% due to average FUM increasing 10% (excluding Private Wealth FUM) as a result of volume growth in ANZ Smart Choice Super and ANZ KiwiSaver products. In addition, Insurance income increased by 18%. The September 2014 fiscal year results included a one-off $47 million experience loss due to the exit of a Group Life Insurance plan. Excluding this $47 million experience loss, insurance income grew by 9% due to in-force premium growth and lower lapse rates.
- Operating expenses decreased by $29 million (+3%). Excluding the net impact of ANZ Trustees related expenses and the write-down of intangible assets in 2014, expenses increased by 2%. This was driven by higher regulatory and compliance expenses.

Asia Retail & Pacific

As described at page 34, the information set out below is not presented on a comparable basis across all periods. The information is presented on the following basis:

- 2016 and 2015 Restated represent the former Asia Retail & Pacific business previously reported in IIB plus the former Private Bank business in Asia previously reported in Global Wealth; and
- 2015 Originally Reported and 2014 information is not presented as:
  - information in respect of the former Asia Retail & Pacific business previously reported in IIB is included in Institutional at page 57; and
  - information in respect of the former Private Bank business in Asia is included in Global Wealth at page 64.

	Years ended September 30	
		Restated[1]
Asia Retail & Pacific	**2016 $M**	**2015 $M**
Net interest income	**698**	643
Other operating income	**477**	480
Operating income	**1,175**	1,123
Operating expenses	**(813)**	(834)
Profit before credit impairment and income tax	**362**	289
Credit impairment (charge)/release	**(174)**	(98)
Profit before income tax	**188**	191
Income tax expense	**(36)**	(52)
Profit after income tax	**152**	139
Balance Sheet		
Net loans & advances	**13,379**	14,556
Customer deposits	**22,814**	24,355
Risk weighted assets	**13,306**	13,345
Ratios		
Return on assets	**0.65%**	0.62%
Net interest margin	**3.09%**	2.97%
Operating expenses to operating income	**69.2%**	74.3%
Operating expenses to average assets	**3.46%**	3.72%
Individual credit impairment charge/(release)	**163**	86
Individual credit impairment charge/(release) as a % of average GLA	**1.14%**	0.64%
Collective credit impairment charge/(release)	**11**	12
Collective credit impairment charge/(release) as a % of average GLA	**0.08%**	0.09%
Gross impaired assets	**254**	227
Gross impaired assets as a % of GLA	**1.87%**	1.54%
Total full time equivalent staff (FTE)	**2,925**	3,518

1. *Certain 2015 amounts (Restated 2015) reported as comparative information at the divisional level have been restated as a result of changes to the Group's organizational structure. This reorganization does not have an impact on comparative information at the Group level. Originally Reported 2015 and 2014 amounts have not been restated.*

Comparison of 2016 with Restated 2015

Profit after income tax increased 9%. Excluding specified items[1], profit after income tax increased 13%.

Key factors affecting the result were:

- Net interest income increased $55 million (+9%) driven by 7% growth in average gross loans and advances due to increases in non-housing portfolios. Net interest margin increased 12 bps driven by changes in product mix.
- Other operating income decreased $3 million (-1%) with lower investment and insurance income in Asia Retail.
- Operating expenses decreased $21 million (-3%). Excluding specified items[1], operating expenses decreased 3% due to disciplined cost management and benefits from restructuring that resulted in a 17% decrease in FTE over the year.
- Credit impairment charges increased $76 million (+78%) due to increased Asia Retail individual impairment charges and a provision release of $53 million in 2015 which was not repeated.

On October 31, 2016, the Group announced it had entered into an agreement to sell its Retail and Wealth businesses in Singapore, China, Hong Kong, Taiwan and Indonesia to DBS Bank Limited. Refer to "Recent Developments" and Annex C to this U.S. Disclosure Document for further information on this agreement. At this stage, the Group's Retail and Wealth businesses in Vietnam, the Philippines and Japan remain under strategic review.

1. *Specified items relevant to Asia Retail & Pacific are software capitalization changes and restructuring (refer to page 34 and 35).*

LIQUIDITY AND CAPITAL RESOURCES

Liquidity Risk

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

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

- **Scenario modeling of funding sources**

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

  - Provides protection against shorter-term extreme market dislocations and stresses.
  - Maintains structural strength in the balance sheet by ensuring an appropriate amount of longer-term assets are funded with longer-term funding.
  - Ensures no undue timing concentrations exist in the Group's funding profile.

  A key component of this framework is the Liquidity Coverage Ratio (LCR), which is a severe short term liquidity stress scenario mandated under APRA regulatory requirements. As part of meeting the LCR requirements, ANZ has a Committed Liquidity Facility (CLF) with the Reserve Bank of Australia (RBA). The CLF has been established as a solution to a High Quality Liquid Asset (HQLA) shortfall in the Australian marketplace and provides an alternative form of RBA-qualifying liquid assets. The total amount of the CLF available to a qualifying ADI is set annually by APRA.

- **Liquid assets**

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

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

  The Group monitors and manages the composition of liquid assets to ensure diversification by asset class, counterparty, currency and tenor. Minimum levels of liquid assets held are set annually based on a range of ANZ specific and general market liquidity stress scenarios such that potential cash flow obligations can be met over the short to medium term, and holdings are appropriate to existing and future business activities, regulatory requirements and in line with the approved risk appetite.

	Fiscal Year Average[1]	
	2016 $B	**2015 $B**[2]
Market Values Post Discount		
HQLA1[3]	**118.5**	97.3
HQLA2	**3.7**	3.2
Internal Residential Mortgage Backed Securities (Australia)[3]	**35.2**	38.8
Internal Residential Mortgage Backed Securities (New Zealand)[4]	**1.3**	2.1
Other ALA[5]	**18.1**	16.1
Total Liquid Assets	**176.8**	157.5
Cash flows modeled under stress scenario		
Cash outflows	**181.9**	172.1
Cash inflows	**41.1**	42.9
Net cash outflows	**140.8**	129.20
Liquidity Coverage Ratio[6]	**126%**	122%

1. *Average for year, calculated as prescribed per APRA Prudential Regulatory Standard (APS 210 Liquidity) and consistent with APS 330 requirements.*
2. *Calculation based on 9-month average given LCR implementation on January 1, 2015.*
3. *RBA open repo arrangement netted down from CLF, with a corresponding increase in HQLA.*
4. *New Zealand LCR surplus is excluded from NZ internal RMBS, consistent with APS 330 treatment.*
5. *Comprised of assets qualifying as collateral for the CLF, up to approved facility limit; and any liquid assets contained in the RBNZ's Liquidity Policy - Annex: Liquidity Assets - Prudential Supervision Department Document BS13A12.*
6. *All currency Group LCR.*

Funding

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

$32.1 billion of term wholesale debt (excluding Additional Tier 1 Capital) with a remaining term greater than one year as of September 30, 2016 was issued during the year ended September 30, 2016 (2015: $18.8 billion; 2014: $23.9 billion). The weighted average tenor of new term debt was 5.5 years (2015: 4.9 years; 2014: 4.9 years). In addition, $2.9 billion of Additional Tier 1 Capital issuance took place during the financial year (2015: $1.4 billion; 2014: $1.6 billion).

The following tables show the Group's total funding composition:

	As of September 30			
	2016 $M	Restated 2015[1] $M	Originally Reported 2015[1,4] $M	2014[4] $M
Customer deposits and other liabilities[2]				
Australia	**187,640**	177,293	169,280	160,683
Institutional	**171,122**	183,040	202,495	183,126
New Zealand	**72,818**	64,890	59,703	51,360
Wealth Australia	**343**	367	-	-
Global Wealth[5]	**-**	-	18,467	13,844
Asia Retail & Pacific	**22,814**	24,355	-	-
TSO and Group Center[2]	**(5,114)**	(5,361)	(5,361)	(5,294)
Customer deposits	**449,623**	444,584	444,584	403,719
Other funding liabilities[3]	**14,531**	14,346	14,346	14,502
Total customer liabilities (funding)	**464,154**	458,930	458,930	418,221

1. *Certain 2015 amounts (Restated 2015) reported as comparative information at the divisional level have been restated as a result of business unit reallocations between the divisions. These reallocations do not have an impact on comparative information at the Group level. Originally Reported 2015 and 2014 amounts have not been restated.*
2. *Includes term deposits, other deposits and an adjustment recognized in Group Center to eliminate Wealth Australia investments in ANZ deposit products.*
3. *Includes interest accruals, payables and other liabilities, provisions and net tax provisions, excluding other liabilities in Wealth Australia.*
4. *As described at page 34, Institutional as used here refers to the former International & Institutional Banking ('IIB') division.*
5. *As described at page 34, Global Wealth as used here refers to the former Global Wealth division prior to the changes effected during the 2016 fiscal year.*

	As of September 30		
	2016 $M	2015 $M	2014 $M
Wholesale funding[4]			
Debt issuances[5]	**91,080**	93,347	79,291
Subordinated debt	**21,964**	17,009	13,607
Certificates of deposit	**61,429**	63,446	52,754
Commercial paper	**19,349**	22,987	15,152
Other wholesale borrowings[6,7]	**65,442**	44,558	42,460
Total wholesale funding	**259,264**	241,347	203,264
Customer deposits and other liabilities	**464,154**	458,930	418,221
Shareholders' Equity (excluding preference shares)	**57,927**	57,353	48,413
Total Funding	**781,345**	757,630	669,898

4. *Excludes liability for acceptances as they do not provide net funding.*
5. *Excludes term debt issued externally by Wealth Australia which matured during the September 2016 fiscal year.*
6. *Includes borrowings from banks, net derivative balances, special purpose vehicles and other borrowings.*
7. *RBA open-repo arrangement netted down by the exchange settlement account cash balance.*

	As of September 30		
	2016 $M	2015 $M	2014 $M
Funded Assets			
Other short term assets & trade finance assets[1]	**65,800**	78,879	74,925
Liquids[2]	**161,302**	135,496	100,951
Short term funded assets	**227,102**	214,375	175,876
Lending & fixed assets[3]	**554,243**	543,255	494,022
Total Funded Assets	**781,345**	757,630	669,898
Funding Liabilities[2,4,5]			
Other short term liabilities	**48,806**	27,863	22,676
Short term funding[6]	**69,028**	73,261	51,160
Term funding < 12 months[6]	**23,668**	28,138	19,194
Other customer and central bank deposits[7,8]	**79,597**	88,288	89,825
Total short term funding liabilities	**221,099**	217,550	182,855
Stable customer deposits[7,9]	**402,146**	387,988	347,237
Term funding > 12 months	**90,708**	87,316	84,519
Shareholders' equity and hybrid debt	**67,392**	64,776	55,287
Total Stable Funding	**560,246**	540,080	487,043
Total Funding	**781,345**	757,630	669,898

1. *Includes short-dated assets such as trading securities, available-for-sale securities, trade dated assets and trade finance loans.*
2. *RBA open-repo arrangement netted down by the exchange settlement account cash balance.*
3. *Excludes trade finance loans.*
4. *Excludes liability for acceptances as they do not provide net funding.*
5. *Excludes term debt issued externally by Wealth Australia which matured during the September 2016 fiscal year.*
6. *Prior periods restated to reclassify items between Short term funding and Term funding <12 months.*
7. *Includes term deposits, other deposits and an adjustment recognized in Group Center to eliminate Wealth Australia investments in ANZ deposit products.*
8. *Total customer liabilities (funding) plus Central Bank deposits less Stable customer deposits*
9. *Stable customer deposits represent operational type deposits or those sourced from retail / business / corporate customers and the stable component of Other funding liabilities.*

Term debt maturity profile

The amounts disclosed below represent principal and interest cash flows. Foreign currency denominated debt has been translated using spot foreign exchange rates as of September 30, 2016.

Contractual maturity ($m)	2017	2018	2019	2020	2021	After 2021	Total
Term debt funding	23,668	18,728	20,612	17,969	16,141	17,258	114,376
Additional Tier 1 Capital[1]	1,068	-	1,340	477	1,120	5,515	9,520
Total	**24,736**	**18,728**	**21,952**	**18,446**	**17,261**	**22,773**	**123,896**

1. *The maturity profile for all subordinated debt and additional tier 1 capital is presented based on the next callable date.*

	As of September 30, 2016		
Credit Ratings of ANZBGL	**Short-Term**	**Long-Term**	**Outlook**
Moody's Investor Services	P-1	Aa2	Negative
Standard & Poor's	A-1+	AA-	Negative
Fitch Ratings	F1+	AA-	Stable

Capital management

	As of September 30		
Qualifying Capital	**2016 $M**	**2015 $M**	**2014 $M**
Tier 1			
Shareholders' equity and non-controlling interests	**57,927**	57,353	49,284
Prudential adjustments to shareholders' equity	**(481)**	(387)	(1,211)
Gross Common Equity Tier 1 capital	**57,446**	56,966	48,073
Deductions	**(18,179)**	(18,440)	(16,297)
Common Equity Tier 1 capital	**39,267**	38,526	31,776
Additional Tier 1 capital	**9,018**	6,958	6,825
Tier 1 capital	**48,285**	45,484	38,601
Tier 2 capital	**10,328**	7,951	7,138
Total qualifying capital	**58,613**	53,435	45,739
Capital adequacy ratios			
Common Equity Tier 1	**9.6%**	9.6%	8.8%
Tier 1	**11.8%**	11.3%	10.7%
Tier 2	**2.5%**	2.0%	2.0%
Total	**14.3%**	13.3%	12.7%
Risk weighted assets	**408,582**	401,937	361,529

APRA implementation of Basel 3 capital reforms

APRA has adopted the majority of Basel 3 capital reforms in Australia. APRA views the Basel 3 reforms as a minimum requirement and hence has not incorporated some of the concessions proposed in the Basel 3 rules and has also set higher requirements in other areas. As a result, Australian banks' Basel 3 reported capital ratios will not be directly comparable with international peers.

ANZ's interpretation of the material differences in APRA's implementation of Basel 3 and Basel 3 as implemented in major offshore jurisdictions include:

Deductions

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

Risk Weighted Assets (RWA)

- IRRBB RWA – APRA requires inclusion of Interest Rate Risk in the Banking Book (IRRBB) within the RWA base for the CET1 ratio calculation. This is not required on an Internationally Comparable basis.
- Mortgages RWA – APRA imposes a floor of 20% on the downturn Loss Given Default (LGD) used in credit RWA calculations for residential mortgages. Additionally, from July 2016, APRA also requires a higher correlation factor above the Basel framework 15% requirement in order to raise the average risk weighting of Australian residential mortgages to at least 25%. The Internationally Comparable Basel 3 framework only requires a downturn LGD floor of 10% and a correlation factor of 15%.
- Specialized Lending - APRA requires the supervisory slotting approach be used in determining credit RWA for specialized lending exposures. The Internationally Comparable basis allows for the advanced internal ratings based approach to be used when calculating RWA for these exposures.
- Unsecured Corporate Lending LGD – Adjustment to align ANZ's unsecured corporate lending LGD to 45% to be consistent with banks in other jurisdictions. The 45% LGD rate is also used in the Foundation Internal Ratings-Based approach (FIRB).
- Undrawn Corporate Lending Exposure at Default (EAD) – To adjust ANZ's credit conversion factors (CCF) for undrawn corporate loan commitments to 75% (used in FIRB approach) to align with banks in other jurisdictions.

Comparison of 2016 with 2015

ANZ's CET1 ratio increased 2 bps to 9.6% during the year. Key drivers of the movement in the CET1 ratio were:

- Net organic capital generation is +167 bps or $6.7 billion. This was primarily driven by statutory profit and net reduction in underlying RWA growth (excluding regulatory changes), partially offset by other business capital deductions. The RWA reduction was mainly driven by an -$11.9 billion decrease in Institutional Credit RWAs from lending reduction, due to strategic repositioning of that business.
- Payment of the March 2016 Interim Dividend and September 2015 Final Dividends (net of shares issued under the DRP) reduced the CET1 ratio by -114 bps.
- The increased capital requirements for Australian residential mortgage exposures reduced CET1 ratio by -60 bps. Other items increased CET1 by +9 bps reflecting movement in other net impacts from RWA measurement changes and net foreign currency translation.

Comparison of 2015 with 2014

The APRA Basel 3 Common Equity Tier 1 ratio as of September 30, 2015 of 9.6% represented an increase of 80 bps from the September 30, 2014 ratio of 8.8%. The key contributors to the increase were:

- Statutory profit after preference share dividends but before ordinary share dividends of $7.5 billion (+204 bps);
- Increase in RWA was $40.4 billion. Excluding the impact of exchange rate impacts and methodology changes, growth was $11.8 billion due to:
  - Portfolio growth and mix (-42 bps);
  - Risk migration incorporating increase in RWA and increase in Expected Loss versus Eligible Provision shortfall (-9 bps); offset by
  - Non-credit risk RWA decreased (+15 bps) predominantly due to a decrease in IRRBB RWA.
- Net increase in capital retention of insurance businesses and associates excluding the impact of exchange rate movements (-20 bps);
- Movements in capitalized software, capitalized expenses and other intangibles (-13 bps);
- Ordinary share dividend commitments net of reinvestment through the DRP and BOP (-104 bps);
- Other items (net -31 bps) from the following items:
  - Increase in Operational Risk RWA (-12 bps) primarily as a result of APRA's accreditation of ANZ's new Operational Risk Measurement System (ORMS) in September 2015;
  - Repayment of the first tranche of debt ($405 million) issued by ANZ Wealth Australia Limited (ANZWA) in June 2015 (-11 bps);
  - The net impact of non-recurring RWA measurement changes, capital initiatives, movement in other capital items including reserves and net FX impacts (-8 bps).
- ANZ raised an additional $3.2 billion of ordinary share capital via an Institutional share placement and Retail share purchase plan in response to higher capital requirements for Australian residential mortgages by APRA from July 1, 2016. This provided an additional +80 bps to the CET1 ratio.

Leverage Ratio

At September 30, 2016, the Group's APRA Leverage Ratio was 5.3% which is above the 3% minimum currently proposed by the BCBS. APRA has not finalized a minimum Leverage Ratio requirement for Australians ADIs. The following table summarizes the Group's Leverage Ratio calculation:

	As of September 30	
	2016 $M	2015 $M
Tier 1 Capital (net of capital deductions)	**48,285**	**45,484**
On-balance sheet exposures (excluding derivatives and securities financing transaction exposures)	744,359	733,756
Derivative exposures	30,600	38,115
Securities financing transaction (SFT) exposures	31,417	17,297
Other off-balance sheet exposures	98,460	107,817
Total exposure measure	**904,836**	**896,985**
APRA Leverage Ratio[1]	**5.3%**	**5.1%**

1. *Leverage Ratios include Additional Tier 1 securities subject to Basel 3 transitional relief, net of any transitional adjustments.*

Comparison of 2016 with 2015

ANZ's Leverage Ratio increased +27 bps during the year mainly driven by benefits from the net issuance of $2.1 billion of Additional Tier 1 capital instruments and capital generation from statutory profits (net of dividend payments). This was partially offset by increased holdings of High Quality Liquid Assets and lending growth in Australian mortgages, which contributed to growth in the exposure measure.

Guarantees and contingent liabilities

Details of the estimated maximum amount of guarantees and credit related contingent liabilities that may become payable are disclosed in the following table.

These guarantees and contingent liabilities 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 issue of letters of credit guaranteeing payment in favor of an exporter 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 should the customer fail to fulfill the non-monetary terms of the contract.

To reflect the risk associated with these transactions, they are subjected to the same credit origination, portfolio management and collateral requirements as customers that apply for loans. The contract amount represents the maximum potential amount that could be lost if the counterparty fails to meet its financial obligations. As the facilities may expire without being drawn upon, the notional amounts do not necessarily reflect future cash requirements.

	As of September 30		
	2016 $M	**2015 $M**	**2014 $M**
Contract amount of:			
Guarantees and letters of credit	18,056	18,809	17,235
Performance related contingencies	19,723	21,526	22,840
Total	37,779	40,335	40,075

Details of the Group's other contingent liabilities are described in Note 41 of the 2016 Financial Statements (attached as part of Annex A hereto).

Directors

In accordance with the rules of the ANZ Constitution, as amended December 17, 2010 (the "Constitution"), and except as otherwise required by the Corporations Act 2001 (Cth) ("Corporations Act"), any other applicable law, and the Listing Rules of the ASX, the Board of Directors has power to manage the business of the Group and may exercise all powers not required to be exercised at a general meeting of shareholders.

As of the date of this U.S. Disclosure Document, the Directors were:

Director's Name	Position held	Year appointed	Age
Mr D M Gonski, AC	Chairman, Independent Non-Executive Director	2014	63
Mr S C Elliott	Chief Executive Officer	2016	52
Ms I R Atlas	Independent Non-Executive Director	2014	62
Ms P J Dwyer	Independent Non-Executive Director	2012	56
Ms S J Halton	Independent Non-Executive Director	2016	56
Mr Lee Hsien Yang	Independent Non-Executive Director	2009	59
Mr G R Liebelt	Independent Non-Executive Director	2013	62
Mr I J Macfarlane, AC	Independent Non-Executive Director	2007	70
Mr J T Macfarlane	Independent Non-Executive Director	2014	56

Under the Constitution, a non-executive Director must retire from office at the third annual general meeting after being elected or last re-elected and may seek re-election. As of the date of this U.S. Disclosure Document, the Board was comprised of eight Non-Executive Directors and one Executive Director, the Chief Executive Officer. The names of the Directors, together with details of their qualifications, experience and special responsibilities are set out below.

Directors' Profiles

MR D M GONSKI, AC, Chairman, Independent Non-Executive Director and Chair of the Environmental, Sustainability and Governance Committee
BCOM, LLB, FAICD(LIFE), FCPA

Chairman since May 1, 2014 and a Non-Executive Director since February 2014. Mr Gonski is an ex officio member of all Board Committees including Chair of the Environmental, Sustainability and Governance Committee.

Skills, experience and expertise

Mr Gonski is one of Australia's most respected business leaders and company directors with business experience in Australia and Asia, and a broad range of involvement with the government, education and community sectors. Mr Gonski served previously as a Director on the ANZ Board from 2002 to 2007.

Current Directorships

Chairman: Coca-Cola Amatil Limited (from 2001, Director from 1997) and The University of New South Wales Foundation Limited (from 2005, Director from 1999).
Director/Member: Lowy Institute for International Policy (from 2012), Australian Philanthropic Services Limited (from 2012), ASIC External Advisory Panel (from 2013) and Advisory Committee for Optus Limited (from 2013).
Chancellor: University of New South Wales Council (from 2005).
President: Art Gallery of NSW Trust (from 2016).

Former Directorships include

Former Chairman: Sydney Theatre Company Ltd (2010-2016), Guardians of the Future Fund of Australia (2012-2014), Swiss Re Life & Health Australia Limited (2011-2014), Investec Bank (Australia) Limited (2002-2014), Investec Holdings Australia Limited (2002-2014), Ingeus Limited (2009-2014), National E-Health Transition Authority Ltd (2008-2014), Federal Government Review Panel of Funding for Schooling (The Gonski Review) (2011-2012), Advisory Committee to the NSW Government Commission of Audit (2011-2012) and ASX Limited (2008-2012, Director from 2007).
Former Director: Singapore Telecommunications Limited (2013-2015), Investec Property Limited (2005-2014), Infrastructure NSW (2011-2014) and Singapore Airlines Limited (2006-2012).
Former Consultant: Morgan Stanley Australia Limited (1997-2012).

Age: 63. **Residence:** Sydney, Australia.

MR S C ELLIOTT, Chief Executive Officer and Executive Director
BCOM

Chief Executive Officer and Executive Director since 1 January 2016.

Skills, experience and expertise

Mr Elliott has over 30 years' experience in international banking including in Australia, New Zealand, Asia Pacific, the Middle East, the UK and the USA. Mr Elliott joined ANZ as CEO Institutional in June 2009, and was appointed Chief Financial Officer in 2012, where he was responsible for all aspects of Finance as well as Group Strategy, Legal, Treasury, Investor Relations and Mergers and Acquisitions.
Prior to joining ANZ, Mr Elliott held senior executive roles at EFG Hermes which included Chief Operating Officer. Mr Elliott was previously with Citigroup where he held various senior positions across various geographies and business sectors over the course of 20 years. He started his career in various roles with Citibank New Zealand and Citibank UK.

Current Directorships

Director: ANZ Bank New Zealand Limited (from 2009), ANZ Holdings (New Zealand) Limited (from 2012) and the Financial Markets Foundation for Children (from 2016).
Member: Australian Banker's Association (from 2016), Business Council of Australia (from 2016) and Male Champions of Change (from 2016).

Former Directorships include

Former Director: ANZ Securities Limited (2009-2012).

Age: 52. **Residence:** Melbourne, Australia.

MS I R ATLAS, Independent Non-Executive Director
BJURIS (HONS), LLB (HONS), LLM

Non-Executive Director since September 2014. Ms Atlas is a member of the Audit Committee, Human Resources Committee and Environmental, Sustainability and Governance Committee.

Skills, experience and expertise

Ms Atlas brings a strong financial services background and legal experience to the Board. Ms Atlas' last executive role was Group Executive, People at Westpac, where she was responsible for human resources, corporate affairs and sustainability. Prior to that, she was Westpac's Group Secretary and General Counsel. Before her 10 years at Westpac, Ms Atlas was a partner in law firm Mallesons Stephen Jaques (now King & Wood Mallesons). In addition to her practice in corporate law, she held a number of management roles in the firm including Executive Partner, People and Information, and Managing Partner.

Current Directorships

Chairman: The Bell Shakespeare Company Limited (from 2010, Director from 2004).
Director: Coca-Cola Amatil Limited (from 2011), Westfield Corporation Limited (from 2014), Treasury Corporation of New South Wales (from 2013), Oakridge Wines Pty Limited (from 2007), Human Rights Law Centre Ltd (from 2012) and Jawun (from 2014).
Member: Australian Institute of Company Directors' Corporate Governance Committee (from 2014) and Panel of Adara Partners (from 2015).
Fellow: Senate of the University of Sydney (from 2015).

Former Directorships include

Former Director: Suncorp Group Limited (2011-2014), Suncorp-Metway Limited (2011-2014), GIO General Limited (2011-2013), AAI Limited (2011-2014) and Scentre Group Limited (previously known as Westfield Holdings Limited) (2011-2014).

Age: 62. **Residence:** Sydney, Australia.

MS P J DWYER, Independent Non-Executive Director and Chair of the Audit Committee
BCOM, FCA, SF FIN, FAICD

Non-Executive Director since April 2012. Ms Dwyer is a member of the Risk Committee and Human Resources Committee.

Skills, experience and expertise

Ms Dwyer brings extensive board, financial services, strategy and business leadership experience. Her career as a company director spans financial services and investment, healthcare, gambling entertainment, fast moving consumer goods, property and construction and retailing sectors. She has held senior executive roles in investment management at Calibre Asset Management, corporate finance at Ord Minnet (J P Morgan) and accounting at Price Waterhouse (now PricewaterhouseCoopers).

Current Directorships

Chairman: Tabcorp Holdings Limited (from 2011, Director from 2005), Healthscope Limited (from 2014) and Kin Group Advisory Board (from 2014).
Director: Lion Pty Ltd (from 2012).
Member: Kirin International Advisory Board (from 2012).

Former Directorships include

Former Deputy Chairman: Leighton Holdings Limited (2013-2014, Director 2012) and Baker IDI Heart and Diabetes Institute (2003-2013).
Former Director: Suncorp Group Limited (2007-2012), Promina Limited (2002-2007) and Foster's Group Limited (2011).
Former Member: John Holland Group Advisory Board (2012-2014), Australian Government Takeovers Panel (2008-2014) and ASIC External Advisory Panel (2012-2015).

Age: 56. **Residence:** Melbourne, Australia.

MS S J HALTON, AO, PSM, Independent Non-Executive Director
BA (HONS) PSYCHOLOGY, FAIM, FIPAA, NAM, HON. FAAHMS, HON. DLITT (UNSW)

Non-Executive Director since October 2016.

Skills, experience and expertise

Ms Halton is a former Secretary of the Australian Department of Finance, responsible for supporting the delivery of the Australian Government budget, the ongoing management of the Australia Government's non-defense domestic property portfolio, key asset sales and the financial framework for Australian Government agencies. She brings to the Board extensive experience in finance, insurance, risk management, information technology, human resources, health and ageing and public policy. She also has significant international experience.

In a 33 year career within the public service, Ms Halton's previous roles include the Secretary of the Australian Department of Health, Secretary for the Department of Health and Ageing, and Executive Co-ordinator (Deputy Secretary) of the Department of the Prime Minister and Cabinet.

Current Directorships

Member: Executive Board of the Institute of Health Metrics and Evaluation at the University of Washington (from 2007).
Board Member: Coalition for Epidemic Preparedness Innovations (Norway) (from 2016)
Public Policy Fellow: ANU Crawford School of Public Policy (from 2012)
Adjunct Professor: University of Sydney and University of Canberra

Former Directorships include

Former Chairman: OECD Asian Senior Budget Officials Network (from 2014-2016), World Health Organization Executive Board (2013-2014), OECD's Health Committee (2007-2013), Food Regulation Standing Committee (2002-2014) and National Aboriginal and Torres Strait Islander Health Council (2002-2008).
Former President: World Health Assembly (2007).
Former Executive Board Member: World Health Organization (2004-2007 and 2012-2015).
Former Member: Melbourne Institute Advisory Board (2007-2015), the National E-Health Transition Authority (2005-2014) and Australian Institute of Health and Welfare (2002-2014).
Former Commissioner: Australian Sports Commission (2008-2010 and 2013-2014), Australian Commission on Safety and Quality in Health Care (2006-2015) and Health Insurance Commission (2002-2005).

Age: 56. **Residence:** Canberra, Australia.

MR LEE HSIEN YANG, Independent Non-Executive Director and Chair of the Digital Business and Technology Committee
MSc, BA

Non-Executive Director since February 2009. Mr Lee is a member of the Risk Committee and Human Resources Committee.

Skills, experience and expertise

Mr Lee has considerable knowledge of and operating experience in Asia. He has a background in engineering and brings to the Board his international business and management experience across a wide range of sectors including telecommunications, food and beverages, property, publishing and printing, financial services, education, civil aviation and land transport.

Current Directorships

Chairman: The Islamic Bank of Asia Limited (from 2012, Director from 2007), Civil Aviation Authority of Singapore (from 2009) and General Atlantic Singapore Fund Pte Ltd (from 2013).
Director: Rolls-Royce Holdings plc (from 2014), General Atlantic Singapore Fund FII Pte Ltd (from 2014), Cluny Lodge Pte Ltd (from 1979) and Caldecott Inc. (from 2013).
Member: Governing Board of Lee Kuan Yew School of Public Policy (from 2005).
Special Adviser: General Atlantic (from 2013).
Consultant: Capital International Inc Advisory Board (from 2007).
President: INSEAD South East Asia Council (from 2013).

Former Directorships include

Former Chairman: Fraser & Neave, Limited (2007-2013) and Asia Pacific Investments Pte Ltd (2010-2012, Director 2009-2012).
Former Director: Singapore Exchange Limited (2004-2016).
Former Member: Rolls Royce International Advisory Council (2007-2013).
Former Chief Executive Officer: Singapore Telecommunications Limited (1995-2007).

Age: 59. **Residence:** Singapore.

MR G R LIEBELT, Independent Non-Executive Director and Chair of the Human Resources Committee
BEc (Hons), FAICD, FTSE, FAIM

Non-Executive Director since July 2013. Mr Liebelt is a member of the Risk Committee, Environmental, Sustainability and Governance Committee and Digital Business and Technology Committee.

Skills, experience and expertise

Mr Liebelt has extensive international experience and a strong record of achievement as a senior executive including in strategy development and implementation. He brings to the Board his experience of a 23 year executive career with Orica Limited (including a period as Chief Executive Officer), a global mining services company with operations in more than 50 countries.

Current Directorships

Chairman: Amcor Limited (from 2013, Director from 2012).
Director: Australian Foundation Investment Company Limited (from 2012), Carey Baptist Grammar School (from 2012) and DuluxGroup Limited (from 2016).

Former Directorships include

Former Deputy Chairman: Melbourne Business School (2012-2015, Director from 2008).
Former Chairman: The Global Foundation (2014-2015, Director from 2006).

Former Chief Executive Officer and Managing Director: Orica Limited (2005-2012).
Former Executive Director: Orica Limited (2007-2012).
Former Director: Business Council of Australia (2010-2012).

Age: 62. **Residence:** Melbourne, Australia

MR I J MACFARLANE, AC, Independent Non-Executive Director and Chair of the Risk Committee
BEc (Hons), MEc, Hon DSc Syd., Hon DSc UNSW, Hon DCom Melb., Hon DLitt Macq., Hon LLD Monash

Non-Executive Director since February 2007. Mr Macfarlane is a member of the Environmental, Sustainability and Governance Committee and Audit Committee.

Skills, experience and expertise

During his 28 year career at the Reserve Bank of Australia including a 10 year term as Governor, Mr Macfarlane made a significant contribution to economic policy in Australia and internationally. He has a deep understanding of financial markets as well as a long involvement with Asia.

Current Directorships

Director: Lowy Institute for International Policy (from 2004).
Member: International Advisory Board of Goldman Sachs (from 2007).

Former Directorships include

Former Chairman: Payments System Board (1998–2006) and Australian Council of Financial Regulators (1998-2006).
Former Governor: Reserve Bank of Australia (Member 1992–2006, Chairman 1996–2006).
Former Director: Woolworths Limited (2007-2015) and Leighton Holdings Limited (2007-2013).
Former Member: Council of International Advisers to the China Banking Regulatory Commission (2009-2015) and International Advisory Board of CHAMP Private Equity (2007-2015).

Age: 70. **Residence:** Sydney, Australia.

MR J T MACFARLANE Independent Non-Executive Director
BCom, MCom (Hons)

Non-Executive Director since May 2014. Mr Macfarlane is a member of the Audit Committee, Risk Committee and Digital Business and Technology Committee.

Skills, experience and expertise

Mr Macfarlane is one of Australia's most experienced international bankers and previously served as Executive Chairman of Deutsche Bank Australia and New Zealand, and CEO of Deutsche Bank Australia. Prior to joining Deutsche Bank he was CEO of Bankers Trust New Zealand. Mr Macfarlane has also worked in the USA, Japan and PNG, and brings to the Board a depth of banking experience in ANZ's key markets in Australia, New Zealand and the Asia Pacific.

Current Directorships

Chairman: AGInvest Holdings Limited (MyFarm Limited) (from 2014).
Director: St. Vincent's Institute of Medical Research (from 2008), Craigs Investment Partners Limited (from 2013), Colmac Group Pty Ltd (from 2014) and Aikenhead Centre for Medical Discovery Limited (from 2016).

Former Directorships include

Former Executive Chairman: Deutsche Bank AG, Australia and New Zealand (2007-2014) and Chief Country Officer, Australia (2011-2014).
Former Director: Deutsche Australia Limited (2007-2014) and Deutsche Securities Australia Limited (2011-2014).
Former Chief Executive Officer: Deutsche Australia Limited (2011-2014).
Former President: Deutsche Securities (Japan) (1999-2006).
Former Chief Country Officer: Deutsche Bank AG (1999-2006).
Former Member: Business Council of Australia (2011-2014).

Age: 56. **Residence:** Melbourne, Australia

Senior Management and Executives

As of the date of this U.S. Disclosure Document, the senior management and executives (excluding non-executive directors) of ANZ were:

Executive Officers[1]	Position held	Appointed to position	Joined Group
S Elliott Age – 52	Chief Executive Officer Over 28 years' experience in the banking and financial services industry. Previous roles within ANZ include: Chief Financial Officer; Chief Financial Officer (Designate); Chief Executive Officer, Institutional. Roles prior to ANZ include: Head of Business Development, EFG Hermes; Chief Operating Officer, EFG Hermes; various senior positions at Citigroup across geographies and business sectors over the course of 20 years which include: CEO Global Transaction Services Asia Pacific; CEO Corporate Bank Australia/NZ & Country Corporate Officer; CEO Egypt; Vice President Strategic Planning New York; Head of Investor Derivative Sales London; and Head of NZ Derivatives Sales and Trading.	January 2016	June 2009
S Babani[2] Age – 56	Chief Human Resources Officer Over 25 years' experience in the financial services industry. Roles prior to ANZ include: Global Head of Human Resources HSBC Insurance, Chief Operating Officer, Global Resourcing HSBC Group (East Asia) and Executive Vice President HSBC Bank USA.	December 2007	December 2007
M Carnegie Age – 46	Group Executive, Digital Banking Roles prior to ANZ include: Managing Director, Google Australia and New Zealand; Managing Director, Proctor and Gamble, Australia and New Zealand.	June 2016	June 2016
A Currie[3] Age – 49	Chief Operating Officer Over 26 years' experience in the financial services industry. Previous role within ANZ: Managing Director Transaction Banking. Roles prior to ANZ include: President and CEO, HSBC Taiwan; Regional Head of Trade Services, HSBC Asia Office, Hong Kong; COO, Wells Fargo HSBC Trade Bank NA, San Francisco.	October 2011	November 2008
F Faruqui Age – 52	Group Executive, International Over 24 years' experience in the financial services industry. Roles prior to ANZ include: Head of Corporate and Commercial Banking, Asia – Citi; Head of Global Loans & Leveraged Finance, Asia Pacific and Head of Fixed Income, Capital Markets – Citi.	February 2016	August 2014
D Hisco Age – 53	Group Executive and Chief Executive Officer, New Zealand Over 34 years' experience in the banking and financial services industry. Previous roles within ANZ include Managing Director, Esanda and Managing Director, Retail Banking.	October 2010	July 1980
G K Hodges Age – 61	Deputy Chief Executive Officer Over 34 years' experience across Corporate Banking and Commercial Banking. Previous roles within ANZ include: Chief Executive Officer, Australia (Acting), Chief Executive and Director of ANZ National Bank, Group Managing Director Corporate, Managing Director Corporate and Small to Medium Business, Head of Corporate Banking, Chief Economist.	May 2009	January 1991
M Jablko Age – 44	Chief Financial Officer Over 15 years' experience in investment banking. Roles prior to ANZ include: Managing Director and Co-Head, Greenhill, Australia; Managing Director, UBS Australia; Lawyer, Allens Linklaters (formerly Allens Arthur Robinson), Australia.	July 2016	July 2016
F Ohlsson Age – 44	Group Executive, Australia Over 14 years' experience in the financial services industry. Previous roles within ANZ include Managing Director, Retail and Business Banking New Zealand; Managing Director, Business Banking and Strategy New Zealand; General Manager Commercial Products, Australia; Head of Products and Marketing, Esanda.	February 2016	December 2001
M Whelan Age – 56	Group Executive, Institutional Over 31 years' experience in banking and has vast experience in the Asian Market and Institutional Banking. Previous roles within ANZ include: Chief Executive Officer, Australia; Managing Director, Commercial Banking Australia; Managing Director, Asia, Europe & America, Institutional; Managing Director, Institutional Asia, Managing Director Markets; Head of Sales, Markets.	February 2016	November 2004
N Williams Age – 54	Chief Risk Officer Over 31 years' experience in the financial services industry. Previous roles within ANZ include: Managing Director, Australia Institutional; Managing Director, Institutional, Corporate and Commercial Banking, New Zealand; Managing Director, Institutional New Zealand; Managing Director Institutional Markets ANZ National Bank Limited.	December 2011	November 1984

[1] *On November 7, 2016 the Board announced that Mr Gerard Florian will join ANZ as Group Executive, Technology on January 30, 2017.*

[2] *On October 12, 2016, the Board announced that Ms Susie Babani will step down from the Chief Human Resources Officer role in 2017.*

[3] *On September 1, 2016, the Board announced that Mr Alistair Currie will step down from the Chief Operating Officer role in 2017.*

There are no family relationships between or among any key management personnel. All executives can be contacted through our Company Secretary on +61-3-8654-7597 or in writing to the Company Secretary, Australia and New Zealand Banking Group Limited, Level 9, 833 Collins Street, Docklands, Victoria 3008, Australia.

Corporate Governance

ANZ is committed to maintaining a high standard in its governance framework. ANZ confirms it has followed the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (3rd edition) during the 2016 financial year. ANZ's Corporate Governance Statement, together with the ASX Appendix 4G which relates to the Corporate Governance Statement, has been lodged with the ASX. They can be found on our website at: *http://shareholder.anz.com/reviews/usdebtinvestors-files* and are incorporated by reference and form part of this U.S. Disclosure Document. Information incorporated by reference into, or contained in or accessible through any web site referred to in, the Corporate Governance Statement or the related ASX Appendix 4G does not form part of this U.S. Disclosure Document unless we specifically state that it is incorporated by reference and forms part of this U.S. Disclosure Document.

Employees

As of September 30, 2016, ANZ employed 46,554 people worldwide (Sep 15: 50,152) on a full-time equivalent ("FTEs") basis.

	As of September 30			
		Restated	Originally Reported	
Division	**2016**	**2015[1]**	**2015[1,2]**	**2014[2]**
Australia	8,864	9,161	9,781	9,904
Institutional	3,640	4,218	7,578	7,749
New Zealand	5,240	5,359	5,068	5,059
Wealth Australia	1,379	1,532	-	-
Global Wealth[3]	-	-	2,489	2,290
Asia Retail & Pacific	2,925	3,518	-	-
TSO & Group Center	24,506	26,364	25,236	25,326
Totals	**46,554**	**50,152**	**50,152**	**50,328**

1. *Certain 2015 amounts (Restated 2015) reported as comparative information at the divisional level have been restated as a result of business unit reallocations between the divisions. These reallocations do not have an impact on comparative information at the Group level. Originally Reported 2015 and 2014 comparative amounts have not been restated.*
2. *As described at page 34, Institutional as used here refers to the former International & Institutional Banking ('IIB') division.*
3. *As described at page 34, Global Wealth as used here refers to the former Global Wealth division prior to the changes effected during the 2016 fiscal year.*

Industrial Relations

Australia

In Australia, terms and conditions of employment of most non-management staff, including salaries, may be negotiated between unions and management as part of a collective enterprise bargaining agreement ("EBA") subject to majority employee approval.

The *ANZ Enterprise Agreement 2015-2016 (Australia)* commenced operation on December 29, 2015. The agreement was approved by the Fair Work Commission following an employee ballot in which a majority of 89% voted to endorse it. The agreement replaced the *ANZ Enterprise Agreement 2013-2014 (Australia)* and sets the minimum terms and conditions of employment for ANZ's Australian Group 4, 5 and 6 employees (i.e. junior management and non-management employees) until replaced by another agreement which would not occur until October 1, 2017 at the earliest. The agreement also governs the pay increase arrangements for eligible 'non-market rated' Australian Group 5 and 6 employees (i.e. non-management employees) in respect of the 2015 and 2016 performance and remuneration reviews and contains the salary ranges applicable to these employees.

New Zealand

In New Zealand, ANZ considers management's relationship with employees to be satisfactory. The large majority of New Zealand employees are covered by individual employment agreements. ANZ's collective employment agreement with FIRST Union, which covers approximately 12% of New Zealand employees, was renewed in July 2016 and is effective from August 1, 2016 expiring on July 31, 2018. Management is not involved in any significant labor disputes with any employees.

Asia Pacific, Europe & America

There are no significant disputes between management and labor unions in any of the countries located in the Asia Pacific, Europe or America geography.

Superannuation

The Group has established a number of pension, superannuation and post-retirement medical benefit schemes throughout the world. Note 38 to the 2016 Financial Statements (attached as part of Annex A hereto) provides further details on ANZ's superannuation obligations.

Employee Equity

ANZ operates a number of employee share and option schemes that operate under the ANZ Employee Share Acquisition Plan and the ANZ Share Option Plan. Refer to Note 39 of the 2016 Financial Statements (attached as part of Annex A hereto) for further details.

Major Shareholders

We are not directly or indirectly controlled by another corporation, any government or any other natural or legal person(s), separately or jointly. As of the date of this U.S. Disclosure Document, we know of no person who is the beneficial owner of 5% or more of our ordinary shares. Refer to the Remuneration Report section of our 2016 Annual Report (attached as part of Annex A hereto) for further information (as at the relevant dates referred to therein) regarding share and option holdings by key management personnel (including directors).

Refer to the discussion headed, “Limitations affecting security holders” under Section 6 below for details of the Australian law limitations on the right of non-residents or non-citizens of Australia to hold, own or vote on shares in the Company.

Description of Ordinary Shares and Constituent Documents

Constitution

A copy of the Company’s Constitution, as adopted by shareholders on December 18, 2007 and incorporating amendments approved by shareholders on December 17, 2010, is available on the U.S. Investor website. There have been no changes to the Constitution subsequently. The Company’s Constitution does not contain a limit on how many shares the Company may have on issue at any time.

Dividend rights

Holders of ordinary shares are entitled to receive such dividends as may be determined by the directors from time to time in accordance with the Company’s Constitution. Dividends that are not claimed are required to be dealt with in accordance with laws relating to unclaimed monies.

The Company must not pay a dividend unless:

- the Company’s assets exceed its liabilities immediately before the dividend is declared and the excess is sufficient for the payment of the dividend;
- the payment of the dividend is fair and reasonable to the Company’s shareholders as a whole; and
- the payment of the dividend does not materially prejudice the Company’s ability to pay its creditors.

Payment of a dividend on ordinary shares may also be restricted by the terms of preference shares carrying a prior right to the payment of a dividend. Before paying any dividend, directors must ensure that they are in compliance with APRA prudential standards. See “Information on the Group - Supervision and Regulation” for more information on APRA prudential standards.

Voting rights

Subject to any applicable laws, as described further below and agreements to the contrary, each ordinary shareholder present at a general meeting (whether in person or by proxy, attorney or representative) is entitled to one vote on a show of hands (unless the shareholder has appointed two proxies in which case neither can vote) or, on a poll, one vote for each fully paid ordinary share held.

Right to share in surplus assets

In the event of a winding-up of the Company, ordinary shareholders rank after creditors and preference shareholders and are fully entitled to any surplus proceeds on liquidation.

Rights to redemption

Ordinary shareholders have no right to redeem their shares.

Further calls

Holders of fully paid ordinary shares have no liability for further capital calls by the Company. There are no partly paid ordinary shares.

There is no provision of the Company’s Constitution that discriminates against any existing or prospective holder of ordinary shares as a result of such shareholder owning a substantial number of shares on issue.

Preference shares

The Company’s Constitution authorizes the Board to issue preference shares with any rights attaching to them that the Board determines prior to their issue. These include rights to dividends that are cumulative or non-cumulative and that are in priority to the rights of ordinary shareholders, and rights to a return of capital and to participate in surplus assets in a winding up in priority to the rights of ordinary shareholders. Preference shareholders have rights to vote only in limited circumstances unless the Board otherwise determines prior to issue of the preference shares. There is no limit on the amount of preference shares which the Company may issue.

Changes to the rights of shareholders

The Company’s Constitution has effect as a contract between the Company and each shareholder, and between each shareholder, under which each person agrees to observe and perform the Company’s Constitution as it applies to that person. In accordance with the Corporations Act, the Company may modify or repeal its Constitution, or a provision of its Constitution, by a special resolution that has been passed by at least 75% of the votes cast by shareholders entitled to vote on the resolution.

An ADI statutory manager appointed by APRA has power under the Banking Act to, among other things, cancel shares or rights to acquire shares in the Company or vary or cancel rights attached to shares, notwithstanding the Constitution, the Corporations Act, the terms of any contract to which the Company is party or the listing rules of any financial market in whose list the Company is included.

Share rights – American Depositary Shares ("ADSs")

Each ADS confers an interest in 1 fully paid ordinary share in the Company which has been deposited with a depositary or custodian. The rights attaching to each fully paid ordinary share represented by an ADS are the same as the rights attaching to fully paid ordinary shares as described above. These rights are legally vested in the custodian or depositary as the holder of the fully paid ordinary shares, although holders of American Depositary Receipts ("ADRs"), which evidence ADSs, have certain rights against the depositary or custodian under the terms governing the issue of the ADRs.

Convening of and admission to general meetings

The Board may call a meeting of the Company's shareholders. The directors must call and arrange to hold a general meeting of the Company if requested to do so by shareholders who hold at least 5% of the votes that may be cast at the general meeting. Shareholders who hold at least 5% of the votes that may be cast at the general meeting may also call and arrange to hold a general meeting of the Company at their own expense.

At least 28 days' notice must be given of a meeting of the Company's shareholders. Written notice must be given to all shareholders entitled to attend and vote at a meeting. All ordinary shareholders except for holders of partly paid ordinary shares who have failed to pay a call in respect of such shares are entitled to attend to vote at general meetings of the Company. Voting rights attaching to other classes of shares in the Company may differ.

The directors may, in accordance with the Constitution and the Corporations Act, determine a time before a meeting at which membership in the Company (for the purposes of the meeting) is to be ascertained in respect of holding of shares that are quoted on the stock market of the ASX.

Transfer

A holder of a share may transfer it by any means permitted by the Corporations Act, subject to limited restrictions in the Constitution and applicable law. See further "Limitations Affecting Security Holders" below.

Limitations on ownership and changes in control

The Constitution contains certain limitations on the rights to own securities in the Company. However, there are detailed Australian laws and regulations which govern the acquisition of interests in the Company, and a summary of those is set out in "Section 6: Limitations affecting security holders".

The Constitution requires any sale or disposal of the Company's main undertaking to be subject to ratification by the Company in a general meeting. The ASX Listing Rules may also require ANZ to obtain shareholder approval to effect any such sale or disposal. Except for that provision, there are no provisions in the Constitution which would have the effect of delaying, deferring or preventing a change in control of the Company which would operate only with respect to a merger, acquisition or corporate restructuring involving the Company or its controlled entities.

If the Company issues partly paid shares to a person and that person fails to pay a call on those shares when required, the Board may give that person a notice which requires the member to pay the called amount and provides information in respect of how and when the called amount is to be paid. If the requirements of the notice are not satisfied, the Board, via resolution, may forfeit the partly paid share (and all dividends, interest and other money payable in respect of that share and not actually paid before the forfeiture) by resolution before the called amount is paid.

In addition, unless the terms of issue provide otherwise, under the Constitution the Company has a first and paramount lien on each share for all money called or payable at a fixed time in respect of that share that is due and unpaid, and certain amounts paid by the Company for which the Company is indemnified under the terms of the Constitution. If the Company has a lien on a share, and an amount secured by the lien is due and payable, the Company may give notice to the person registered as the holder of the share requiring payment of the amount and specifying how and when the payment must be made. If the requirements of that notice are not fulfilled, the Company may sell the share as if it had been forfeited.

The Board may also direct the sale of a share that is part of a "non-marketable parcel". For these purposes, a "non-marketable parcel" is a parcel of shares of a single class registered in the same name or same joint names which is less than the number that constitutes a marketable parcel of shares of that class under the ASX Listing Rules, or, subject to applicable law as specified in the Constitution, any other number determined by the Board from time to time.

Constitution provisions governing disclosure of shareholdings

There are no provisions of the Constitution which provide an ownership threshold above which share ownership must be disclosed. However, the Corporations Act requires a person to disclose certain prescribed information to the Company and the ASX if the person has or ceases to have a "substantial holding" in the Company. The term 'substantial holding' is defined in the Corporations Act as broadly, a relevant interest in 5% or more of the total number of votes attaching to voting shares and is not limited to direct shareholdings.

The Corporations Act also permits the Company or ASIC to direct any member of the Company to make certain disclosures in respect of their interest in the Company's shares and the interest held by any other person in those shares.

Changes in capital

The Constitution does not make any provision governing changes in the capital of the Company that is more stringent than is required by Australian law.

Change in Control

There are no arrangements known to ANZ, the operation of which may at a subsequent date result in a change in control of ANZ.

Related Party Transactions

Loans made to directors of the Company and other Key Management Personnel ("KMP") of the Group are made in the ordinary course of business on normal commercial terms and conditions no more favorable than those given to other employees or customers, including the term of the loan, security required and the interest rate. All other transactions with KMP and their related parties are made on terms equivalent to those that prevail in arm's length transactions. These transactions generally involve the provision of financial and investment services including services to eligible international assignees ensuring they are neither financially advantaged nor disadvantaged by their relocation. All such transactions that have occurred with KMP and their related parties have been trivial or domestic in nature. In this context, transactions are only disclosed when they are considered of interest to the users of the financial report in making and evaluating decisions about the allocation of scarce resources. For further information on related party transactions, refer to Note 40 of the 2016 Financial Statements (attached as part of Annex A hereto).

CHESS

CHESS stands for the "Clearing House Electronic Subregister System" and is operated by ASX Settlement Pty Limited, a wholly owned subsidiary of the ASX. ASX Settlement Pty Limited authorizes certain participants such as brokers, custodians, institutional investors and settlement agents to access CHESS and settle trades made by themselves or on behalf of clients.

Any public documents referred to in this U.S. Disclosure Document may be inspected by contacting the Company Secretary on +61-3-8654-7597 or in writing to the Company Secretary, Australia and New Zealand Banking Group Limited, Level 9, 833 Collins Street, Docklands, Victoria 3008, Australia.

Legal proceedings

The information below is consistent with Note 41 of the 2016 Financial Statements (attached as part of Annex A hereto).

There are outstanding court proceedings, claims and possible claims for and against the Group. Where relevant, expert legal advice has been obtained and, in the light of such advice, provisions and/or disclosures as deemed appropriate have been made. 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. Refer to Note 41 of the 2016 Financial Statements for a description of contingent liabilities and contingent assets as of September 30, 2016.

A summary of some of those contingent liabilities is set out below.

- **Bank fees litigation**

  Litigation funder IMF Bentham Limited commenced a class action against ANZ in 2010, followed by a second similar class action in March 2013. The applicants contended that certain exception fees (honor, dishonor and non-payment fees on transaction accounts and late payment and overlimit fees on credit cards) were unenforceable penalties (at law and in equity) and that various of the fees were also unenforceable under statutory provisions governing unconscionable conduct, unfair contract terms and unjust transactions. In August 2014, IMF Bentham Limited commenced a separate class action against ANZ challenging late payment fees charged to ANZ customers in respect of commercial credit cards and other ANZ products (at this stage not specified). This action is expressed to apply to all relevant customers, rather than being limited to those who have signed up with IMF Bentham Limited.

  In the second class action, all the applicants' claims have failed. The claims in relation to all fees were dismissed by the Full Federal Court. That decision was appealed to the High Court only in relation to credit card late payment fees (the other claims were not appealed). On July 27, 2016 the High Court dismissed the appeal and upheld the judgment in favor of ANZ in respect of credit card late payment fees.

  The applicants are presently considering the implications of the High Court's decision for the remaining class actions, which have been on hold pending the outcome of the second class action. ANZ believes that the remaining class actions are likely to be discontinued or dismissed.

- **Proceedings in relation to Bank Bill Swap Rate (BBSW)**

  On March 4, 2016, ASIC commenced court proceedings against ANZ. ASIC is seeking declarations and civil penalties for alleged market manipulation, unconscionable conduct, misleading or deceptive conduct, and alleged breaches by ANZ of certain statutory obligations as a financial services licensee. ASIC has subsequently initiated similar proceedings against two other Australian banks. ASIC's case against ANZ concerns transactions in the Australian interbank BBSW market in the period from March 2010 to May 2012. ANZ is defending the proceedings. The potential civil penalty or other financial impact is uncertain.

  In August 2016, a class action complaint was brought in the United States District Court against two international broking houses and 17 banks, including ANZ. The class action is brought by two US-based investment funds and an individual derivatives trader. The action is 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, from January 1, 2003 onwards. The claimants seek damages or compensation in amounts not specified, and allege that the defendant banks, including ANZ, violated US anti-trust laws, anti-racketeering laws, the Commodity Exchange Act, and unjust enrichment principles. ANZ is defending the proceedings. The action is at an early stage.

- **Regulator investigations into foreign exchange trading**

  Since 2014, each of ASIC and the Australian Competition and Consumer Commission (ACCC) have been investigating foreign exchange trading conduct of various banks including ANZ. ASIC's and the ACCC's investigations are ongoing and the range of potential outcomes include civil penalties and other actions under the relevant legislation.

- **Other regulatory reviews**

  In recent years there have been significant increases in the nature and scale of regulatory investigations and reviews, enforcement actions (whether by court action or otherwise) and the quantum of fines issued by regulators, particularly against financial institutions both in Australia and globally. The nature of these investigations and reviews can be wide ranging and, for example, currently include a range of matters including responsible lending practices, wealth advice and product suitability, conduct in financial markets and capital market transactions. During the year, ANZ has received various notices and requests for information from its regulators as part of both industry-wide and ANZ-specific reviews. The outcomes and total costs associated with such reviews remain uncertain.

- **Security recovery actions**

  Various claims have been made or are anticipated, arising from security recovery actions taken to resolve impaired assets over recent years. ANZ will defend these claims.

Subsequent events since the end of the financial period

On October 31, 2016, the Group announced it had entered into an agreement to sell its Retail and Wealth businesses in Singapore, China, Hong Kong, Taiwan, and Indonesia to DBS Bank Limited for a premium of approximately $110 million over the book value of net assets, which principally comprised $10,753 million of gross lending assets and $16,710 million of deposits as of September 30, 2016. The final purchase price will be based on the net assets at completion.

The transaction is subject to regulatory approval in each country, with completion occurring on a rolling country by country basis from mid financial year 2017 with all countries expected to be completed with 18 months.

The Group anticipates the transaction will generate a net loss of approximately $265 million (post-tax) including write-downs of software, goodwill and fixed assets, as well as separation and transaction costs.

The assets associated with the Retail and Wealth businesses in Asia were assessed for impairment as of September 30, 2016 on the basis of the businesses being a continuing operation and no impairment was identified. Additionally, the assets did not meet the conditions for 'held for sale' classification under AASB 5 – Non-Current Assets Held for Sale and Discontinued Operations.

Other than this matter, no other material events have occurred between the end of the reporting period (September 30, 2016) and the date of this U.S. Disclosure Document.

Dividend distribution policy

The Board of Directors of ANZ will determine the amount and timing of dividend distributions to holders of ordinary shares based on the financial performance and financial position of the Group.

ANZ has a Dividend Reinvestment Plan ("DRP") and a Bonus Option Plan ("BOP") that will operate in respect of the 2016 final dividend. For the 2016 final dividend, ANZ intends to provide shares under the DRP and BOP through the issue of new shares. The 'Acquisition Price' to be used in determining the number of shares to be provided under the DRP and BOP will be calculated by reference to the arithmetic average of the daily volume weighted average sale price of all fully paid ANZ ordinary shares sold in the ordinary course of trading on the ASX during the ten trading days commencing on November 18, 2016, and then rounded to the nearest whole cent. Shares provided under the DRP and BOP will rank equally in all respects with existing fully paid ANZ ordinary shares. Eligibility criteria applies to the participation in the DRP and BOP. In particular, until the Board otherwise determines, participation in the DRP and BOP is not available directly or indirectly to any entity or person, including any legal or beneficial owner of the ordinary shares of ANZBGL, who is (or who is acting on behalf of or for the account or benefit of an entity or person who is) in or resident in the United States of America, its possessions or territories, or in Canada.

Exchange controls

There are currently no general Australian exchange control regulations in force that restrict the payment of dividends, interest or other remittances to holders of our securities. Exchange controls are, however, implemented in Australia from time to time to reflect Australian public policy, and operate to prohibit the entry into certain transactions with specified persons or entities without the consent of the applicable Australian regulatory body. These include the following:

1. The Autonomous Sanctions Regulations 2011 of Australia prohibit dealing with certain "designated persons or entities" by directly or indirectly making assets (including shares and securities) available to or for their benefit without a permit. "Designated persons or entities" include:
   (a) persons who have been indicted for an offense by or within the jurisdiction of the International Criminal Tribunal for the former Yugoslavia, as well as certain supporters of the former Milosevic regime;
   (b) persons or entities engaging (or who have engaged) in activities that seriously undermine democracy, respect for human rights and the rule of law in Zimbabwe;
   (c) certain persons or entities associated with the weapons of mass destruction or missiles program of the Democratic People's Republic of Korea (North Korea);
   (d) certain persons associated with the Myanmar regime;
   (e) certain persons or entities who have contributed or are contributing to Iran's nuclear or missile programs, or have assisted or are assisting Iran to violate certain United Nations Resolutions;
   (f) certain close associates of the former Qadhafi regime, entities under the control of the Qadhafi family and persons or entities who have assisted or are assisting in the violation of certain United Nations Resolutions with respect to Libya;
   (g) certain persons or entities providing support to the Syrian regime or responsible for human rights abuses in Syria; and
   (h) persons or entities responsible for, or complicit in, the threat to the sovereignty and territorial integrity of Ukraine.
2. Under Part 4 of the Charter of the United Nations Act 1945 of Australia, the Charter of the United Nations ("Dealings with Assets") Regulations 2008 of Australia provide for sanctions against using or dealing with financial or other assets of persons or entities listed by the Minister for Foreign Affairs in the Commonwealth of Australia Gazette from time to time. Under Part 3 of the Charter of the United Nations Act 1945 of Australia and pursuant to specific regulations, it is prohibited to make certain supplies (which may include financial supplies) in respect of certain countries, including:
   (a) Liberia (see the Charter of the United Nations (Sanctions – Liberia) Regulations 2008 of Australia);
   (b) Côte d'Ivoire (see the Charter of the United Nations (Sanctions – Côte d'Ivoire) Regulations 2008 of Australia);
   (c) Democratic Republic of the Congo (see the Charter of the United Nations (Sanctions – Democratic Republic of the Congo) Regulations 2008 of Australia);
   (d) Democratic People's Republic of Korea (North Korea) (see the Charter of the United Nations (Sanctions – Democratic People's Republic of Korea) Regulations 2008 of Australia);
   (e) Sudan (see the Charter of the United Nations (Sanctions – Sudan) Regulations 2008 of Australia);
   (f) Iran (see the Charter of the United Nations (Sanctions – Iran) Regulations 2008 of Australia);
   (g) Iraq (see the Charter of the United Nations (Sanctions – Iraq) Regulations 2008 of Australia);
   (h) Al-Qaida and the Taliban (see the Charter of the United Nations (Sanctions – Al-Qaida) Regulations 2008 of Australia and the Charter of the United Nations (Sanctions – the Taliban) Regulation 2013 of Australia);
   (i) Somalia (see the Charter of the United Nations (Sanctions – Somalia) Regulations 2008 of Australia);
   (j) Lebanon (see the Charter of the United Nations (Sanctions – Lebanon) Regulations 2008 of Australia);
   (k) Eritrea (see the Charter of the United Nations (Sanctions – Eritrea) Regulations 2010 of Australia);
   (l) Libya (see the Charter of the United Nations (Sanctions – Libya) Regulations 2011 of Australia);

(m) Central African Republic (see the Charter of the United Nations (Sanctions – Central African Republic) Regulation 2014 of Australia);

(n) Yemen (see the Charter of the United Nations (Sanctions – Yemen) Regulation 2014 of Australia);

(o) South Sudan (see the Charter of the United Nations (Sanctions – South Sudan) Regulations 2015 of Australia); and

(p) Syria (see the Charter of the United Nations (Sanctions – Syria) Regulation 2015 of Australia).

3. Under the AML Act (or, where applicable, the Financial Transaction Reports Act 1988 of Australia), transfer of physical currency or e-currency of A$10,000 (or the foreign equivalent) and above must be reported by certain persons (including ANZ) to AUSTRAC.

Limitations affecting security holders

The following Australian laws impose limitations on the right of persons to hold, own or vote on shares in our company.

- Foreign Acquisitions and Takeovers Act 1975 of Australia

  The acquisition of shares in Australian companies by foreign interests is regulated by the Foreign Acquisitions and Takeovers Act 1975 of Australia. The Foreign Acquisitions and Takeovers Act 1975 of Australia applies (subject to certain monetary thresholds) to, among other things, any acquisition or issue of shares which results in either:

  - a foreign person or foreign-controlled corporation alone or together with any associates being in a position to control 20% or more of the voting power or potential voting power or hold any legal or equitable interest in 20% or more of the issued shares or rights to issued shares in a corporation carrying on an Australian business; or
  - two or more foreign persons or foreign-controlled corporations, together with any associates of any of those foreign persons or foreign-controlled corporations being in a position to control 40% or more of the voting power or potential voting power or hold any legal or equitable interest in 40% or more of the issues shares or rights to issued shares in a corporation carrying on an Australian business.

  In either of these cases, and in certain other circumstances, the Federal Treasurer may prohibit the acquisition if it would be contrary to the Australian national interest.

- Financial Sector (Shareholdings) Act 1998 of Australia

  The Financial Sector (Shareholdings) Act 1998 of Australia prohibits a person (together with their associates, if any), or two or more persons under an arrangement, from acquiring shares in a financial sector company if the acquisition would result in a person, together with their associates, holding a stake in the company of more than 15%. However, the Federal Treasurer may grant approval to a person to hold a stake of greater than 15% but only if satisfied that it is in the Australian national interest. No such approvals have been granted in respect of our shares.

- Corporations Act and ASX Listing Rules

  Shareholding restrictions

  Any person acquiring voting shares in a company is subject to the provisions contained in Chapter 6 of the Corporations Act relating to the acquisition of relevant interests in voting shares. Subject to certain exceptions (and among other prohibitions), section 606 of the Corporations Act prohibits a person from acquiring a relevant interest in issued voting shares in a company if, because of the acquisition, the person's or someone else's voting power in the company increases:

  - from 20% or below to more than 20%; or
  - from a starting point that is above 20% and below 90%.

  One of the exceptions to section 606 allows a person to acquire voting power of an additional 3% in a company if:

  - throughout the six months before the acquisition that person, or any other person, has had voting power in the company of at least 19%; and
  - as a result of the acquisition, neither that person, nor any other person who has had voting power of at least 19% in the preceding six months, would have voting power in the company more than 3% higher than they had six months before the acquisition.

  For the purposes of the Corporations Act, a person's voting power in a company is the total number of votes attached to voting shares in respect of which the person and its associates (which are broadly defined) have a 'relevant interest' as a proportion of the total number of votes attached to all voting shares in the company. Broadly speaking, subject to certain qualifications, a person has a 'relevant interest' in securities if the person is the holder of the securities; has the power to exercise, or control the exercise of, a right to vote attached to the securities; or has the power to dispose of, or control the exercise of a power to dispose of, a security.

  In addition, under the Corporations Act, any person who begins to have or ceases to have, a substantial holding in us, or who already has a substantial holding and there is a movement of at least 1% in their holding, or who makes a takeover bid for our securities, is required to give a notice to us and to ASX Limited providing certain prescribed information, including their name and address and details or their relevant interests in our voting shares. Generally, such notice must be provided within two business days after the person becomes aware of the information.

  The sale of shares may also be restricted by applicable Australian law, including restrictions under the Corporations Act on the sale of shares to investors within 12 months of their issue (except where certain exemptions apply) on account of the shares, or the securities which convert into those shares, being issued without disclosure as required by the Corporations Act.

  Divestment of shares in relation to control transactions

  The Corporations Act also enables persons to compulsorily acquire shares in a company in certain circumstances, including where they obtain a relevant interest in 90% or more of the issued voting shares of a company through a takeover bid or other means. A person may also compulsorily acquire shares pursuant to a court order in connection with a scheme of arrangement under the Corporations Act, following approval of the scheme of arrangement by the requisite number of shareholders at a prior vote.

  The Australian Takeovers Panel also has the ability to make orders requiring persons to divest interests in shares, or to seize shares from persons, or restrict voting rights, where the Takeovers Panel finds (on an application by an interested party) where they make a decision that unacceptable circumstances exist in relation to the affairs of a company that warrant the granting of such an order.

Restrictions on voting under the Corporations Act and ASX Listing Rules

The Corporations Act and ASX Listing Rules impose restrictions on certain persons and their associated or related entities from voting at general meetings of the Company in certain circumstances. These restrictions include, to the extent applicable to a shareholder, voting on: related party transactions involving the shareholder; change of control transactions involving the shareholder; capital actions involving the shareholder (including issues of shares requiring shareholder approval, share consolidations, splits and buy-backs); remuneration related resolutions presented to shareholders for approval, and other similar corporate actions.

Other restrictions relating to shares

Australian securities laws impose prohibitions of general application on misconduct in financial markets and dealings relating to financial products in Australia. These laws may prevent a person from acquiring or selling shares in the Company in certain circumstances (for example, where such conduct would constitute "insider trading").

- Competition and Consumer Act 2010 of Australia

  The Competition and Consumer Act 2010 of Australia regulates acquisitions which would have the effect, or be likely to have the effect, of substantially lessening competition in a market in Australia.

Withholding taxes

Australia imposes withholding taxes on certain payments to recipients outside Australia including certain dividend payments (to the extent such dividends are unfranked) and certain interest payments.

Constitution

The Company's Constitution was most recently amended on December 17, 2010. There have been no changes to the Constitution subsequently.

Material contracts

There have been no material contracts entered into by the Group in the past two years, other than in the ordinary course of its business, upon which it is substantially dependent.

AASs – Australian Accounting Standards.

AASB – Australian Accounting Standards Board. The term "AASB" is commonly used when identifying Australian Accounting Standards issued by the AASB.

ADI – Authorized Deposit-taking Institution.

ANZ New Zealand Geography – means the New Zealand operations of ANZBGL conducted through the New Zealand Branch and the following companies and their controlled entities: ANZ Holdings (New Zealand) Limited (including the ANZ New Zealand Group) and the New Zealand branches of ANZ Nominees Limited and ANZ Capel Court Limited.

ANZ New Zealand Group – means ANZ Bank New Zealand Limited together with its consolidated subsidiaries.

APRA – Australian Prudential Regulation Authority.

APS – ADI Prudential Standard.

BCBS – Basel Committee on Banking Supervision.

Cash and cash equivalents comprise coins, notes, money at call, balances held with central banks, liquid settlement balances (readily convertible to known amounts of cash which are subject to insignificant risk of changes in value) and securities purchased under agreements to resell ("reverse repos") in less than three months.

Collective provision is the provision for credit losses that are inherent in the portfolio but not able to be individually identified. A collective provision is only recognized when a loss event has occurred. Losses expected as a result of future events, no matter how likely, are not recognized.

Credit risk is the risk of financial loss resulting from the failure of ANZ's customers and counterparties to honor or perform fully the terms of a loan or contract.

Credit risk weighted assets (CRWA) represent assets which are weighted for credit risk according to a set formula (APS 112/113).

Customer deposits represent term deposits, other deposits bearing interest, deposits not bearing interest and borrowing corporations' debt excluding securitization deposits.

Derivative credit valuation adjustment (CVA) – Over the life of a derivative instrument, ANZ uses a CVA model to adjust fair value to take into account the impact of counterparty credit quality. The methodology calculates the present value of expected losses over the life of the financial instrument as a function of probability of default, loss given default, expected credit risk exposure and an asset correlation factor. Impaired derivatives are also subject to a CVA.

Dividend payout ratio is the total ordinary dividend payment divided by profit attributable to shareholders of the Company, adjusted for the amount of preference share dividends paid.

Gross loans and advances (GLA) is made up of loans and advances, acceptances and capitalized brokerage/mortgage origination fees less unearned income.

IFRS – International Financial Reporting Standards.

Impaired assets are those financial assets where doubt exists as to whether the full contractual amount will be received in a timely manner, or where concessional terms have been provided because of the financial difficulties of the customer. Financial assets are impaired if there is objective evidence of impairment as a result of a loss event that occurred prior to the reporting date, and that loss event has had an impact, which can be reliably estimated, on the expected future cash flows of the individual asset or portfolio of assets.

Impaired loans comprise drawn facilities where the customer's status is defined as impaired.

Individual provision is the amount of expected credit losses on financial instruments assessed for impairment on an individual basis (as opposed to on a collective basis). It takes into account expected cash flows over the lives of those financial instruments.

Interest rate risk in the banking book (IRRBB) relates to the potential adverse impact of changes in market interest rates on ANZ's future net interest income. The risk generally arises from:

1. Repricing and yield curve risk - the risk to earnings or market value as a result of changes in the overall level of interest rates and/or the relativity of these rates across the yield curve;
2. Basis risk - the risk to earnings or market value arising from volatility in the interest margin applicable to banking book items; and
3. Optionality risk - the risk to earnings or market value arising from the existence of stand-alone or embedded options in banking book items.

Internationally comparable ratios are ANZ's interpretation of the regulations documented in the Basel Committee publications; "Basel 3: A global regulatory framework for more resilient banks and banking systems" (June 2011) and "International Convergence of Capital Measurement and Capital Standards" (June 2006). They also include differences identified in APRA's information paper entitled International Capital Comparison Study (July 13, 2015).

Net interest margin (NIM) is net interest income as a percentage of average interest earning assets.

Net loans and advances represent gross loans and advances less provisions for credit impairment.

Net tangible assets equal share capital and reserves attributable to shareholders of the Company less preference share capital and unamortized intangible assets (including goodwill and software).

Operating expenses include personnel expenses, premises expenses, technology expenses, restructuring expenses, and other operating expenses (excluding credit impairment charges).

Operating income includes net interest income, net fee and commission income, net funds management and insurance income, share of associates' profit and other income.

Restructured items comprise facilities in which the original contractual terms have been modified for reasons related to the financial difficulties of the customer. Restructuring may consist of reduction of interest, principal or other payments legally due, or an extension in maturity materially beyond those typically offered to new facilities with similar risk.

Regulatory deposits are mandatory reserve deposits lodged with local central banks in accordance with statutory requirements.

Risk weighted assets (RWA) – Assets (both on and off-balance sheet) are risk weighted according to each asset's inherent potential for default and what the likely losses would be in the case of default. In the case of non-asset backed risks (i.e. market and operational risk), RWA is determined by multiplying the capital requirements for those risks by 12.5.

Settlement balances owed to / by ANZ represent financial assets and/or liabilities which are in the course of being settled. These may include trade dated assets and liabilities, nostro / vostro accounts and securities settlement accounts.

Annex A: 2016 Financial Statements and Remuneration Report (extracts from the 2016 Annual Report)

Annex B: 2015 Financial Statements and Remuneration Report (extracts from the 2015 Annual Report)

PURPOSE

2016 ANNUAL REPORT

REMUNERATION REPORT

Contents

Introduction from the Chair of the Human Resources Committee

Dear Shareholder,

I am pleased to present our Remuneration Report for the year ending 30 September 2016.

The remuneration framework, which is aligned to our risk management framework, is designed to create value for all stakeholders, to differentiate rewards based on Group and individual performance and to provide competitive rewards that attract, motivate and retain talented people.

Remuneration outcomes

The ANZ Board has assessed the 2016 performance against the balanced scorecard and progress towards broader long term strategic goals. 2016 saw steady progress at the start of a period of consolidation and transition for ANZ. The goal is to be a simpler, better capitalised and more balanced bank that consistently produces better outcomes for shareholders and for customers. As part of this transition the Group took up $1,077 million of charges (post tax) for "Specified Items". Cash Profit declined 18% (excluding the impact of the "Specified Items" Cash Profit reduced 3%). In line with the strategic focus on capital efficiency, ANZ reduced the FY16 dividend and stated an intention to move back towards the historic payout range of 60% to 65% of Cash Profit which we believe to be a sustainable base for the future. The Board is very pleased with the substantial progress being made by the Chief Executive Officer (CEO) and his team, to refocus the organisation and establish a solid foundation for future performance.

This year there have been significant (9% to 43%) reductions in variable remuneration year on year for the majority of executives. Five of the nine executives (including the CEO) have received a below target award for 2016.

The Long Term Variable Remuneration[1] awarded in 2012 was tested in late 2015. ANZ achieved a Total Shareholder Return (TSR) of 38% and 31% over the three year performance periods for the Current CEO and Disclosed Executives, and Former CEO awards respectively. ANZ's TSR did not reach the median of the comparator group and accordingly, the performance rights did not vest, executives received no value from these awards and the awards have now lapsed. It is likely that the Long Term Variable Remuneration awarded in 2013, to be tested in November 2016, will not reach the vesting thresholds and will also lapse.

Executive changes

Shayne Elliott became CEO on 1 January 2016 and there were also several changes to Disclosed Executives during the year. These included the appointment of Fred Ohlsson as Group Executive, Australia and Mark Whelan as Group Executive, Institutional. Maile Carnegie (Group Executive, Digital Banking) and Michelle Jablko (Chief Financial Officer) also joined ANZ as Disclosed Executives. For each of these appointments, fixed remuneration was set lower than that of the prior incumbent (where relevant), including the CEO whose fixed remuneration was set at $2.1 million (nearly 40% lower than his predecessor). The Total Remuneration allocated for the CEO and Disclosed Executives has reduced (on an annualised basis) from around $40 million in FY15 to around $30 million in FY16, most of which is attributable to reduced fixed and variable remuneration levels.

Changes to remuneration structures

The Human Resources Committee has a strong focus on the relationship between business performance, risk management and remuneration, and regularly reviews the executive remuneration structure to ensure it remains appropriate.

During 2016 the HR Committee reviewed the CEO and Disclosed Executives' remuneration frameworks to ensure they support the achievement of ANZ's strategic objectives. The review considered a range of factors including market best practice, changes in market conditions and regulatory developments and feedback from shareholders and proxy advisors. The review has resulted in the changes summarised below, which are effective for the 2016 year.

We have implemented a combined Variable Remuneration framework for Disclosed Executives (combining Annual Variable Remuneration[2] and Long Term Variable Remuneration). Individual performance continues to be assessed against Group, Divisional and Individual annual objectives based on a balanced scorecard of measures and positive demonstration of values led behaviours. Measures relate to annual targets and also contributions towards medium to longer term performance outcomes aligned to ANZ's strategic objectives. The grant of Variable Remuneration is determined at the end of the bank's financial year and is delivered as 33% cash, 33% shares and 34% performance rights delivered over the short, medium and longer term. Delivery and deferral periods are as follows:

- The cash portion vests immediately.
- Shares are now deferred equally over four years (rather than two years previously).
- Performance rights will continue to be deferred over three years subject to testing at the end of the performance period. 75% are measured against the TSR of the Select Financial Services comparator group, and 25% are measured against Absolute Compound Annual Growth Rate TSR target.
- The maximum opportunity is now 150% of target and the deferral threshold is no longer applicable.

For the bank's financial year commencing 1 October 2016, the Variable Remuneration target for Disclosed Executives (excluding the Chief Risk Officer) has been increased from 170% to 200% of fixed remuneration in alignment with the other Australian major banks. As a result, a greater proportion of total target remuneration will be at risk (67% of total target remuneration rather than 63%). This also aligns the proportion of fixed and at risk remuneration for the Disclosed Executives with the CEO. This does not mean that variable rewards will necessarily increase as it is dependant on the percentage of target paid which is based on the performance in the year.

Consistent with the arrangements disclosed to the market at the time of appointment, the CEO has a separate Annual Variable Remuneration and Long Term Variable Remuneration framework.

- Annual Variable Remuneration is delivered as an equal mix of cash and shares.
  - The cash portion vests immediately.
  - Shares are now deferred equally over four years (rather than two years previously).
  - The maximum opportunity is now 150% of target (rather than 200% previously) and the deferral threshold is no longer applicable.
- Long Term Variable Remuneration continues to be delivered as performance rights deferred over three years subject to testing at the end of the performance period and measured against the same hurdles as Disclosed Executives.

Further detail is provided within the Remuneration Report which we hope you will find informative.

Graeme R Liebelt

Chair – Human Resources Committee

1 LTVR - Also referred to as Long Term Incentive (LTI).
2 AVR - Also referred to as Short Term Incentive (STI).

1. Basis of Preparation

The Remuneration Report is designed to provide shareholders with an understanding of ANZ's remuneration policies and the link between our remuneration approach and ANZ's performance, in particular regarding Key Management Personnel (KMP) as defined under the Corporations Act 2001. Individual outcomes are provided for ANZ's Non-Executive Directors (NEDs), the CEO and Disclosed Executives (current and former).

The Disclosed Executives are defined as those direct reports to the CEO with responsibility for the strategic direction and management of a major revenue generating Division or who control material revenue and expenses that fall within the definition of KMP.

The Remuneration Report for the Company and the Group for 2016 has been prepared in accordance with section 300A of the Corporations Act 2001. Information in Tables 5 and 6: Awarded Remuneration Disclosure has been prepared in accordance with the presentation basis set out in Section 8.4. The information provided in this Remuneration Report has been audited as required by section 308(3C) of the Corporations Act 2001, unless indicated otherwise, and forms part of the Directors' Report.

2. Key Management Personnel (KMP)

The KMP disclosed in this year's report are detailed in Table 1.

TABLE 1: KEY MANAGEMENT PERSONNEL

Name	Position	Term as KMP in 2016
Non-Executive Directors (NEDs)		
D Gonski	Chairman – Appointed Chairman May 2014 (Appointed Director February 2014)	Full Year
I Atlas	Director – Appointed September 2014	Full Year
P Dwyer	Director – Appointed April 2012	Full Year
S J Halton	Director – Appointed 21 October 2016	–
H Lee	Director – Appointed February 2009	Full Year
G Liebelt	Director – Appointed July 2013	Full Year
I Macfarlane	Director – Appointed February 2007	Full Year
J T Macfarlane	Director – Appointed May 2014	Full Year
Chief Executive Officer (CEO)		
S Elliott	Chief Executive Officer and Executive Director – Appointed 1 January 2016 (Chief Financial Officer until 31 December 2015)	Full Year
Chief Executive Officer (CEO) – Former		
M Smith	Former Chief Executive Officer and Executive Director – Concluded in role 31 December 2015, ceased employment 7 July 2016	Part Year
Disclosed Executives – Current		
M Carnegie	Group Executive, Digital Banking – Appointed 27 June 2016	Part Year
A Currie[1]	Chief Operating Officer	Full Year
D Hisco	Group Executive and Chief Executive Officer, New Zealand	Full Year
G Hodges	Deputy Chief Executive Officer (also Acting Chief Financial Officer from 1 January 2016 to 17 July 2016)	Full Year
M Jablko	Chief Financial Officer – Appointed 18 July 2016	Part Year
F Ohlsson	Group Executive, Australia – Appointed 1 February 2016	Part Year
M Whelan	Group Executive, Institutional – Appointed 1 February 2016 (Chief Executive Officer, Australia – Appointed 3 April 2015 until 31 January 2016)	Full Year
N Williams	Chief Risk Officer	Full Year
Disclosed Executives – Former		
P Chronican	Former Chief Executive Officer, Australia – Concluded in role 2 April 2015, ceased employment 31 December 2015	–
A Géczy	Former Chief Executive Officer, International & Institutional Banking – Concluded in role 29 January 2016, ceased employment 7 October 2016	Full Year
J Phillips	Former Group Executive, Wealth, Marketing and Innovation – Concluded in role 11 March 2016, ceased employment 1 July 2016	Part Year

1 A Currie will step down from the Chief Operating Officer role in 2017.

3. Role of the Board in Remuneration

The HR Committee is a Committee of the Board. The HR Committee is responsible for:

- reviewing and making recommendations to the Board in relation to remuneration governance, director and senior executive remuneration and senior executive succession;
- specifically making recommendations to the Board on remuneration and succession matters related to the CEO, and individual remuneration arrangements for other key executives covered by the Group's Remuneration Policy;
- the design of significant variable remuneration (such as the ANZ Employee Reward Scheme (ANZERS) and the Institutional Total Incentives Performance Plan (TIPP)); and
- remuneration structures for senior executives and others specifically covered by the Remuneration Policy.

More details about the role of the HR Committee can be found on the ANZ website.[1]

The link between remuneration and risk is considered a key requirement by the Board. Committee membership is structured to ensure overlap of representation across the HR Committee and Risk Committee, with three NEDs currently on both committees. The HR Committee has free and unfettered access to risk and financial control personnel, and can also engage independent external advisors as needed.

Throughout the year the HR Committee and management received information from external providers including Aon Hewitt, Ashurst, Ernst & Young, Herbert Smith Freehills, Korn Ferry Hay Group, McLagan, Mercer Consulting (Australia) Pty Ltd and PricewaterhouseCoopers. This information related to market data and market practice information, legislative requirements and interpretation of governance and regulatory requirements.

The HR Committee did not receive any remuneration recommendations from consultants during the year in relation to the remuneration arrangements of KMP. ANZ employs in-house remuneration professionals who provide recommendations to the HR Committee/Board, taking into consideration market information provided by external providers. The Board's decisions were made independently using the information provided and having careful regard to ANZ's strategic objectives, risk appetite and Remuneration Policy and principles.

1 Go to anz.com > about us > our company > corporate governance > ANZ Human Resources Committee Charter.

4. The Role of the HR Committee

During 2016, the HR Committee met on six occasions, with remuneration matters an agenda item on each occasion. The HR Committee has a strong focus on the relationship between business performance, risk management and remuneration, with the following activities occurring during the year:

- annual review of the effectiveness of the Remuneration Policy;
- review of key senior executive appointments and terminations;
- involvement of the Risk function in remuneration regulatory and compliance related activities;
- monitoring of regulatory and compliance matters relating to remuneration governance;
- review of variable remuneration arrangements including changes to the CEO and Group Executive Committee (ExCo) remuneration framework;
- review of reward outcomes for key senior executives;
- review of ANZ's risk culture and employee engagement;
- review of diversity and inclusion; and
- review of succession plans for key senior executives.

5. Remuneration Strategy and Objectives

ANZ's remuneration strategy, the Group's Remuneration Policy and reward frameworks all reflect the importance of sound risk management. The following principles underpin ANZ's Remuneration Policy, which is approved by the Board and applied globally across ANZ:

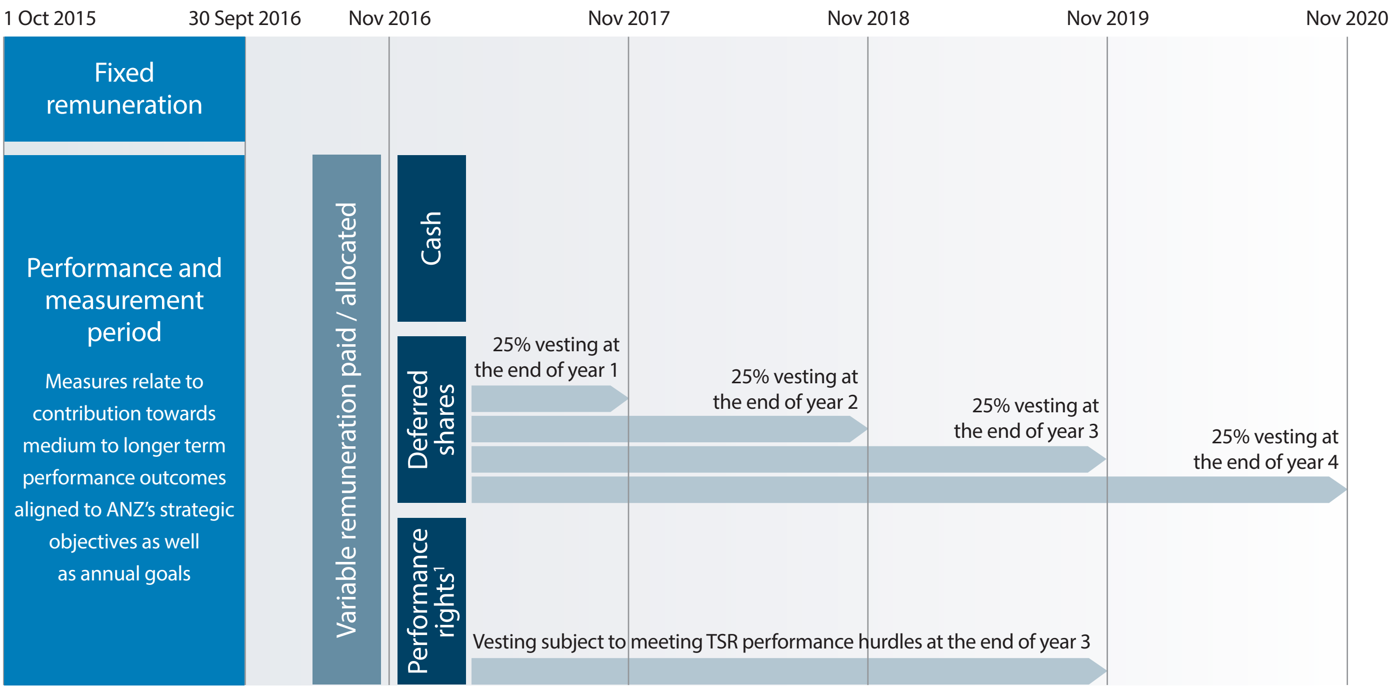
- creating and enhancing value for all ANZ stakeholders;
- emphasising the 'at risk' components of total rewards to increase alignment with shareholders and encourage behaviour that supports the long term financial soundness and the risk management framework of ANZ, and the delivery of superior long term total shareholder returns;
- differentiating rewards in line with ANZ's culture of rewarding for outperformance and demonstration of behaviours aligned with ANZ's values (Integrity, Collaboration, Accountability, Respect and Excellence); and
- providing a competitive reward proposition to attract, motivate and retain the highest quality individuals in order to deliver ANZ's business and growth strategies.

Appropriate risk management is fundamental to the way ANZ operates and is therefore a key element of the way performance is measured and assessed at a Group, Division and individual level. Variable remuneration outcomes reflect performance against a balanced scorecard of financial and non-financial (including risk) measures.

6. The Composition of Executive Remuneration at ANZ

The core elements of ANZ's remuneration strategy for the CEO and Disclosed Executives are set out below. The following diagram demonstrates the remuneration frameworks at ANZ, including the award instruments, performance links and vesting schedules.

FIGURE 1: REMUNERATION OVERVIEW FOR 2016



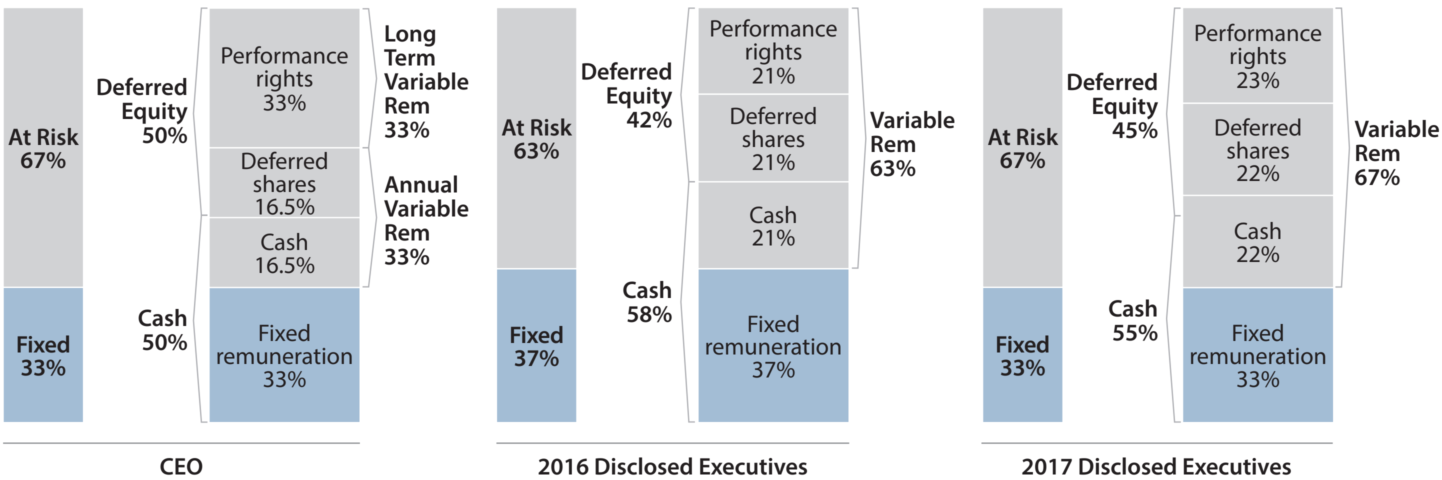
1 Allocated in November for Disclosed Executives and December for the CEO (subject to shareholder approval).

The Board aims to find a balance between:

- fixed and at risk remuneration; and
- cash and deferred equity.

Figure 2 provides an overview of the target remuneration mix for the CEO and Disclosed Executives.

FIGURE 2: TARGET REMUNERATION MIX



The remuneration mix in Figure 2 is based on performance rights face value at 50% vesting assuming an 'on target' award.

The CEO's target remuneration mix is equally weighted between fixed remuneration, Annual Variable Remuneration (AVR) and Long Term Variable Remuneration (LTVR), with approximately half of total target remuneration allocated as equity (shares deferred equally over four years, and performance rights deferred over three years), which remains at risk until vesting date.

The target remuneration mix for Disclosed Executives is weighted between fixed remuneration (37%) and Variable Remuneration (VR) (63%), with approximately 42% of total target remuneration allocated as equity (shares deferred equally over four years, and performance rights deferred over three years) remaining at risk until vesting date.

The CEO and Disclosed Executives may be awarded amounts above or below the target for variable remuneration.

ANZ's variable remuneration deferral arrangements are designed to ensure that the CEO and Disclosed Executives are acting in the best long term interests of ANZ and its shareholders. Deferring part of their variable remuneration over one to four years results in a substantial amount being directly linked to long term shareholder value. For example as at 30 September 2016 Shayne Elliott held 66,482 unvested deferred shares and 282,483 unvested performance rights, the combined value[1] of which was around four and a half times his fixed remuneration. Similarly as at 30 September 2016 Disclosed Executives held unvested equity, the value[1] of which was around four times their average fixed remuneration.

The reward structure for the CEO and Disclosed Executives is detailed below.

2017 Bank financial year

The target remuneration mix for Disclosed Executives (excluding the Chief Risk Officer (CRO)) will change as shown in Figure 2 above. VR targets will be increased from 170% to 200% of fixed remuneration in alignment with the Australian major banks, noting that the deferral period for shares has increased from two to four years, the deferral threshold has been removed, the maximum opportunity has been reduced to 150% of target and the performance rights for Disclosed Executives are now effectively hurdled twice (once on grant to determine the award and then on vesting against the performance hurdles).

The only exception is the CRO whose remuneration arrangements have been structured differently to preserve the independence of this role and to minimise any conflicts of interest in carrying out the risk control function across the organisation. The CRO's VR target will remain unchanged (refer to Section 6.2.3 How Variable Remuneration is delivered).

1 Value is based on the number of unvested deferred shares and unvested rights held at 30 September 2016 multiplied by the ANZ closing share price as at 30 September 2016.

6.1 FIXED REMUNERATION

The fixed remuneration amount is expressed as a total dollar amount which can be taken as cash salary, superannuation contributions and other nominated benefits. Fixed remuneration is set based on financial services market[1] relativities reflecting responsibilities, performance, qualifications, experience and location.

1 Considered the most relevant comparator as this is the main pool for sourcing talent and where key talent may be lost.

6.2 VARIABLE REMUNERATION

6.2.1 Overview of arrangements

Variable remuneration forms a significant part of the CEO's and Disclosed Executives' potential remuneration, providing at risk components that are designed to drive performance in the short, medium and long term.

For the 2016 awards, we have implemented revised variable remuneration arrangements:

- **Disclosed Executives:** Rewarded under a single Variable Remuneration (VR) framework. Individual performance is assessed against Group, Divisional and individual objectives based on a balanced scorecard of measures and positive demonstration of values led behaviours. Many of the measures relate to contribution towards medium to longer term performance outcomes aligned to ANZ's strategic objectives as well as annual goals. Assessment is over a one year time frame with the grant of variable remuneration determined at the end of the bank financial year. VR is then delivered as an even mix of cash, deferred shares and performance rights (subject to further performance measurement).
- **CEO:** Remains on separate AVR and LTVR frameworks. A target opportunity for both AVR and LTVR is established and performance is measured separately for each component.

The maximum AVR opportunity for the CEO and maximum VR opportunity for the Disclosed Executives is up to 150% of target. AVR/VR can be adjusted down (and potentially to a nil payment) based on assessed performance.

6.2.2 Annual performance

Variable remuneration is delivered under ANZ's Employee Reward Scheme (ANZERS) structure and the pool for distribution is reviewed by the HR Committee and approved by the Board. The size of the overall pool is based on an assessment of the balanced scorecard of measures of the Group and affordability.

Targets are set considering prior year performance, industry standards and ANZ's strategic objectives. Many of the measures also focus on targets which are set for the current year in the context of progress towards longer term goals. The specific targets and features relating to all these measures have not been provided in detail due to their commercial sensitivity.

Key performance areas for the ANZERS scorecard and outcomes against those for 2016 are in Section 7.2 Variable Remuneration – Performance and Outcomes.

For the CEO and Disclosed Executives, the weighting of measures in each individual's balanced scorecard will vary to reflect the responsibilities of their role. For example the Group Executives of the Australia, New Zealand and Institutional divisions have a 40% weighting on financial measures and 20% on each of Customer, Process/Risk and People.

Performance is assessed against these objectives at the end of the year, with input from the CEO, CRO, CFO and Group General Manager Internal Audit on risk management, financial performance and internal audit matters, followed by review and endorsement by the HR Committee, with final outcomes approved by the Board.

The Board reviews performance outcomes against target for each metric, combined with a judgemental assessment of each outcome relative to overall business performance for both the short and longer term.

6.2.3 How Variable Remuneration is delivered

Mandatory deferral of a significant portion of variable remuneration places an increased emphasis on having a variable structure that is flexible, continues to be performance linked, has significant retention elements and aligns the interests of the CEO and Disclosed Executives to shareholders to deliver against strategic objectives. Deferred remuneration remains subject to downward adjustment by the Board during the vesting period.

Delivered as	CEO	Disclosed Executives	Deferral period
Cash	50% of AVR	33% of VR	–
Deferred shares[1]	50% of AVR	33% of VR	Pro rata vesting in equal tranches over four years
Performance rights[2]	100% of LTVR[3]	34% of VR	Three years

1 Deferred shares or deferred share rights. At the end of the deferral period, each deferred share right entitles the holder to one ordinary share. Deferred shares are ordinary shares.
2 Deferred share rights for the CRO, instead of performance rights.
3 Subject to shareholder approval at the 2016 Annual General Meeting.

Downward adjustment

The Board has on-going and absolute discretion to:

- adjust deferred variable remuneration downwards, or to zero at any time, including after the grant of such remuneration, where the Board considers such an adjustment is necessary to protect the financial soundness of ANZ or to meet unexpected or unknown regulatory requirements, or if the Board subsequently considers that having regard to information which has come to light after the grant of deferred equity/cash, the deferred equity/cash was not justified;
- withhold vesting until the Board has considered any information that may impact the vesting.

Prior to any scheduled release of deferred remuneration, the Board considers whether any downward adjustment should be made.
No downward adjustment was applied to the remuneration of the executives during 2016.

PERFORMANCE RIGHTS – CEO (LTVR) AND DISCLOSED EXECUTIVES (VR) EXCLUDING THE CRO

Award instrument	Performance rights delivered to the CEO and Disclosed Executives are a right to acquire a share at nil cost, subject to meeting time and performance hurdles. Upon exercise, each performance right entitles the holder to one ordinary share.
Calculating the number of performance rights	To increase transparency and reduce volatility in the number of performance rights allocated each year a face value methodology has been used for grants after 1 October 2015 to determine the number of performance rights allocated to the CEO and Disclosed Executives. The number of performance rights allocated is calculated based on the five trading day Volume Weighted Average Price (VWAP) of the Company's shares traded on the ASX in the week up to and including the start of the performance period (commencing 22 November 2016 for the 2016 award). The future value of performance rights may range from zero to an indeterminate value depending on performance against the hurdle and the share price at the time of exercise.
Performance conditions	For the performance rights in relation to the 2016 year (to be granted in November/December 2016): ▸ 75% will be measured against the TSR of the Select Financial Services comparator group (Tranche 1); and ▸ 25% will be measured against Absolute Compound Annual Growth Rate (CAGR) TSR (Tranche 2). TSR represents the change in the value of a share plus the value of reinvested dividends paid. TSR was chosen as the most appropriate comparative measure as it focuses on the delivery of shareholder value and is a well understood and tested mechanism to measure performance. Each tranche will be measured independently from the other so one tranche may vest fully or partially but another tranche may not. The S&P/ASX 50 Index comparator group has been removed for performance rights in relation to the 2016 year to simplify the performance hurdles utilised in the measurement of performance rights.
Performance period	Performance rights awarded to the CEO and Disclosed Executives will be tested against the relevant performance hurdle at the end of the three year performance period. A three year performance period provides a reasonable period to align reward with shareholder return and also acts as a vehicle to help retain the CEO and Disclosed Executives. It aligns to the business planning cycle, provides sufficient time for the longer term performance to be reflected, while balancing a reasonable timeframe for the CEO and Disclosed Executives to find the award meaningful.
Relative TSR performance hurdle and TSR comparator group	For the 2016 (and 2015) awards, the Select Financial Services TSR comparator group is comprised of the following nine companies: ▸ Bank of Queensland Limited ▸ Bendigo and Adelaide Bank Limited ▸ Commonwealth Bank of Australia Limited ▸ DBS Bank Limited ▸ Macquarie Group Limited ▸ National Australia Bank Limited ▸ Standard Chartered PLC ▸ Suncorp Group Limited ▸ Westpac Banking Corporation The proportion of performance rights that become exercisable in each tranche will depend upon the TSR achieved by ANZ relative to the companies in the relevant comparator group at the end of the three year performance period. An averaging calculation is used for TSR over a 90 day period for start and end values in order to reduce the impact of share price volatility. To ensure an independent TSR measurement, ANZ engages the services of an external organisation (Mercer Consulting (Australia) Pty Ltd) to calculate ANZ's performance against the TSR hurdles. The level of performance required for each level of vesting, and the percentage of vesting associated with each level of performance, are set out below. The performance rights lapse if the performance condition is not met. There is no re-testing.

If the TSR of the Company compared to the TSR of the comparator group:	The percentage of performance rights which will vest is:
Does not reach the 50th percentile	0%
Reaches or exceeds the 50th percentile but does not reach the 75th percentile	50%, plus 2% for every one percentile increase above the 50th percentile
Reaches or exceeds the 75th percentile	100%

Absolute TSR performance hurdle	To strengthen the focus of executives on growing positive returns to shareholders, Absolute CAGR TSR was introduced in 2015 as an internal hurdle contingent on ANZ achieving or exceeding a threshold level of growth (as determined by the Board). The combination of absolute and relative TSR hurdles provides balance to the plan, rewarding executives for performance that exceeds that of peer companies, while still ensuring there is a continued focus on providing positive growth (even when the market is declining). Absolute CAGR TSR provides executives with a more direct line of sight to the performance required to achieve shareholder value creation and provides a tighter correlation between the executives' rewards and the shareholders' financial outcomes. The level of performance required for each level of vesting and the percentage of vesting associated with each level of performance are set out below. The performance rights lapse if the performance condition is not met. There is no re-testing. For the performance rights in relation to the 2016 (and 2015) year, the following targets apply and will be assessed over the three year performance period (commencing 22 November 2016 for the 2016 award):

If the Absolute CAGR TSR of the Company:	The percentage of performance rights which will vest is:
Does not reach 9%	0%
Reaches 9%	50%
Exceeds 9% but does not reach 13.5%	Progressive pro rata vesting between 50% and 100% (on a straight line basis)
Reaches or exceeds 13.5%	100%

ARRANGEMENTS FOR THE CRO

Instead of receiving performance rights, the CRO receives deferred share rights.

Deferred share rights are subject to a time-based vesting hurdle of three years. The value used to determine the number of deferred share rights to be allocated is based on an independent fair value calculation.

6.2.4 Legacy delivery instruments

VARIABLE REMUNERATION ARRANGEMENTS (GRANTED FROM 1 OCTOBER 2015)

The below arrangements relate to 2015 variable remuneration granted in November/December 2015 (under the previous approach), which vary from the arrangements for 2016.

Mandatory deferral	For the CEO and Disclosed Executives' AVR in relation to the 2015 year (granted in November 2015), the mandatory deferral threshold for AVR payments was $100,000 (subject to a minimum deferral amount of $25,000) with: ▸ the first $100,000 paid in cash; ▸ 50% above $100,000 paid in cash; ▸ 25% above $100,000 deferred in ANZ equity[1] for one year; and ▸ 25% above $100,000 deferred in ANZ equity[1] for two years. 100% of the CEO and Disclosed Executives' 2015 LTVR was deferred in hurdled performance rights[2] for three years.

1 Deferred shares or deferred share rights. At the end of the deferral period, each deferred share right entitles the holder to one ordinary share. Deferred shares are ordinary shares.
2 Deferred share rights for the CRO, instead of performance rights.

PERFORMANCE RIGHTS – EXCLUDING THE CRO (granted from 1 October 2015)

Performance conditions	For the performance rights in relation to the 2015 year (granted in November/December 2015): ▸ One third are measured against the TSR of the Select Financial Services comparator group (Tranche 1); ▸ One third are measured against the TSR of the companies within the S&P/ASX 50 Index as at the start of the performance period (Tranche 2); and ▸ One third are measured against Absolute CAGR TSR (Tranche 3).

6.3 OTHER REMUNERATION ELEMENTS

Hedging and Margin Lending Prohibition

As specified in the Trading in ANZ Securities Policy and in accordance with the Corporations Act 2001, equity allocated under ANZ variable remuneration plans must remain at risk until fully vested (in the case of deferred shares) or exercisable (in the case of deferred share rights or performance rights). As such, it is a condition of grant that no schemes are entered into, by an individual or their associated persons, that specifically protects the unvested value of shares, deferred share rights or performance rights allocated. Doing so would constitute a breach of the grant conditions and would result in the forfeiture of the relevant shares, deferred share rights or performance rights.

ANZ also prohibits the NEDs, CEO and Disclosed Executives from providing ANZ securities in connection with a margin loan or similar financing arrangements which may be subject to a margin call or loan to value ratio breach.

To monitor adherence to this policy, ANZ's NEDs, CEO and Disclosed Executives are required to sign an annual declaration stating that they and their associated persons have not entered into (and are not currently involved in) any schemes to protect the value of their interests in any ANZ securities. Based on the 2016 declarations, ANZ can advise that the NEDs, CEO and Disclosed Executives are fully compliant with this policy.

CEO and Disclosed Executives Shareholding Guidelines

The CEO and Disclosed Executives are expected to accumulate ANZ shares over a five year period, to the value of 200% of their fixed remuneration and to maintain this shareholding while an executive of ANZ. Shareholdings for this purpose include all vested and allocated (but unvested) equity which is not subject to performance hurdles. Based on equity holdings as at 30 September 2016, the CEO and all Disclosed Executives meet or, if less than five years' tenure, are on track to meet their minimum shareholding requirement apart from Alistair Currie, who is stepping down from his role as announced to the market.

Conditions of Grant

The conditions under which deferred shares, deferred share rights and performance rights are granted are approved by the Board in accordance with the rules of the ANZ Employee Share Acquisition Plan and/or the ANZ Share Option Plan.

Where deferred share rights or performance rights are granted, any portion of the award which vests may be satisfied by a cash equivalent payment rather than shares at the Board's discretion.

CEO and Disclosed Executives' Contract Terms

The following sets out details of the contract terms relating to the CEO and Disclosed Executives. The contract terms for the CEO and all Disclosed Executives are similar, but do, in some cases, vary to suit different circumstances.

Length of contract	The CEO and Disclosed Executives are all on a permanent ongoing employment contract.
Resignation	In order to terminate the employment arrangements: ▸ the CEO is required to provide the Company with 12 months' written notice; ▸ Disclosed Executives are required to provide the Company with 6 months' written notice. On resignation, unless the Board determines otherwise, all unvested deferred shares, all unvested or vested but unexercised performance rights and all deferred share rights are forfeited.
Termination on notice by ANZ	ANZ may terminate employment by providing 12 months' written notice or payment in lieu of the notice period based on fixed remuneration. On termination on notice by ANZ, unless the Board determines otherwise: ▸ all unvested deferred shares, performance rights and deferred share rights are forfeited; and ▸ only performance rights and deferred share rights that are vested may be exercised. Where the Disclosed Executive's termination is classified as a 'good leaver' then, unless the Board decides otherwise, any unvested deferred shares/deferred share rights will be retained and released at the original vesting date. Any unvested performance rights (subject to performance hurdles being met) and deferred share rights will be prorated for the period from the date of grant to the full notice termination date and released at the original vesting date.
Redundancy (not applicable for the CEO)	If ANZ terminates a Disclosed Executive's employment for reason of redundancy, a severance payment will be made that is equal to 12 months' fixed remuneration. All unvested deferred shares/deferred share rights remain subject to downward adjustment and are released at the original vesting date. All unvested performance rights (subject to performance hurdles being met), and deferred share rights will be prorated for the period from the date of grant to the full notice termination date and released at the original vesting date.

Death or total and permanent disablement	On death or total and permanent disablement all unvested deferred shares, all deferred share rights and all performance rights will vest.
Termination for serious misconduct	ANZ may immediately terminate employment at any time in the case of serious misconduct, and the executive will only be entitled to payment of fixed remuneration up to the date of termination. On termination without notice by ANZ in the event of serious misconduct all deferred shares held in trust will be forfeited and all performance rights and deferred share rights will be forfeited.
Change of control (applicable for the CEO only)	Where a change of control occurs, which includes a person acquiring a relevant interest in at least 50% of the Company's ordinary shares as a result of a takeover bid, or other similar event, the applicable performance conditions applying to the performance rights will be tested and the performance rights will vest based on the extent the performance conditions are satisfied. No pro rata reduction in vesting will occur based on the period of time from the date of grant to the date of the change of control event occurring, and vesting will only be determined by the extent to which the performance conditions are satisfied. Any performance rights which vest based on satisfaction of the performance conditions will vest at a time (being no later than the final date on which the change of control event will occur) determined by the Board. Any performance rights which do not vest will lapse with effect from the date of the change of control event occurring, unless the Board determines otherwise. Any unvested deferred shares will vest at a time (being no later than the final date on which the change of control event will occur) determined by the Board.
Statutory Entitlements	Payment of statutory entitlements of long service leave and annual leave applies in all events of separation.
Other arrangements	In addition to the standard remuneration arrangements, other remuneration may be awarded (for example, to incoming Disclosed Executives) to compensate for awards forfeited on resigning from their previous employer to join ANZ.

Former CEO Contract Terms

The following sets out details of the contract terms relating to the Former CEO as announced to the market on 1 October 2015.

Length of contract	Michael Smith commenced as CEO and Executive Director of ANZ on 1 October 2007 and was on a permanent contract. On 1 October 2015 the Board announced that Michael Smith would be succeeded as CEO by Shayne Elliott effective 1 January 2016.
Key terms of leaving arrangement	Under his employment contract Michael Smith was entitled to 12 months' notice and ANZ had the right to require him to work all or part of this notice period. Accordingly, ANZ determined as follows: 1. Michael Smith worked in the role as CEO for the first 3 months (to 31 December 2015); 2. Michael Smith was on leave for a period of approximately 6 months (gardening leave) (to 7 July 2016); 3. Michael Smith received a payment for the remaining approximately 3 months in lieu of notice (to 30 September 2016) in addition to a payment for pro rata long service leave and other statutory entitlements. No ex gratia payments were or will be made. Equity granted in prior years under ANZ's AVR and LTVR plans will, in accordance with the terms of their issue and Michael Smith's employment contract, remain on foot and will vest at the originally intended vesting dates to the extent to which the performance conditions (where applicable) are satisfied in accordance with the Conditions of Grant (and the terms approved by Shareholders for the performance rights). Where the rights have vested the Board may determine to settle in equity or a cash equivalent payment. There was no accelerated or automatic vesting upon ceasing employment. Michael Smith was entitled to the value of the superannuation funds that he had accumulated over his eight years with ANZ.

7. Linking Remuneration to Balanced Scorecard Performance

7.1 ANZ PERFORMANCE

TABLE 2: ANZ'S FINANCIAL PERFORMANCE 2012 – 2016

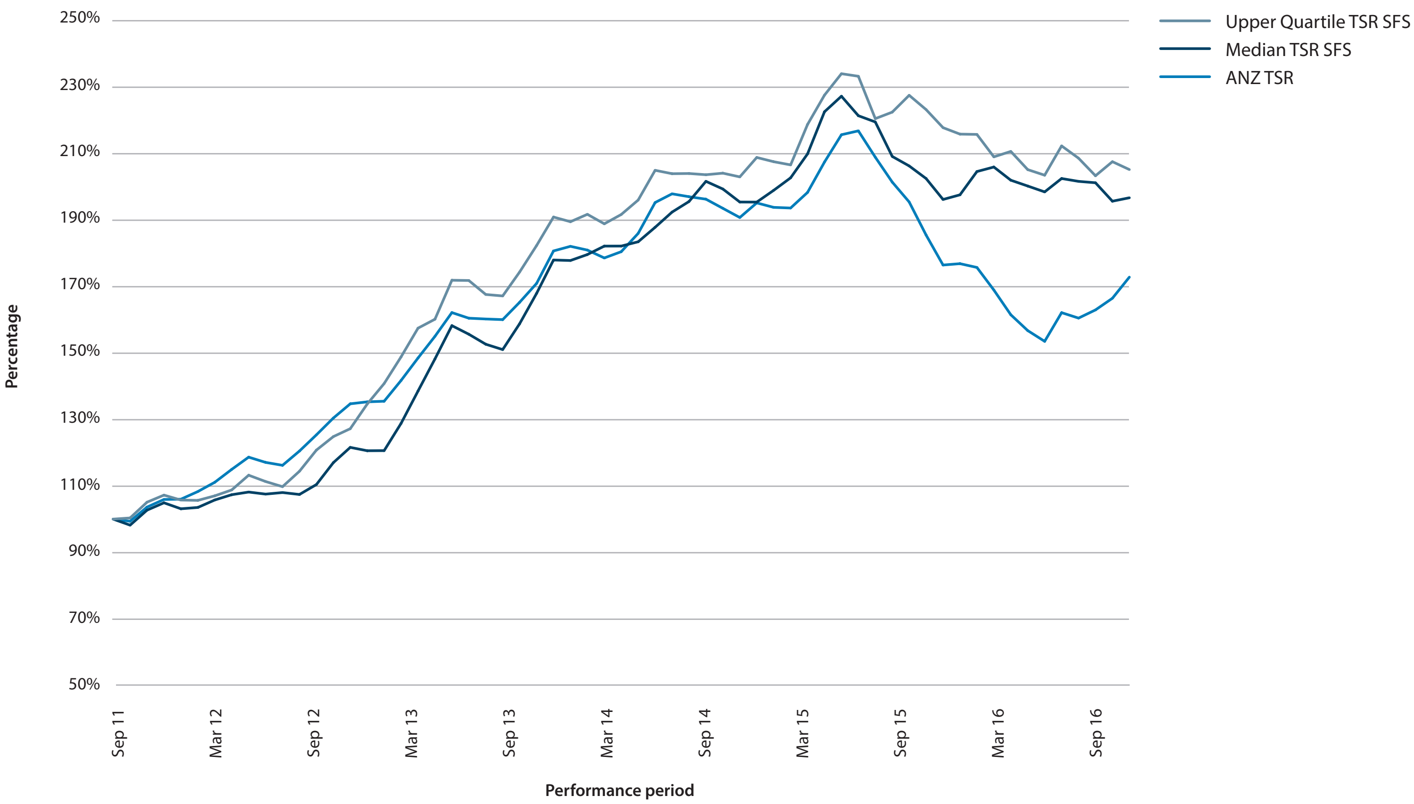
	2012	2013	2014	2015	2016
Statutory profit ($m)	5,661	6,310	7,271	7,493	5,709
Cash/Underlying profit[1] (unaudited)	5,830	6,492	7,117	7,216	5,889
Cash/Underlying return on equity (ROE) (%) (unaudited)	15.1%	15.3%	15.4%	14.0%	10.3%
Cash/Underlying earnings per share (EPS) (unaudited)	218.5	238.3	260.3	260.3	202.6
Share price at 30 September ($)[2]	24.75	30.78	30.92	27.08	27.63
Total dividend (cents per share)	145	164	178	181	160
Total shareholder return (12 month %)	35.4	31.5	5.9	(7.5)	9.2

1 The Group has used cash profit as a measure of performance for ongoing business activities of the Group, enabling shareholders to assess Group and Divisional performance against prior periods and against peer institutions since 1 October 2012. Statutory profit has been adjusted for non-core items to arrive at cash profit. Cash profit is not audited; however, the external auditor has informed the Audit Committee that the cash profit adjustments have been determined on a consistent basis across the respective periods presented.

2 The opening share price at 1 October 2011 was $19.10.

Figure 3 compares ANZ's TSR performance against the median TSR and upper quartile TSR of the performance rights Select Financial Services (SFS) comparator group over the 2012 to 2016 measurement period. ANZ's TSR performance is below the median TSR of the SFS comparator group over the five year period to 30 September 2016. Although this is across a different performance period, it is consistent with the outcomes of the most recently tested performance rights grants.

FIGURE 3: ANZ 5-YEAR CUMULATIVE TOTAL SHAREHOLDER RETURN PERFORMANCE



7.2 VARIABLE REMUNERATION – PERFORMANCE AND OUTCOMES

ANZ uses a balanced scorecard approach to measure performance in relation to the Group's main variable remuneration plans. The scorecard approach provides a framework whereby a combination of measures can be applied to ensure a broader long term strategic focus on driving shareholder value as well as a focus on annual priorities.

The balanced scorecard is aligned to the Group's long term strategic intent under the themes of High Performing, Most Respected, Well Managed, Best Connected and Customer Driven, with each of the five categories having broadly equal weighting. The Board reviews performance against the balanced scorecard and also assesses affordability in light of Group net profit after tax and returns to shareholders, including the level of dividend, in determining the overall reward pool size.

The original balanced scorecard for 2016 was based on the operating plans approved by the Board in October 2015; these were subsequently adjusted, following the appointment of Shayne Elliott as CEO on 1 January 2016, with the Board's endorsement. The changed priorities were considered as being in the best interests of shareholders over the longer term and include:

- Rebalancing of the Institutional portfolio through a reduction in credit risk weighted assets in the year with consequent reduction in revenues.
- Driving a productivity agenda in light of the subdued revenue outlook.

Whilst these changes in strategic priorities have adversely impacted performance against all of the High Performing category and some of the Best Connected, Customer Driven and Most Respected categories in the short term, they have been implemented quickly and effectively and set the Bank up well for the longer term. The Board has taken all these factors into account as well as strategic progress in creating long term value and the reduction in dividend to shareholders. Focus has also been given to adherence to values including building an appropriate culture and balancing risk and return in making remuneration recommendations.

Overall spend approved by the Board for the main annual variable remuneration pool was below target levels with a range of underlying outcomes for Disclosed Executives, in line with ANZ's objectives of differentiating reward based on performance.

The Group's financial performance is below target, predominantly impacted by short term outcomes in Institutional as a result of changed priorities, and a number of specified items including changes to the application of the Group's software capitalisation policy, impairment of an Asian minority investment and changes in the credit valuation adjustment methodology for derivatives and restructuring expenses. Australia and New Zealand have performed well, and Wealth and Retail Asia also generated solid performances. The Group has made strong progress in implementing new strategic priorities, including a $28 billion reduction in Institutional's credit risk weighted assets and containing costs.

The Group has performed well against the Well Managed category. Most Respected, Best Connected and Customer Driven scorecard outcomes have been mixed / slightly below target, partially due to changes to strategic priorities during the year.

The following provides key measures within each category of the balanced scorecard used in 2016.

Category	Measure	Outcome[1]
High Performing		Below Target:
	Revenue	Revenue of $20,577 million, up (+0.2%) on 2015. Strong growth in Australia and New Zealand was largely offset by lower growth in Institutional reflecting the challenging market conditions and the rebalancing of the Institutional portfolio, the impairment of our AmBank investment and the impact of a derivative credit valuation adjustment methodology change.
	Economic profit[2]	Economic profit of $1,278 million (determined using a 10% Cost of Capital), was down 56% due to the impact of "Specified Items[3]" as well as higher capital holdings reflecting the higher capital requirements.
	Return on equity (ROE)	Cash ROE of 10.3% was down from 14.0% in 2015 due to the impact of "Specified Items" and the higher capital requirements. Excluding the "Specified Items" ROE for the year was 12.2%.
	Cash earnings per share (EPS)	Cash EPS of 202.6 cents was down from 260.3 cents in 2015 reflecting both the impact of the "Specified Items" and the impacts of share issuances from raising capital in 2015. Excluding the "Specified Items" cash EPS was 239.7 cents.
Most Respected		Slightly Below Target:
	Workforce diversity	Workforce diversity is core to delivering on our super regional strategy. The percentage of management roles filled by women has increased from 40.4% to 41.5% year on year[4]. ANZ is focused on increasing the diversity of its workforce.
	Employee engagement	An engaged workforce is regarded as an important driver of sustainable long term performance. The continuing challenging business conditions and significant bank-wide changes over the year have contributed to a decline in employee engagement to 74% in 2016 compared to 76% in 2015.
	Senior leaders as role models of our values	The overall assessment of Senior Leaders as role models of our values has increased to 72% in 2016 from 71% in 2015.

Category	Measure	Outcome[1]
Well Managed		On Target:
	Maintain strong credit rating	Maintained a strong credit rating at AA- which is fundamental to the ongoing stability of the Group.
	Core funding ratio (CFR)	Maintained a strong CFR of 89.7%, through disciplined balance sheet management.
	Cost to income ratio	Cost to income ratio of 50.6% was significantly higher than 2015 due to the impact of "Specified Items".
	Number of repeat adverse internal audit ratings	ANZ Internal Audit conduct reviews to identify weaknesses in procedures and compliance with policies. In 2016 there were 4 repeat adverse audit ratings out of 183 reports (2015 – Nil).
Best Connected		Slightly Below Target:
	Growth in products per customer	In 2016, products per customer remained stable in Australia, New Zealand and Institutional, with Wealth division increasing the number of wealth solutions in ANZ channels and increasing customer numbers in Private Bank.
	Growth in cross-border revenue	Growth in cross-border revenue declined from 1.1% in 2015 to -1.5% in 2016 due to the run-off of lower return portfolios as a result of the change in strategic priorities and lower external credit growth, especially in Asia.
Customer Driven		Slightly Below Target:
	Customer satisfaction (based on external survey outcomes)	ANZ tracks customer satisfaction across its businesses as part of a group of indicators of longer term performance trends. ANZ aims to achieve top quartile customer satisfaction scores in each business based on external surveys. In 2016, both customer satisfaction and market share in Australia Retail have decreased slightly, and Corporate and Commercial segment also had a lower customer satisfaction rate. Customer satisfaction in New Zealand is stable across Personal, Commercial and Rural customer segments. While New Zealand Retail has a higher market share, Commercial and Agri-Business' market share has declined partly as a result of change of strategic direction. Institutional has maintained #1 ranking in terms of customer satisfaction (Peter Lee Surveys) in APEA and New Zealand. In Australia Institutional has improved to No. 1 from No. 2 last year.

1 The outcomes of these key measures are derived from unaudited financial and non-financial information.
2 Economic profit is an unaudited risk adjusted profit measure determined by adjusting cash profit for economic credit costs, the benefit of imputation credits and the cost of capital.
3 The impacts of "Specified Items" include the impacts of changes to the application of the Group's software capitalisation policy, an Asia Partnership impairment charge (AmBank), gain on cessation of equity accounting (Bank of Tianjin), restructuring expenses, changes in the credit valuation adjustment methodology for derivatives and the divestment of Esanda Dealer Finance portfolio. Further details are provided in ANZ's 2016 Annual Report on page 19.
4 Includes all employees regardless of leave status but not contractors (which are included in FTE).

The following provides the vesting outcomes for performance rights granted to the CEO (current and former) and Disclosed Executives (excluding the CRO) in November/December 2012 which reached the end of the performance period in November/December 2015.

TABLE 3: PERFORMANCE RIGHTS HURDLE OUTCOMES

Recipients	Type	Hurdle	Grant date	First date exercisable	ANZ TSR %	Median TSR %	Vested %	Lapsed %
CEO and Disclosed Executives	LTVR performance rights	Relative TSR – Select Financial Services	12-Nov-12	11-Nov-15	38.35%	54.99%	0%	100%
Former CEO			19-Dec-12	18-Dec-15	31.31%	48.22%	0%	100%

8. 2016 Remuneration

8.1 NON-EXECUTIVE DIRECTORS (NEDS)

Principles underpinning the remuneration policy for NEDs.

Principle	Comment
Aggregate Board and Committee fees are within the maximum annual aggregate limit approved by shareholders	The current aggregate fee pool for NEDs of $4 million was approved by shareholders at the 2012 Annual General Meeting. The annual total of NEDs' fees, including superannuation contributions, is within this agreed limit.
Fees are set by reference to key considerations	Board and Committee fees are set by reference to a number of relevant considerations including: ▸ general industry practice and best principles of corporate governance; ▸ the responsibilities and risks attached to the role of NEDs; ▸ the time commitment expected of NEDs on Group and Company matters; and ▸ fees paid to NEDs of comparable companies. ANZ compares NED fees to a comparator group of Australian listed companies with a similar size market capitalisation, with particular focus on the major financial services institutions. This is considered an appropriate group, given similarity in size, nature of work and time commitment required by NEDs.
The remuneration structure preserves independence whilst aligning interests of NEDs and shareholders	So that independence and impartiality is maintained, fees are not linked to the performance of the Company and NEDs are not eligible to participate in any of the Group's variable remuneration arrangements.

Components of NED Remuneration

NEDs receive a base fee for being a Director of the Board, and additional fees for either chairing or being a member of a Board Committee. The Chairman of the Board does not receive additional fees for service on a Board Committee.

NEDs also receive superannuation contributions in accordance with the current Superannuation Guarantee legislation (up to the Government's prescribed maximum contributions limit) which satisfies the Company's statutory superannuation contributions.

Based on an independent assessment of market practice the Board elected to increase the ANZ Chairman fee and NED base fee, and the Committee Chair and Member fees for the HR and Risk Committees as shown below. The Committee Chair and Committee Member fees for the Audit, Governance and Technology Committees remained unchanged for 2016.

Elements	Details			
Board/Committee fees per annum		Year	Fee	
	Board Chairman Fee[1]	**2016**	**$825,000**	**(including superannuation)**
		2015	$810,000	(including superannuation)
	Board NED Base Fee	**2016**	**$240,000**	**(including superannuation)**
		2015	$235,000	(including superannuation)
	Committee Fees	**Year**	**Committee Chair**	**Committee Member**
	Audit	**2016/2015**	**$65,000**	**$32,500**
	Governance	**2016/2015**	**$35,000**	**$15,000**
	Human Resources	**2016**	**$57,000**	**$29,000**
		2015	$55,000	$25,000
	Risk	**2016**	**$62,000**	**$31,000**
		2015	$60,000	$30,000
	Technology	**2016/2015**	**$35,000**	**$15,000**
Post-employment Benefits	The Chairman and NED base fee structure (included above) are inclusive of superannuation contributions.			

1 ANZ Board Chairman is an ex-officio member of all Board Committees and does not receive Committee member fees.

NED Shareholding Guidelines

The NED shareholding guidelines require NEDs to accumulate shares, over a five year period from appointment, to the value of 100% (200% for the Chairman) of the NED base fee and to maintain this shareholding while a Director of ANZ. NEDs have agreed that where their holding is below this guideline they will direct a minimum of 25% of their fees each year toward achieving this shareholding.

All NEDs have met or, if appointed within the last five years, are on track to meet their minimum shareholding requirement.

NED Statutory Remuneration Disclosure

TABLE 4: NED REMUNERATION FOR 2016 AND 2015

	Financial Year	Short-Term NED Benefits: Fees[1] $	Short-Term NED Benefits: Non monetary benefits $	Post-Employment: Super contributions $	Total remuneration[2,3] $
Current Non-Executive Directors					
D Gonski	**2016**	**805,615**	**–**	**19,385**	**825,000**
	2015	791,085	–	18,915	810,000
I Atlas	**2016**	**297,115**	**–**	**19,385**	**316,500**
	2015	270,460	–	18,915	289,375
P Dwyer	**2016**	**345,615**	**–**	**19,385**	**365,000**
	2015	336,085	–	18,915	355,000
H Lee	**2016**	**315,615**	**–**	**19,385**	**335,000**
	2015	306,085	–	18,915	325,000
G Liebelt	**2016**	**338,615**	**–**	**19,385**	**358,000**
	2015	331,085	–	18,915	350,000
I Macfarlane	**2016**	**330,115**	**–**	**19,385**	**349,500**
	2015	323,585	–	18,915	342,500
J Macfarlane	**2016**	**299,115**	**–**	**19,385**	**318,500**
	2015	293,585	–	18,915	312,500
Total of all Non-Executive Directors	**2016**	**2,731,805**	**–**	**135,695**	**2,867,500**
	2015	2,651,970	–	132,405	2,784,375

1 Fees are the sum of Board fees and Committee fees, as included in the Annual Report.
2 Long-term benefits and share-based payments are not applicable for the Non-Executive Directors. There were no termination benefits for the Non-Executive Directors in either 2015 or 2016.
3 Amounts disclosed for remuneration of Directors exclude insurance premiums paid by the Group in respect of Directors' and officers' liability insurance contracts. The total premium, which cannot be disclosed because of confidentiality requirements, has not been allocated to the individuals covered by the insurance policy as, based on all available information, the Directors believe that no reasonable basis for such allocation exists.

8.2 CHIEF EXECUTIVE OFFICER (CEO) REMUNERATION OUTCOMES

Actual remuneration provided to the CEO in 2016 is detailed below, with remuneration tables provided in Section 8.4.

Fixed remuneration: The CEO's annual fixed remuneration was set at commencement at $2.1 million.

AVR: The CEO has a target AVR opportunity of $2.1 million. The actual amount awarded can increase or decrease from this number dependent on his performance as CEO and the performance of the organisation as a whole. Specifically, if, in the Board's view, the CEO has performed above/below his targets the Board may exercise its discretion to increase/decrease the AVR from his target payment.

The Board approved the Former CEO's 2016 balanced scorecard annual objectives and the Group's longer term strategic goals at the start of the bank financial year. The Current CEO has been assessed against these in combination with the new targets set at the time of his appointment. The CEO's AVR payment for 2016 was then determined having regard to his delivery against these objectives, the overall performance of the organisation and the shareholder experience (including the reduction in the dividend). Accordingly the AVR payment for 2016 is $1,550,000 (around 80% of target) with half paid in cash and half awarded as deferred shares (25% deferred for one year, 25% deferred for two years, 25% deferred for three years and 25% deferred for four years).

LTVR: At the 2015 Annual General Meeting shareholders approved an LTVR grant of performance rights to the incoming CEO with a face value of $4.2 million (at 100% vesting), divided into three equal tranches. The performance condition for Tranches 1 and 2 is based on relative TSR against set comparator groups, and for Tranche 3 is based on ANZ's Absolute CAGR TSR performance against targets set by the Board. Performance will be assessed at the end of the three year performance period commencing 18 November 2015 (with no retesting). The total number of performance rights granted was determined by splitting the face value at 100% vesting into three equal tranches of $1.4 million each and then dividing these amounts by the five trading day VWAP of the Company's shares traded on the ASX in the week up to, and including, 18 November 2015 (the start of the performance period), of $26.32. This equated to 53,191 performance rights being allocated each for the first, second and third tranches.

For 2016, it is proposed to grant LTVR with a face value of $4,200,000 (100% vesting) as performance rights subject to shareholder approval at the 2016 Annual General Meeting, reflecting the importance of focusing the CEO on the achievement of longer term strategic objectives and alignment with shareholders' interests. The LTVR will be delivered as 75% in Tranche 1 (Select Financial Services comparator group) and 25% in Tranche 2 (Absolute CAGR TSR), subject to testing after three years (with no retesting).

8.3 DISCLOSED EXECUTIVES REMUNERATION OUTCOMES

Actual remuneration provided to the Disclosed Executives in 2016 is summarised below, with remuneration tables provided in Section 8.4.

Fixed remuneration: For each of the Disclosed Executive appointments in 2016, fixed remuneration was set lower than that of the prior incumbent (where relevant). The annual review of ANZ's fixed remuneration levels for Disclosed Executives identified that most existing executives were competitively positioned within the market and therefore an adjustment was only made to one executive (Mark Whelan).

Variable Remuneration (VR): All AVR awarded in the 2016 financial year related to performance from the 2015 financial year (paid/granted in November/December 2015).

In determining VR outcomes each year the Board takes into consideration overall Company performance against the balanced scorecard of measures, along with individual performance against set objectives.

Overall, the total amount of VR for Disclosed Executives for the 2016 year (which are paid/granted in November/December 2016) is significantly lower than what was paid to the same group of people for the prior year reflecting a more challenging year. Nevertheless it should be noted that the progress in reducing credit risk weighted assets in order to rebalance the Institutional portfolio, together with significant sustainable cost reductions, are important for positioning the bank for longer term success.

8.4 REMUNERATION TABLES – CEO AND DISCLOSED EXECUTIVES

Tables 5 and 6: Awarded Remuneration Disclosure has been prepared to provide shareholders with a view of remuneration structure and how remuneration was awarded to the CEO and Disclosed Executives for 2015 and 2016. The Board believes presenting information in this way provides the shareholder with increased clarity and transparency of the CEO and Disclosed Executives' remuneration, clearly showing the amounts awarded for each remuneration component (fixed remuneration and variable remuneration) within the financial year as well as the amounts actually received.

The information provided in Tables 5 and 6 differs from the information provided in Table 7: Statutory Remuneration Disclosure, which has been prepared in accordance with Australian Accounting Standards. A description of the difference between the three tables in relation to the 2016 financial year information is provided below:

	Individuals included in table	**Fixed remuneration**	**Non monetary benefits**	**Retirement benefits**	**Long service leave accrual**	**Annual Variable Remuneration (AVR)** **Or Variable Remuneration (VR)**	**Long Term Variable Remuneration (LTVR)**	**Other Equity Allocations**
CEO Awarded Remuneration Disclosure Table (Table 5)	Current CEO	Total of cash salary and superannuation contributions	Non monetary benefits which typically consist of company-funded benefits and fringe benefits tax payable on these benefits	Not included	Not included	AVR awarded in Nov 2016 for the 2016 financial year - expressed as a cash value plus a deferred equity grant value The equity allocation value multiplied by the number of instruments granted equals the AVR/LTVR deferred equity dollar value	Award value of LTVR granted in Dec[1] 2016	Not included
Disclosed Executives Awarded Remuneration Disclosure Table (Table 6)	Current Disclosed Executives (pro rated for period of year as a KMP)	Total of cash salary and superannuation contributions	Non monetary benefits which typically consist of company-funded benefits and fringe benefits tax payable on these benefits	Not included	Not included	VR awarded in Nov 2016 for the 2016 financial year – expressed as a cash value plus deferred equity grant values The equity allocation value multiplied by the number of instruments granted equals the VR deferred equity dollar values		Not included
Statutory Remuneration Disclosure Table (Table 7)	Current and Former CEO and, Current and Former Disclosed Executives (pro rated for period of year as a KMP)	Cash salary (including any reductions made in relation to the utilisation of ANZ's Lifestyle Leave Policy) and superannuation contributions	As above	Retirement benefit accrued during the year. This relates to a retirement allowance available to individuals employed prior to Nov 1992	Long service leave accrued during the year	Includes cash AVR/VR (Nov 2016 element only) under Total cash incentive and amortised AVR/VR for deferred equity from current and prior year awards Amortised AVR fair values relate to AVR awards made in Nov 2013, 2014, 2015 and AVR/VR to be granted in Nov 2016 Equity is amortised over the vesting period of the award	Amortised LTVR fair values relate to LTVR awards made in Nov/Dec 2012, 2013, 2014 and 2015	Amortised fair values for equity awards made in prior years, such as special reward arrangements, excluding AVR/VR and LTVR awards

1 Subject to Shareholder approval.

TABLE 5: AWARDED REMUNERATION DISCLOSURE – CURRENT CEO REMUNERATION FOR 2016 AND 2015

	Financial Year	Fixed Remuneration $	 Non monetary benefits $	AVR Cash $	 Shares $	 Total $	 Target $
Current CEO							
S Elliott[3] Chief Executive Officer	**2016** 2015	**1,887,500** 1,250,000	**17,110** 17,037	**775,000** 1,300,000	**775,000** 1,200,000	**1,550,000** 2,500,000	**1,950,000**

1 The possible range of AVR is between 0 and 1.5 times target AVR. The actual AVR received is dependent on ANZ and individual performance. Anyone who received less than 100% of target forfeited the rest of their AVR entitlement. The minimum value is nil and the maximum value is what was actually paid.

2 Total Remuneration assumes performance rights face value at 50% vesting.

3 **S Elliott** – Concluded in the Chief Financial Officer role on 31 December 2015 and commenced in the Chief Executive Officer role on 1 January 2016 so 2016 remuneration reflects amounts prorated for partial year service in both roles. Non monetary benefits include car parking and taxation services. The 2016 performance rights relate to the proposed LTVR grant, subject to approval by shareholders at the 2016 Annual General Meeting.

TABLE 6: AWARDED REMUNERATION DISCLOSURE – CURRENT DISCLOSED EXECUTIVE REMUNERATION FOR 2016 AND 2015

	Financial Year	Fixed Remuneration $	 Non monetary benefits[1] $	Variable Remuneration (VR) Cash $	 Shares/Share rights $	 Performance rights face value at 50% vesting $	 Performance rights face value at 100% vesting $
Current Disclosed Executives							
M Carnegie[4] Group Executive, Digital Banking	**2016**	**260,000**	**7,072**	**132,000**	**132,000**	**136,000**	**272,000**
A Currie Chief Operating Officer	**2016** 2015	**1,100,000** 1,100,000	**17,110** 16,537	**495,000** 1,000,000	**495,000** 900,000	**510,000** 750,000	**1,020,000** 1,500,000
D Hisco[5] Group Executive and Chief Executive Officer, New Zealand	**2016** 2015	**1,186,570** 1,181,243	**472,574** 439,790	**725,969** 1,162,631	**725,969** 1,062,631	**747,968** 699,264	**1,495,935** 1,398,528
G Hodges Deputy Chief Executive Officer	**2016** 2015	**1,050,000** 1,050,000	**17,110** 18,448	**589,050** 800,000	**589,050** 700,000	**606,900** 500,000	**1,213,800** 1,000,000
M Jablko[6] Chief Financial Officer	**2016**	**200,000**	**–**	**132,000**	**132,000**	**136,000**	**272,000**
F Ohlsson[7] Group Executive, Australia	**2016**	**660,000**	**30,072**	**279,873**	**279,873**	**288,354**	**576,708**
M Whelan[8] Group Executive, Institutional	**2016** 2015	**1,166,000** 500,000	**11,610** 5,625	**750,750** 500,000	**750,750** 400,000	**773,500** 350,000	**1,547,000** 700,000
N Williams[9] Chief Risk Officer	**2016** 2015	**1,350,000** 1,350,000	**19,707** 21,441	**709,500** 1,000,000	**709,500** 900,000	**731,000** 750,000	

1 Non monetary benefits generally consist of company-funded benefits such as car parking and taxation services.

2 The possible range of VR is between 0 and 1.5 times target VR. The actual VR received is dependent on ANZ and individual performance. Anyone who received less than 100% of target forfeited the rest of their VR entitlement. The minimum value is nil and the maximum value is what was actually paid.

3 Total Remuneration assumes performance rights face value at 50% vesting.

4 **M Carnegie** – Commenced in a Disclosed Executive role on 27 June 2016 so 2016 remuneration reflects partial year service.

5 **D Hisco** – 2015 and 2016 remuneration value in the table represents his NZD remuneration converted to AUD (and rounded) at the average exchange rate for the 2015 and 2016 financial years respectively. Non monetary benefits include expenses related to his assignment to New Zealand. D Hisco also received shares to the value of $736 in relation to the Employee Share Offer in December 2015.

6 **M Jablko** – Commenced in a Disclosed Executive role on 18 July 2016 so 2016 remuneration reflects partial year service.

7 **F Ohlsson** – Commenced in a Disclosed Executive role on 1 February 2016 so 2016 remuneration reflects amounts prorated for partial year service. Non monetary benefits include expenses related to his relocation back to Australia from assignment in New Zealand.

8 **M Whelan** – Commenced in a Disclosed Executive role on 3 April 2015, and changed Disclosed Executive roles from 1 February 2016. 2015 remuneration reflects amounts prorated to reflect 6 months service in a Disclosed Executive role.

9 **N Williams** – As Chief Risk Officer, as part of his VR, N Williams receives deferred share rights instead of performance rights.

	LTVR		Total Remuneration[2]			Previously deferred variable remuneration	
Maximum opportunity[1] $	Performance rights face value at 50% vesting $	Performance rights face value at 100% vesting $	Total $	Deferred as equity $	Received $	Vested during the year $	Lapsed/ Forfeited during the year $
2,925,000	**2,100,000**	**4,200,000**	**5,554,610**	**2,875,000**	**2,679,610**	**1,044,596**	**(3,140,238)**
	2,100,000	4,200,000	5,867,037	3,300,000	2,567,037	1,243,525	(2,317,820)

			Total Remuneration[3]			Previously deferred variable remuneration	
Total $	Target $	Maximum opportunity[2] $	Total $	Deferred as equity $	Received $	Vested during the year $	Lapsed / Forfeited during the year $
400,000	**442,000**	**663,000**	**667,072**	**268,000**	**399,072**	**–**	**–**
1,500,000	**1,870,000**	**2,805,000**	**2,617,110**	**1,005,000**	**1,612,110**	**652,679**	**(1,962,629)**
2,650,000			3,766,537	1,650,000	2,116,537	1,495,732	–
2,199,905	**2,017,169**	**3,025,754**	**3,859,049**	**1,473,936**	**2,385,113**	**942,219**	**(1,308,419)**
2,924,526			4,545,559	1,761,895	2,783,664	1,095,173	(1,782,914)
1,785,000	**1,785,000**	**2,677,500**	**2,852,110**	**1,195,950**	**1,656,160**	**554,817**	**(1,308,419)**
2,000,000			3,068,448	1,200,000	1,868,448	646,299	(1,782,914)
400,000	**340,000**	**510,000**	**600,000**	**268,000**	**332,000**	**–**	**–**
848,100	**945,509**	**1,418,264**	**1,538,172**	**568,227**	**969,945**	**–**	**–**
2,275,000	**1,982,200**	**2,973,300**	**3,452,610**	**1,524,250**	**1,928,360**	**1,058,937**	**–**
1,250,000			1,755,625	750,000	1,005,625	–	–
2,150,000	**2,295,000**	**3,442,500**	**3,519,707**	**1,440,500**	**2,079,207**	**1,473,322**	**–**
2,650,000			4,021,441	1,650,000	2,371,441	1,513,324	–

TABLE 7: STATUTORY REMUNERATION DISCLOSURE – CEO AND DISCLOSED EXECUTIVE REMUNERATION FOR 2016 AND 2015

	Financial Year	Short-Term Employee Benefits			
		Cash salary[1] $	Non monetary benefits[2] $	Total cash incentive[3,4] $	Other cash $
Current CEO and Current Disclosed Executives					
S Elliott Chief Executive Officer	**2016** 2015	**1,723,744** 1,141,553	**17,110** 17,037	**775,000** 1,300,000	**–** –
M Carnegie[10] Group Executive, Digital Banking	**2016**	**237,443**	**7,072**	**132,000**	**736,000**
A Currie Chief Operating Officer	**2016** 2015	**966,077** 966,112	**17,110** 16,537	**495,000** 1,000,000	**–** –
D Hisco[11] Group Executive and Chief Executive Officer, New Zealand	**2016** 2015	**1,186,570** 1,181,243	**472,574** 439,790	**725,969** 1,162,631	**–** –
G Hodges[12] Deputy Chief Executive Officer	**2016** 2015	**958,904** 958,904	**17,110** 18,448	**589,050** 800,000	**–** –
M Jablko[13] Chief Financial Officer	**2016**	**182,648**	**–**	**132,000**	**–**
F Ohlsson[11,14] Group Executive, Australia	**2016**	**602,740**	**30,072**	**279,873**	**–**
M Whelan[15] Group Executive, Institutional	**2016** 2015	**1,064,840** 456,621	**11,610** 5,625	**750,750** 500,000	**–** –
N Williams Chief Risk Officer	**2016** 2015	**1,232,877** 1,232,877	**19,707** 21,441	**709,500** 1,000,000	**–** –
Former CEO and Former Disclosed Executives					
M Smith[16] Former Chief Executive Officer	**2016** 2015	**2,390,868** 3,308,557	**192,016** 204,530	**–** 2,050,000	**–** –
P Chronican[17] Former Chief Executive Officer, Australia	2015	1,484,018	17,163	300,000	–
A Géczy[18] Former Chief Executive Officer, International & Institutional Banking	**2016** 2015	**1,061,644** 1,141,553	**37,977** 856,640	**–** 850,000	**–** –
J Phillips[19] Former Group Executive, Wealth, Marketing and Innovation	**2016** 2015	**719,178** 958,904	**155,644** 156,957	**–** 900,000	**–** –
Total of all Executive KMPs[20]	**2016** 2015	**12,327,533** 12,830,342	**978,002** 1,754,168	**4,589,142** 9,862,631	**736,000** –

1 Cash salary includes adjustments made in relation to the utilisation of ANZ's Lifestyle Leave Policy, where applicable.

2 Non monetary benefits generally consist of company-funded benefits such as car parking and taxation services. This item also includes costs met by the company in relation to relocation, gifts received on leaving ANZ for former Disclosed Executives, and life insurance for the former CEO. The fringe benefits tax payable on any benefits is also included in this item.

3 The total cash incentive relates to the cash component only, with the relevant amortisation of the AVR/VR deferred components included in share-based payments and amortised over the vesting period. The total AVR/VR was approved by the Board on 13 October 2016. 100% of the cash component of the AVR/VR awarded for the 2015 and 2016 years vested to the Disclosed Executive in the applicable financial year.

4 The possible range of AVR/VR is between 0 and 1.5 times target AVR/VR. The actual AVR/VR received is dependent on ANZ and individual performance. Anyone who received less than 100% of target forfeited the rest of their AVR/VR entitlement. The minimum value is nil and the maximum value is what was actually paid.

5 For all Australian based Disclosed Executives, the superannuation contribution reflects the Superannuation Guarantee Contribution – individuals may elect to take this contribution as superannuation or a combination of superannuation and cash.

6 Accrual relates to Retirement Allowance. As a result of being employed with ANZ prior to November 1992, D Hisco, G Hodges and N Williams are eligible to receive a Retirement Allowance on retirement, retrenchment, death, or resignation for illness, incapacity or domestic reasons. The Retirement Allowance is calculated as follows: three months of preserved notional salary (which is 65% of Fixed Remuneration) plus an additional 3% of notional salary for each year of full time service above 10 years, less the total accrual value of long service leave (including taken and untaken).

7 In accordance with the requirements of AASB 2 Share-based payments, the amortisation value includes a proportion of the fair value (taking into account market-related vesting conditions) of all equity that had not yet fully vested as at the commencement of the financial year. The fair value is determined at grant date and is allocated on a straight-line basis over the relevant vesting period. The amount included as remuneration is not related to nor indicative of the benefit (if any) that may ultimately be realised should the equity become exercisable.

8 Remuneration amounts disclosed exclude insurance premiums paid by the consolidated entity in respect of directors' and officers' liability insurance contracts which cover current and former KMP of the controlled entities. The total premium, which cannot be disclosed because of confidentiality requirements, has not been allocated to the individuals covered by the insurance policy as, based on all available information, the directors believe that no reasonable basis for such allocation exists.

9 While the CEO is an Executive Director, he has been included in this table with the Disclosed Executives.

10 M Carnegie commenced in a Disclosed Executive role on 27 June 2016 so 2016 remuneration reflects partial service year. As part of M Carnegie's employment arrangement, she will receive $836,000 in cash (of which $736,000 was paid in 2016) and $3.264 million in deferred equity vesting from November 2016 to June 2018, as compensation for bonus opportunity foregone and deferred remuneration forfeited.

11 D Hisco was eligible in 2015 and 2016, and F Ohlssson in 2016, to receive shares in relation to the Employee Share Offer, which provides a grant of ANZ shares in each financial year to eligible employees subject to Board approval. Refer to note 39 Employee Share and Option Plans for further details on the Employee Share Offer.

Post-Employment		Long-Term Employee Benefits	Share-Based Payments[7]					
			Total amortisation value of					
			Variable remuneration			Other equity allocations		
Super contributions[5] $	Retirement benefit accrued during year[6] $	Long service leave accrued during the year $	Shares $	Share rights $	Performance rights $	Shares $	Termination benefits $	Grand total remuneration[8, 9] $
163,756	**–**	**113,522**	**1,211,322**	**–**	**1,065,203**	**–**	**–**	**5,069,657**
108,447	–	18,940	1,191,554	–	988,004	–	–	4,765,535
22,557	**–**	**3,985**	**14,282**	**–**	**10,496**	**689,853**	**–**	**1,853,688**
95,434	**–**	**16,713**	**538,038**	**151,198**	**783,998**	**–**	**–**	**3,063,568**
95,434	–	25,567	843,979	–	713,982	–	–	3,661,611
–	**7,034**	**19,566**	**–**	**865,109**	**788,989**	**710**	**–**	**4,066,521**
–	8,529	25,130	–	1,028,252	619,810	466	–	4,465,851
91,096	**4,522**	**16,203**	**607,475**	**–**	**587,186**	**–**	**–**	**2,871,546**
91,096	4,565	15,910	670,413	–	496,497	–	–	3,055,833
17,352	**–**	**3,113**	**11,486**	**–**	**8,340**	**181,983**	**–**	**536,922**
57,260	**–**	**68,843**	**–**	**333,975**	**163,593**	**469**	**–**	**1,536,825**
101,160	**–**	**51,210**	**950,540**	**–**	**442,551**	**–**	**–**	**3,372,661**
43,379	–	22,550	463,499	–	61,893	–	–	1,553,567
117,123	**5,814**	**20,511**	**757,057**	**918,106**	**–**	**–**	**–**	**3,780,695**
117,123	13,830	65,795	862,272	664,022	–	–	–	3,977,360
227,132	**–**	**–**	**464,059**	**1,182,925**	**3,904,672**	**–**	**1,350,640**	**9,712,312**
91,443	–	78,054	1,172,496	767,058	3,170,182	–	–	10,842,320
140,982	–	–	719,083	200,000	818,698	–	104,145	3,784,089
100,856	**–**	**–**	**632,817**	**–**	**717,064**	**–**	**310,494**	**2,860,852**
108,447	–	18,940	608,406	–	436,929	–	–	4,020,915
68,822	**–**	**–**	**677,356**	**–**	**721,214**	**–**	**756,961**	**3,099,175**
91,096	–	19,779	753,726	–	553,742	–	–	3,434,204
1,062,548	**17,370**	**313,666**	**5,864,432**	**3,451,313**	**9,193,306**	**873,015**	**2,418,095**	**41,824,422**
887,447	26,924	290,665	7,285,428	2,659,332	7,859,737	466	104,145	43,561,285

12 Long service leave accrued during the year includes a one-off long service loyalty award for G Hodges.

13 M Jablko commenced in a Disclosed Executive role on 18 July 2016 so 2016 remuneration reflects partial service year. As part of M Jablko's employment arrangement, she will receive $268,082 in cash and $1,657,082 in deferred equity vesting from November 2017 to February 2021, as compensation for bonus opportunity foregone and deferred remuneration forfeited.

14 F Ohlsson commenced in a Disclosed Executive role on 1 February 2016 so 2016 remuneration reflects amounts prorated for the partial service year.

15 M Whelan commenced in a Disclosed Executive role on 3 April 2015 so 2015 remuneration reflects amounts prorated for the partial service year.

16 M Smith concluded in role on 31 December 2015 and ceased employment 7 July 2016. Statutory remuneration table reflects his expense up to his date of termination, 7 July 2016. Termination benefits reflect payment for accrued annual leave, long service leave and pay in lieu of notice payable upon termination.

17 P Chronican concluded in role on 2 April 2015 and ceased employment 31 December 2015. Statutory remuneration table reflects his expense up to his date of termination, 31 December 2015 (i.e. shows 15 months of fixed remuneration (noting his annual fixed remuneration for 2015 remained unchanged at $1.3 million) and share-based payments expensed to 31 December 2015). AVR reflects amounts received for the partial service year up to 2 April 2015, date concluded in role. Termination benefits reflect payment for accrued annual leave payable upon termination.

18 A Géczy concluded in role on 29 January 2016 and ceased employment 7 October 2016. Statutory remuneration table reflects his expense up to his date of termination, 7 October 2016 (noting his annual fixed remuneration for 2016 remained unchanged at $1.25 million) and share-based payments expensed to 7 October 2016. Termination benefits reflect payment for accrued annual leave and pay in lieu of notice payable upon termination.

19 J Phillips concluded in role on 11 March 2016 and ceased employment 1 July 2016. Statutory remuneration table reflects her expense up to her date of termination, 1 July 2016. Termination benefits reflect payment for accrued annual leave, long service leave and pay in lieu of notice payable upon termination.

20 For those Disclosed Executives who were disclosed in both 2015 and 2016, the following are noted:

S Elliott – uplift in year–on–year remuneration, driven by an increase in fixed remuneration upon commencement in CEO role and amortised value of equity.
A Currie – decrease in year–on–year total remuneration, driven by decrease in cash incentive and long service leave accrued.
D Hisco – decrease in year–on–year total remuneration, driven by decrease in cash incentive, retirement benefit accrued and long service leave accrued.
G Hodges – decrease in year–on–year total remuneration, driven by decrease in cash incentive.
M Whelan – increase in year–on–year total remuneration, driven by 2015 remuneration reflecting amounts prorated for the partial service year.
N Williams – decrease in year–on–year total remuneration, driven by decrease in cash incentive, retirement benefit accrued and long service leave accrued.
M Smith – decrease in year–on–year total remuneration, driven by 2016 remuneration reflecting amounts prorated for the partial service year.
A Géczy – decrease in year-on-year total remuneration, driven by decrease in cash incentive.
J Phillips – decrease in year-on-year total remuneration, driven by 2016 remuneration reflecting amounts prorated for the partial service year.

9. Equity

All shares underpinning equity awards may be purchased on market, or be newly issued shares or a combination of both. For the 2015 equity granted to the CEO and Disclosed Executives in November/December 2015, all AVR deferred shares were satisfied through the new issue of shares and for LTVR performance rights, the approach to satisfying awards will be determined closer to the time of vesting. For the Former CEO, Michael Smith, the shares underpinning the AVR deferred share rights awarded in November 2015 will be purchased on market.

9.1 CEO AND DISCLOSED EXECUTIVES EQUITY

Details of deferred shares and rights granted to the CEO and Disclosed Executives during the 2016 year, and granted to the CEO and Disclosed Executives in prior years which vested, were exercised/sold or which lapsed/were forfeited during the 2016 year is set out below.

TABLE 8: CEO AND DISCLOSED EXECUTIVES EQUITY GRANTED, VESTED, EXERCISED/SOLD AND LAPSED/FORFEITED

						Vested			Lapsed/Forfeited			Exercised/Sold				
Name	Type of equity	Number granted[1]	Grant date	First date exercisable	Date of expiry	Number	%	Value[2] $	Number	%	Value[2] $	Number	%	Value[2] $	Vested and exercisable as at 30 Sep 2016[3]	Unexercisable as at 30 Sep 2016
Current CEO and Disclosed Executives																
S Elliott[4]	Deferred shares	20,185	12-Nov-12	19-Nov-14	–	–	–	–	–	–	–	(20,185)	100	504,720	–	–
	Deferred shares	18,898	22-Nov-13	22-Nov-14	–	–	–	–	–	–	–	(18,898)	100	472,539	–	–
	Deferred shares	18,897	22-Nov-13	22-Nov-15	–	18,897	100	523,434	–	–	–	(18,897)	100	472,514	–	–
	Deferred shares	18,815	21-Nov-14	21-Nov-15	–	18,815	100	521,162	–	–	–	(18,815)	100	470,463	–	–
	Deferred shares	22,796	18-Nov-15	18-Nov-16	–	–	–	–	–	–	–	–	–	–	–	22,796
	Deferred shares	22,796	18-Nov-15	18-Nov-17	–	–	–	–	–	–	–	–	–	–	–	22,796
	Performance rights	118,110	12-Nov-12	12-Nov-15	12-Nov-17	–	–	–	(118,110)	100	(3,140,238)	–	–	–	–	–
	Performance rights	53,191	17-Dec-15	17-Dec-18	17-Dec-20	–	–	–	–	–	–	–	–	–	–	53,191
	Performance rights	53,191	17-Dec-15	17-Dec-18	17-Dec-20	–	–	–	–	–	–	–	–	–	–	53,191
	Performance rights	53,191	17-Dec-15	17-Dec-18	17-Dec-20	–	–	–	–	–	–	–	–	–	–	53,191
M Carnegie	Deferred shares	24,247	20-Aug-16	21-Nov-16	–	–	–	–	–	–	–	–	–	–	–	24,247
	Deferred shares	24,292	20-Aug-16	27-Feb-17	–	–	–	–	–	–	–	–	–	–	–	24,292
	Deferred shares	24,336	20-Aug-16	01-Jun-17	–	–	–	–	–	–	–	–	–	–	–	24,336
	Deferred shares	19,336	20-Aug-16	20-Aug-17	–	–	–	–	–	–	–	–	–	–	–	19,336
	Deferred shares	17,034	20-Aug-16	21-Nov-17	–	–	–	–	–	–	–	–	–	–	–	17,034
	Deferred shares	17,034	20-Aug-16	27-Feb-18	–	–	–	–	–	–	–	–	–	–	–	17,034
	Deferred shares	18,141	20-Aug-16	01-Jun-18	–	–	–	–	–	–	–	–	–	–	–	18,141
A Currie[5]	Deferred shares	10,236	22-Nov-13	22-Nov-15	–	10,236	100	283,530	–	–	–	(10,236)	100	284,515	–	–
	Deferred shares	13,327	21-Nov-14	21-Nov-15	–	13,327	100	369,149	–	–	–	(13,327)	100	370,431	–	–
	Deferred shares	17,097	18-Nov-15	18-Nov-16	–	–	–	–	–	–	–	–	–	–	–	17,097
	Deferred shares	17,097	18-Nov-15	18-Nov-17	–	–	–	–	–	–	–	–	–	–	–	17,097
	Performance rights	73,818	12-Nov-12	12-Nov-15	12-Nov-17	–	–	–	(73,818)	100	(1,962,629)	–	–	–	–	–
	Performance rights	18,996	18-Nov-15	18-Nov-18	18-Nov-20	–	–	–	–	–	–	–	–	–	–	18,996
	Performance rights	18,996	18-Nov-15	18-Nov-18	18-Nov-20	–	–	–	–	–	–	–	–	–	–	18,996
	Performance rights	18,996	18-Nov-15	18-Nov-18	18-Nov-20	–	–	–	–	–	–	–	–	–	–	18,996
D Hisco[6]	Deferred shares	16,000	31-Oct-08	31-Oct-11	–	–	–	–	–	–	–	(9,000)	56	218,431	7,000	–
	Employee Share Offer	26	03-Dec-15	03-Dec-18	–	–	–	–	–	–	–	–	–	–	–	26
	Deferred share rights	16,608	22-Nov-13	22-Nov-15	21-Nov-17	16,608	100	460,030	–	–	–	(16,608)	100	380,346	–	–
	Deferred share rights	17,408	21-Nov-14	21-Nov-15	21-Nov-17	17,408	100	482,189	–	–	–	(17,408)	100	398,668	–	–
	Deferred share rights	21,109	18-Nov-15	18-Nov-16	18-Nov-18	–	–	–	–	–	–	–	–	–	–	21,109
	Deferred share rights	22,427	18-Nov-15	18-Nov-17	18-Nov-19	–	–	–	–	–	–	–	–	–	–	22,427
	Performance rights	49,212	12-Nov-12	12-Nov-15	12-Nov-17	–	–	–	(49,212)	100	(1,308,419)	–	–	–	–	–
	Performance rights	17,711	18-Nov-15	18-Nov-18	18-Nov-20	–	–	–	–	–	–	–	–	–	–	17,711
	Performance rights	17,711	18-Nov-15	18-Nov-18	18-Nov-20	–	–	–	–	–	–	–	–	–	–	17,711
	Performance rights	17,711	18-Nov-15	18-Nov-18	18-Nov-20	–	–	–	–	–	–	–	–	–	–	17,711
G Hodges[7]	Deferred shares	9,055	22-Nov-13	22-Nov-15	–	9,055	100	250,817	–	–	–	–	–	–	9,055	–
	Deferred shares	10,975	21-Nov-14	21-Nov-15	–	10,975	100	304,000	–	–	–	–	–	–	10,975	–
	Deferred shares	13,298	18-Nov-15	18-Nov-16	–	–	–	–	–	–	–	–	–	–	–	13,298
	Deferred shares	13,297	18-Nov-15	18-Nov-17	–	–	–	–	–	–	–	–	–	–	–	13,297
	Performance rights	49,212	12-Nov-12	12-Nov-15	12-Nov-17	–	–	–	(49,212)	100	(1,308,419)	–	–	–	–	–
	Performance rights	12,664	18-Nov-15	18-Nov-18	18-Nov-20	–	–	–	–	–	–	–	–	–	–	12,664
	Performance rights	12,664	18-Nov-15	18-Nov-18	18-Nov-20	–	–	–	–	–	–	–	–	–	–	12,664
	Performance rights	12,664	18-Nov-15	18-Nov-18	18-Nov-20	–	–	–	–	–	–	–	–	–	–	12,664

						Vested			Lapsed/Forfeited			Exercised/Sold				
Name	Type of equity	Number granted[1]	Grant date	First date exercisable	Date of expiry	Number	%	Value[2] $	Number	%	Value[2] $	Number	%	Value[2] $	Vested and exercisable as at 30 Sep 2016[3]	Unexercisable as at 30 Sep 2016
M Jablko	Deferred shares	20,825	20-Aug-16	27-Feb-17	–	–	–	–	–	–	–	–	–	–	–	20,825
	Deferred shares	3,153	20-Aug-16	20-Aug-17	–	–	–	–	–	–	–	–	–	–	–	3,153
	Deferred shares	11,444	20-Aug-16	27-Feb-18	–	–	–	–	–	–	–	–	–	–	–	11,444
	Deferred shares	3,153	20-Aug-16	20-Aug-18	–	–	–	–	–	–	–	–	–	–	–	3,153
	Deferred shares	11,444	20-Aug-16	27-Feb-19	–	–	–	–	–	–	–	–	–	–	–	11,444
	Deferred shares	7,617	20-Aug-16	27-Feb-20	–	–	–	–	–	–	–	–	–	–	–	7,617
	Deferred shares	4,540	20-Aug-16	27-Feb-21	–	–	–	–	–	–	–	–	–	–	–	4,540
F Ohlsson[8]																
M Whelan[9]	Deferred shares	20,185	12-Nov-12	12-Nov-15	–	20,185	100	536,667	–	–	–	(20,185)	100	523,290	–	–
	Deferred shares	9,448	22-Nov-13	22-Nov-15	–	9,448	100	261,703	–	–	–	(9,448)	100	262,612	–	–
	Deferred shares	9,407	21-Nov-14	21-Nov-15	–	9,407	100	260,567	–	–	–	(9,407)	100	261,472	–	–
	Deferred shares	16,147	18-Nov-15	18-Nov-16	–	–	–	–	–	–	–	–	–	–	–	16,147
	Deferred shares	16,147	18-Nov-15	18-Nov-17	–	–	–	–	–	–	–	–	–	–	–	16,147
	Performance rights	17,730	18-Nov-15	18-Nov-18	18-Nov-20	–	–	–	–	–	–	–	–	–	–	17,730
	Performance rights	17,730	18-Nov-15	18-Nov-18	18-Nov-20	–	–	–	–	–	–	–	–	–	–	17,730
	Performance rights	17,730	18-Nov-15	18-Nov-18	18-Nov-20	–	–	–	–	–	–	–	–	–	–	17,730
N Williams[10]	Deferred shares	11,811	22-Nov-13	22-Nov-15	–	11,811	100	327,156	–	–	–	(11,811)	100	328,293	–	–
	Deferred shares	13,327	21-Nov-14	21-Nov-15	–	13,327	100	369,149	–	–	–	(13,327)	100	370,431	–	–
	Deferred shares	17,097	18-Nov-15	18-Nov-16	–	–	–	–	–	–	–	–	–	–	–	17,097
	Deferred shares	17,097	18-Nov-15	18-Nov-17	–	–	–	–	–	–	–	–	–	–	–	17,097
	Deferred share rights	29,225	12-Nov-12	12-Nov-15	12-Nov-17	29,225	100	777,017	–	–	–	(29,225)	100	777,017	–	–
	Deferred share rights	33,632	18-Nov-15	18-Nov-18	18-Nov-20	–	–	–	–	–	–	–	–	–	–	33,632
Former CEO and Disclosed Executives																
M Smith[11]	Deferred shares	30,708	22-Nov-13	22-Nov-15	–	30,708	100	850,590	–	–	–	(30,708)	100	853,544	–	–
	Deferred shares	30,574	21-Nov-14	21-Nov-15	–	30,574	100	846,878	–	–	–	(30,574)	100	849,820	–	–
	Deferred share rights	38,736	18-Nov-15	18-Nov-16	18-Nov-18	–	–	–	–	–	–	–	–	–	–	38,736
	Deferred share rights	41,156	18-Nov-15	18-Nov-17	18-Nov-19	–	–	–	–	–	–	–	–	–	–	41,156
	Performance rights	328,810	19-Dec-12	19-Dec-15	19-Dec-17	–	–	–	(328,810)	100	(8,669,898)	–	–	–	–	–
A Géczy[12]	Deferred shares	12,543	21-Nov-14	21-Nov-15	–	12,543	100	347,432	–	–	–	(12,543)	100	325,250	–	–
	Deferred shares	14,248	18-Nov-15	18-Nov-16	–	–	–	–	–	–	–	–	–	–	–	14,248
	Deferred shares	14,247	18-Nov-15	18-Nov-17	–	–	–	–	–	–	–	–	–	–	–	14,247
	Performance rights	20,263	18-Nov-15	18-Nov-18	18-Nov-20	–	–	–	–	–	–	–	–	–	–	20,263
	Performance rights	20,263	18-Nov-15	18-Nov-18	18-Nov-20	–	–	–	–	–	–	–	–	–	–	20,263
	Performance rights	20,263	18-Nov-15	18-Nov-18	18-Nov-20	–	–	–	–	–	–	–	–	–	–	20,263
J Phillips[13]	Deferred shares	9,448	22-Nov-13	22-Nov-15	–	9,448	100	261,703	–	–	–	–	–	–	9,448	–
	Deferred shares	12,543	21-Nov-14	21-Nov-15	–	12,543	100	347,432	–	–	–	–	–	–	12,543	–
	Deferred shares	15,198	18-Nov-15	18-Nov-16	–	–	–	–	–	–	–	–	–	–	–	15,198
	Deferred shares	15,197	18-Nov-15	18-Nov-17	–	–	–	–	–	–	–	–	–	–	–	15,197
	Performance rights	49,212	12-Nov-12	12-Nov-15	12-Nov-17	–	–	–	(49,212)	100	(1,308,419)	–	–	–	–	–
	Performance rights	24,578	21-Nov-14	21-Nov-17	21-Nov-19	–	–	–	(5,943)	24	(142,968)	–	–	–	–	18,635
	Performance rights	22,624	21-Nov-14	21-Nov-17	21-Nov-19	–	–	–	(5,471)	24	(131,613)	–	–	–	–	17,153
	Performance rights	17,730	18-Nov-15	18-Nov-18	18-Nov-20	–	–	–	(10,143)	57	(244,005)	–	–	–	–	7,587
	Performance rights	17,730	18-Nov-15	18-Nov-18	18-Nov-20	–	–	–	(10,143)	57	(244,005)	–	–	–	–	7,587
	Performance rights	17,730	18-Nov-15	18-Nov-18	18-Nov-20	–	–	–	(10,143)	57	(244,005)	–	–	–	–	7,587

1 Executives, for the purpose of the five highest paid executive disclosures, are defined as Disclosed Executives or other members of the Group Executive Committee. Rights granted to the five highest paid executives as remuneration in 2016 are included above.

2 The point in time value of shares/share rights and/or performance rights is based on the one day VWAP of the Company's shares traded on the ASX on the date of vesting, lapsing/forfeiture or exercising/sale/transfer out of trust, multiplied by the number of shares/share rights and/or performance rights.

3 The number vested and exercisable is the number of shares, options and rights that remain vested at the end of the reporting period. No shares, options and rights were vested and unexercisable.

4 S Elliott – Performance rights granted 12 Nov 2012 lapsed on 12 Nov 2015 and the one day VWAP was $26.5874. Prior year grants of performance rights that remained unexerciseable as at 30 Sep 2016 include: 68,965 (Nov 2016), 53,945 (Nov 2017) and 159,573 (Nov 2018).

5 A Currie – Performance rights granted 12 Nov 2012 lapsed on 12 Nov 2015 and the one day VWAP was $26.5874. Prior year grants of performance rights that remained unexerciseable as at 30 Sep 2016 include: 51,723 (Nov 2016), 50,574 (Nov 2017) and 56,988 (Nov 2018).

6 D Hisco – Deferred share rights granted 22 Nov 2013 and 21 Nov 2014 were exercised on 1 Apr 2016, the one day VWAP on date of exercise was $22.9014. Performance rights granted 12 Nov 2012 lapsed on 12 Nov 2015 and the one day VWAP was $26.5874. Prior year grants of performance rights that remained unexerciseable as at 30 Sep 2016 include: 48,220 (Nov 2016), 47,152 (Nov 2017) and 53,133 (Nov 2018).

7 G Hodges – Performance rights granted 12 Nov 2012 lapsed on 12 Nov 2015 and the one day VWAP was $26.5874. Prior year grants of performance rights that remained unexerciseable as at 30 Sep 2016 include: 34,482 (Nov 2016), 33,716 (Nov 2017) and 37,992 (Nov 2018).

8 F Ohlsson – Commenced in a Disclosed Executive role on 1 Feb 2016 and there are no disclosable transactions from this date.

9 M Whelan – Prior year grants of performance rights that remained unexerciseable as at 30 Sep 2016 include: 13,792 (Nov 2016), 13,486 (Nov 2017) and 53,190 (Nov 2018).

10 N Williams – Deferred share rights granted 12 Nov 2012 were exercised on 12 Nov 2015, the one day VWAP on date of exercise was $26.5874. Prior year grants of deferred share rights that remained unexerciseable as at 30 Sep 2016 include: 27,603 (Nov 2016), 27,685 (Nov 2017) and 33,632 (Nov 2018).

11 M Smith – Performance rights granted 19 Dec 2012 lapsed on 19 Dec 2015 and the one day VWAP was $26.3675. Prior year grants of performance rights that remained unexerciseable as at date of termination include: 201,086 (Dec 2016) and 229,272 (Dec 2017).

12 A Géczy – Prior year grants of performance rights that remained unexerciseable as at 30 Sep 2016 include: 43,102 (Nov 2016), 53,945 (Nov 2017) and 60,789 (Nov 2018).

13 J Phillips – Performance rights granted 12 Nov 2012 lapsed on 12 Nov 2015 and the one day VWAP was $26.5874. Performance rights granted Nov 2014 and Nov 2015 lapsed on 1 Jul 2016 and the one day VWAP was $24.0565. Prior year grants of performance rights that remained unexerciseable as at date of termination include: 34,482 (Nov 2016), 35,788 (Nov 2017) and 22,761 (Nov 2018).

9.2 NED, CEO AND DISCLOSED EXECUTIVES EQUITY HOLDINGS

Details of shares held directly, indirectly or beneficially by each NED, including their related parties, are provided below.

TABLE 9: NED SHAREHOLDINGS (INCLUDING MOVEMENTS DURING THE 2016 YEAR)

Name	Type	Opening balance at 1 Oct 2015	Resulting from any other changes during the year[1]	Closing balance at 30 Sep 2016[2,3]
Current Non-Executive Directors				
D Gonski	Ordinary shares	31,488	–	31,488
I Atlas	Ordinary shares	7,360	–	7,360
P Dwyer	Ordinary shares	10,567	4,433	15,000
H Lee	Directors' Share Plan	2,230	152	2,382
	Ordinary shares	8,000	–	8,000
G Liebelt	Ordinary shares	10,315	–	10,315
	Capital notes 1	1,500	–	1,500
	Capital notes 2	2,500	–	2,500
I Macfarlane	Ordinary shares	18,183	–	18,183
	Capital notes 1	1,500	–	1,500
	Capital notes 4	–	1,000	1,000
	Convertible preference shares (CPS2)	1,000	(1,000)	–
	Convertible preference shares (CPS3)	1,000	–	1,000
J Macfarlane	Ordinary shares	12,851	–	12,851
	Capital notes 2	2,000	–	2,000
	Capital notes 3	5,000	–	5,000

1 Shares from any other changes during the year include the net result of any shares purchased (including under the ANZ Share Purchase Plan), sold, or acquired under the Dividend Reinvestment Plan.

2 The following securities (included in the holdings above) were held on behalf of the NEDs (i.e. indirect beneficially held securities) as at 30 September 2016:

D Gonski	31,488
I Atlas	7,360
P Dwyer	15,000
H Lee	2,382
G Liebelt	14,315
I Macfarlane	21,683
J Macfarlane	19,851

3 There was no change in the balance as at the Director's Report sign-off date.

Details of shares, deferred share rights and performance rights held directly, indirectly or beneficially by the CEO and each Disclosed Executive, including their related parties, are provided below.

TABLE 10: CEO AND DISCLOSED EXECUTIVE SHAREHOLDINGS AND RIGHTS HOLDINGS (INCLUDING MOVEMENTS DURING THE 2016 YEAR)

Name	Type	Opening balance at 1 Oct 2015	Granted during the year as remuneration[1]	Received during the year on exercise of options or rights	Resulting from any other changes during the year[2]	Closing balance at 30 Sep 2016[3,4]
CEO and Current Disclosed Executives						
S Elliott	Deferred shares	103,142	45,592	–	(82,252)	66,482
	Ordinary shares	44	–	–	87,949	87,993
	Performance rights	241,020	159,573	–	(118,110)	282,483
M Carnegie[5]	Deferred shares	–	144,420	–	–	144,420
A Currie	Deferred shares	38,958	34,194	–	(22,689)	50,463
	Ordinary shares	1,042	–	–	–	1,042
	Performance rights	176,115	56,988	–	(73,818)	159,285
D Hisco	Deferred shares	16,000	–	–	(9,000)	7,000
	Employee Share Offer	48	26	–	–	74
	Ordinary shares	91,162	–	34,016	86,000	211,178
	Deferred share rights	52,386	43,536	(34,016)	–	61,906
	Performance rights	144,584	53,133	–	(49,212)	148,505
G Hodges	Deferred shares	172,939	26,595	–	9,158	208,692
	Capital notes 4	–	–	–	1,350	1,350
	Ordinary shares	70,639	–	–	–	70,639
	Performance rights	117,410	37,992	–	(49,212)	106,190
M Jablko[5]	Deferred shares	–	62,176	–	–	62,176
F Ohlsson[5]	Employee Share Offer	74	–	–	–	74
	Deferred share rights	45,718	–	–	–	45,718
	Performance rights	33,818	–	–	–	33,818
M Whelan	Deferred shares	118,763	32,294	–	(38,342)	112,715
	Performance rights	27,278	53,190	–	–	80,468
N Williams	Deferred shares	40,636	34,194	–	(24,305)	50,525
	Ordinary shares	567	–	29,225	(29,792)	–
	Deferred share rights	84,513	33,632	(29,225)	–	88,920
Former CEO and Disclosed Executives						
M Smith[6]	Deferred shares	94,329	–	–	(59,354)	34,975
	Ordinary shares	978,838	–	–	63,756	1,042,594
	Deferred share rights	–	79,892	–	–	79,892
	Performance rights	759,168	–	–	(328,810)	430,358
A Géczy	Deferred shares	25,761	28,495	–	(11,895)	42,361
	Ordinary shares	–	–	–	4,022	4,022
	Performance rights	97,047	60,789	–	–	157,836
J Phillips[6]	Deferred shares	61,528	30,395	–	5,191	97,114
	Ordinary shares	5,835	–	–	–	5,835
	Performance rights	130,896	53,190	–	(91,055)	93,031

1 Details of options/rights granted as remuneration during 2016 are provided in Table 7.

2 Shares resulting from any other changes during the year include the net result of any shares purchased (including under the ANZ Share Purchase Plan), forfeited, sold or acquired under the Dividend Reinvestment Plan.

3 The following shares (included in the holdings above) were held on behalf of the CEO and Disclosed Executives (i.e. indirect beneficially held shares) as at 30 September 2015:

S Elliott	154,475
M Carnegie	144,420
A Currie	50,463
D Hisco	102,074
G Hodges	252,777
M Jablko	62,176
F Ohlsson	74
M Whelan	112,715
N Williams	50,525
M Smith	1,077,569
A Géczy	42,361
J Phillips	42,938

4 No options/rights were vested and exercisable or vested and unexerciseable as at 30 September 2016. There was no change in the balance as at the Director's Report sign-off date.

5 Commencing balance is based on holdings as at the date of commencement in a Disclosed Executive role.

6 Concluding balance is based on holdings as at the date of termination.

9.3 EQUITY VALUATIONS

This section outlines the valuations used throughout this report in relation to equity grants.

ANZ engages an external expert to independently value any required deferred share rights and performance rights, taking into account factors including the performance conditions, share price volatility, life of the instrument, dividend yield and share price at grant date.

The following table provides details of the valuations of the various equity instruments issued during the year and in prior years for shares and rights where vesting, lapse/forfeiture or exercise/sale has occurred during the year:

TABLE 11: EQUITY VALUATION INPUTS – SHARES AND RIGHTS

Recipients	Type	Grant date	Exercise price $	Equity fair value[1] $	Share closing price at grant $	ANZ expected volatility %	Equity term (years)	Vesting period (years)	Expected life (years)	Expected dividend yield %	Risk free interest rate %
Executives	Deferred shares	31-Oct-08	–	17.18	17.36	–	–	3	–	–	–
CEOs and Executives	Deferred shares	12-Nov-12	–	24.57	24.45	–	–	2	–	–	–
CEOs and Executives	Deferred shares	12-Nov-12	–	24.57	24.45	–	–	3	–	–	–
CEOs and Executives	Deferred shares	22-Nov-13	–	31.66	31.68	–	–	1	–	–	–
CEOs and Executives	Deferred shares	22-Nov-13	–	31.66	31.68	–	–	2	–	–	–
CEOs and Executives	Deferred shares	21-Nov-14	–	31.84	31.82	–	–	1	–	–	–
Current CEO and Executives	Deferred shares	18-Nov-15	–	26.66	26.75	–	–	1	–	–	–
Current CEO and Executives	Deferred shares	18-Nov-15	–	26.66	26.75	–	–	2	–	–	–
Executives	Deferred shares	20-Aug-16	–	26.58	26.68	–	–	0.3	–	–	–
Executives	Deferred shares	20-Aug-16	–	26.58	26.68	–	–	0.5	–	–	–
Executives	Deferred shares	20-Aug-16	–	26.58	26.68	–	–	0.8	–	–	–
Executives	Deferred shares	20-Aug-16	–	26.58	26.68	–	–	1	–	–	–
Executives	Deferred shares	20-Aug-16	–	26.58	26.68	–	–	1.3	–	–	–
Executives	Deferred shares	20-Aug-16	–	26.58	26.68	–	–	1.5	–	–	–
Executives	Deferred shares	20-Aug-16	–	26.58	26.68	–	–	1.8	–	–	–
Executives	Deferred shares	20-Aug-16	–	26.58	26.68	–	–	2	–	–	–
Executives	Deferred shares	20-Aug-16	–	26.58	26.68	–	–	2.5	–	–	–
Executives	Deferred shares	20-Aug-16	–	26.58	26.68	–	–	3.5	–	–	–
Executives	Deferred shares	20-Aug-16	–	26.58	26.68	–	–	4.5	–	–	–
Executives	Employee Share Offer shares	3-Dec-15	–	27.79	27.81	–	–	3	–	–	–
Executives	Deferred share rights	12-Nov-12	0.00	20.53	24.45	22.5	5	3	3	6.00	2.58
Executives	Deferred share rights	22-Nov-13	0.00	28.60	31.68	20.0	4	2	2	5.25	2.75
Executives	Deferred share rights	21-Nov-14	0.00	30.16	31.82	17.5	3	1	1	5.50	2.53
Former CEO and Executives	Deferred share rights	18-Nov-15	0.00	25.17	26.75	20.0	3	1	1	6.25	2.02
Former CEO and Executives	Deferred share rights	18-Nov-15	0.00	23.69	26.75	20.0	4	2	2	6.25	2.11
Executives	Deferred share rights	18-Nov-15	0.00	22.30	26.75	20.0	5	3	3	6.25	2.20
Current CEO and Executives	Performance rights	12-Nov-12	0.00	10.16	24.45	22.5	5	3	3	6.00	2.58
Former CEO	Performance rights	19-Dec-12	0.00	9.58	24.64	22.5	5	3	3	6.00	2.77
Executives	Performance rights	21-Nov-14	0.00	14.24	31.82	17.5	5	3	3	5.50	2.53
Executives	Performance rights	21-Nov-14	0.00	15.47	31.82	17.5	5	3	3	5.50	2.53
Current CEO and Executives (for allocation purposes)	Performance rights	18-Nov-15	0.00	26.32	26.75	–	5	3	3	–	–
Current CEO and Executives (for allocation purposes)	Performance rights	18-Nov-15	0.00	26.32	26.75	–	5	3	3	–	–
Current CEO and Executives (for allocation purposes)	Performance rights	18-Nov-15	0.00	26.32	26.75	–	5	3	3	–	–
Executives (for expensing purposes)	Performance rights	18-Nov-15	0.00	9.94	26.75	20.0	5	3	3	6.25	2.02
Executives (for expensing purposes)	Performance rights	18-Nov-15	0.00	9.02	26.75	20.0	5	3	3	6.25	2.11
Executives (for expensing purposes)	Performance rights	18-Nov-15	0.00	4.80	26.75	20.0	5	3	3	6.25	2.20
Current CEO (for expensing purposes)	Performance rights	17-Dec-15	0.00	11.28	26.53	25.0	5	3	3	6.50	2.10
Current CEO (for expensing purposes)	Performance rights	17-Dec-15	0.00	11.16	26.53	25.0	5	3	3	6.50	2.10
Current CEO (for expensing purposes)	Performance rights	17-Dec-15	0.00	7.36	26.53	25.0	5	3	3	6.50	2.10

1 For shares, the volume weighted average share price of all ANZ shares sold on the ASX on the date of grant is used to calculate the fair value. No dividends are incorporated into the measurement of the fair value of shares. For rights, an independent fair value calculation is conducted to determine the fair value.

10. NEDs, CEO and Disclosed Executives Loan and Other Transactions (non remuneration)

10.1 LOAN TRANSACTIONS

Loans made to the NEDs, the CEO and Disclosed Executives are made in the ordinary course of business on normal commercial terms and conditions no more favourable than those given to other employees or customers, including the term of the loan, security required and the interest rate.

Details of loans outstanding at the reporting date to NEDs, the CEO and Disclosed Executives including their related parties, where the individual's aggregate loan balance exceeded $100,000 at any time during the year, are provided below. Other than the loans disclosed below no other loans were made, guaranteed or secured by any entity in the Group to the NEDs, the CEO and Disclosed Executives, including their related parties.

TABLE 12: NED LOAN TRANSACTIONS

Name	Opening balance at 1 Oct 2015 $	Closing balance at 30 Sep 2016 $	Interest paid and payable in the reporting period[1] $	Highest balance in the reporting period $
Non-Executive Directors				
J Macfarlane	7,882,159	8,851,891	282,972	10,418,743
Total	**7,882,159**	**8,851,891**	**282,972**	**10,418,743**

1 Actual interest paid after taking into consideration offset accounts. The loan balance is shown gross, however the interest paid takes into account the impact of offset amounts.

TABLE 13: CEO AND DISCLOSED EXECUTIVE LOAN TRANSACTIONS

Name	Opening balance at 1 Oct 2015[1] $	Closing balance at 30 Sep 2016 $	Interest paid and payable in the reporting period[2] $	Highest balance in the reporting period $
Current CEO and Current Disclosed Executives				
S Elliott	1,598,516	2,598,510	52,684	2,598,516
A Currie	3,833,108	3,668,573	162,158	4,586,240
D Hisco	2,116,292	2,114,163	102,310	4,360,325
G Hodges	3,961,872	3,231,536	138,877	4,199,572
F Ohlsson	1,500,000	3,000,000	–	3,000,000
M Whelan	2,690,090	1,718,615	82,008	2,763,650
N Williams	286,000	39,192	7,188	541,254
Former CEO and Former Disclosed Executives				
M Smith[3]	1,000,000	4,500,000	84,199	4,500,000
A Géczy[4]	24,777,211	21,169,935	1,110,753	24,780,089
J Phillips[3]	2,254,377	–	67,973	2,263,443
Total	**44,017,466**	**42,040,523**	**1,808,149**	**53,593,089**

1 For Disclosed Executives who commenced during the 2016 financial year, opening balances are as at date of commencement.
2 Actual interest paid after taking into consideration offset accounts. The loan balance is shown gross, however the interest paid takes into account the impact of offset amounts.
3 Concluding balance is based on balance as at the date of termination.
4 A Géczy's loan balance has reduced significantly post the balance date and it is expected that this will reduce to nil by the end of December 2016.

10.2 OTHER TRANSACTIONS

All other transactions of the NEDs, the CEO and Disclosed Executives and their related parties are conducted on normal commercial terms and conditions no more favourable than those given to other employees or customers, and are deemed trivial or domestic in nature.

Signed in accordance with a resolution of the Directors

David M Gonski, AC
Chairman

2 November 2016

Shayne Elliott
Director

SECTION

02

CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS (continued)

FINANCIAL STATEMENTS

Income Statement for the year ended 30 September

	Note	Consolidated[1] 2016 $m	Consolidated[1] 2015 $m	The Company[1] 2016 $m	The Company[1] 2015 $m
Interest income	3	29,951	30,526	26,387	26,665
Interest expense	3	(14,856)	(15,910)	(15,622)	(16,249)
Net interest income		15,095	14,616	10,765	10,416
Other operating income	4	3,129	4,034	5,660	6,587
Net funds management and insurance income	4	1,764	1,815	198	210
Share of associates' profit	4	541	625	347	376
Operating income		20,529	21,090	16,970	17,589
Operating expenses	5	(10,422)	(9,378)	(8,340)	(7,369)
Profit before credit impairment and income tax		10,107	11,712	8,630	10,220
Credit impairment charge	16	(1,929)	(1,179)	(1,539)	(969)
Profit before income tax		8,178	10,533	7,091	9,251
Income tax expense	6	(2,458)	(3,026)	(1,404)	(1,945)
Profit for the year		5,720	7,507	5,687	7,306
Comprising:					
Profit attributable to non-controlling interests		11	14	–	–
Profit attributable to shareholders of the Company		5,709	7,493	5,687	7,306
Earnings per ordinary share (cents)					
Basic	8	197.4	271.5	n/a	n/a
Diluted	8	189.3	257.2	n/a	n/a
Dividend per ordinary share (cents)	7	160.0	181.0	n/a	n/a

1 Comparative amounts have changed. Refer to note 43 for details.

The notes appearing on pages 68 to 173 form an integral part of these financial statements.

Statement of Comprehensive Income for the year ended 30 September

		Consolidated		The Company	
	Note	2016 $m	2015 $m	2016 $m	2015 $m
Profit for the year		5,720	7,507	5,687	7,306
Other comprehensive income					
Items that will not be reclassified subsequently to profit or loss					
Remeasurement gain/(loss) on defined benefit plans[1]	31,38	(72)	(6)	(88)	24
Fair value gain/(loss) attributable to changes in own credit risk of financial liabilities designated at fair value		(10)	52	(10)	52
Income tax on items that will not be reclassified subsequently to profit or loss					
Remeasurement gain/(loss) on defined benefit plans		11	4	16	(4)
Fair value gain/(loss) attributable to changes in own credit risk of financial liabilities designated at fair value		3	(15)	3	(15)
Items that may be reclassified subsequently to profit or loss					
Foreign currency translation reserve					
Exchange differences taken to equity[2]	31	(456)	1,736	(476)	878
Exchange differences transferred to income statement		(126)	(4)	(126)	(4)
Available-for-sale revaluation reserve					
Valuation gain/(loss) taken to equity	31	42	(40)	(15)	(74)
Transferred to income statement		(48)	(71)	(4)	(49)
Cash flow hedge reserve					
Valuation gain/(loss) taken to equity	31	64	160	(22)	149
Transferred to income statement		17	(15)	10	–
Income tax on items that may be reclassified subsequently to profit or loss					
Available-for-sale revaluation reserve		7	36	9	39
Cash flow hedge reserve		(21)	(45)	5	(46)
Share of associates' other comprehensive income[3]		4	59	13	44
Other comprehensive income net of tax		(585)	1,851	(685)	994
Total comprehensive income for the year		5,135	9,358	5,002	8,300
Comprising total comprehensive income attributable to:					
Non-controlling interests		4	30	–	–
Shareholders of the Company		5,131	9,328	5,002	8,300

1 Includes a foreign exchange loss on GBP denominated defined benefit plans of $15 million (2015: nil) for the Group and $15 million (2015: nil) for the Company.
2 Includes a $7 million loss of foreign currency translation differences attributed to non-controlling interests (2015: $16 million gain) for the Group.
3 Share of associates' other comprehensive income includes items that may be reclassified subsequently to profit or loss comprised of Available-for-sale assets reserve gain of $10 million (2015: gain of $53 million) for the Group and gain of $13 million (2015: gain of $44 million) for the Company; Foreign currency translation reserve of nil (2015: gain of $8 million) for the Group, as well as items that will not be reclassified subsequently to profit or loss comprised of Defined Benefit Plans loss of $6 million (2015: loss of $2 million) for the Group.

The notes appearing on pages 68 to 173 form an integral part of these financial statements.

Balance Sheet as at 30 September

	Note	Consolidated 2016 $m	Consolidated 2015 $m	The Company 2016 $m	The Company 2015 $m
Assets					
Cash	11	48,675	53,903	46,072	51,217
Settlement balances owed to ANZ		21,951	18,596	19,905	16,601
Collateral paid		12,723	9,967	10,878	8,234
Trading securities	12	47,188	49,000	35,059	37,373
Derivative financial instruments	13	87,496	85,625	75,872	75,694
Available-for-sale assets	14	63,113	43,667	55,721	37,612
Net loans and advances	15	575,852	562,173	446,531	440,383
Regulatory deposits		2,296	1,773	671	557
Due from controlled entities		–	–	106,797	109,920
Shares in controlled entities	33	–	–	18,117	17,823
Investments in associates	34	4,272	5,440	1,974	3,018
Current tax assets	6	126	90	116	84
Deferred tax assets	6	623	402	887	712
Goodwill and other intangible assets	26	7,672	8,312	2,214	2,830
Investments backing policy liabilities	37	35,656	34,820	–	–
Premises and equipment	27	2,205	2,221	967	990
Other assets	28	5,021	5,846	2,181	2,949
Esanda Dealer Finance assets held for sale	15	–	8,065	–	8,065
Total assets		914,869	889,900	823,962	814,062
Liabilities					
Settlement balances owed by ANZ		10,625	11,250	9,079	9,901
Collateral received		6,386	7,829	5,882	6,886
Deposits and other borrowings	17	588,195	570,794	479,963	472,031
Derivative financial instruments	13	88,725	81,270	76,243	71,844
Due to controlled entities		–	–	103,416	105,079
Current tax liabilities	6	188	267	62	94
Deferred tax liabilities	6	227	249	78	123
Policy liabilities	37	36,145	35,401	–	–
External unit holder liabilities (life insurance funds)		3,333	3,291	–	–
Provisions	29	1,209	1,074	832	731
Payables and other liabilities	30	8,865	10,366	5,566	6,294
Debt issuances	18	91,080	93,747	71,875	75,579
Subordinated debt	19	21,964	17,009	20,707	15,812
Total liabilities		856,942	832,547	773,703	764,374
Net assets		57,927	57,353	50,259	49,688
Shareholders' equity					
Ordinary share capital	31	28,765	28,367	29,162	28,611
Reserves	31	1,078	1,571	344	939
Retained earnings	31	27,975	27,309	20,753	20,138
Share capital and reserves attributable to shareholders of the Company		57,818	57,247	50,259	49,688
Non-controlling interests	31	109	106	–	–
Total shareholders' equity		57,927	57,353	50,259	49,688

The notes appearing on pages 68 to 173 form an integral part of these financial statements.

Cash Flow Statement for the year ended 30 September

	Note	Consolidated[1] 2016 $m	Consolidated[1] 2015 $m	The Company[1] 2016 $m	The Company[1] 2015 $m
Cash flows from operating activities					
Interest received		29,992	30,667	26,409	26,754
Interest paid		(15,038)	(15,458)	(15,743)	(15,809)
Dividends received		120	231	2,076	2,630
Other operating income received		1,770	18,237	2,091	15,830
Other operating expenses paid		(8,725)	(8,592)	(6,919)	(6,825)
Income taxes paid		(2,840)	(3,082)	(2,104)	(2,388)
Net cash flows from funds management and insurance business					
Premiums, other income and life investment deposits received		6,795	7,681	122	161
Investment income and policy deposits received		135	286	–	–
Claims and policyholder liability payments		(5,604)	(5,955)	–	–
Commission expense (paid)/received		(545)	(648)	75	49
Cash flows from operating activities before changes in operating assets and liabilities		6,060	23,367	6,007	20,402
Changes in operating assets and liabilities arising from cash flow movements					
(Increase)/decrease in operating assets					
Collateral paid		(3,183)	(3,585)	(3,157)	(2,427)
Trading securities		332	2,870	203	2,161
Loans and advances		(14,797)	(32,280)	(9,503)	(21,759)
Net intra-group loans and advances		–	–	2,053	(992)
Net cash flows from investments backing policyholder liabilities					
Purchase of insurance assets		(16,614)	(7,065)	–	–
Proceeds from sale/maturity of insurance assets		17,461	7,239	–	–
Increase/(decrease) in operating liabilities					
Deposits and other borrowings		23,128	30,050	14,708	22,210
Settlement balances owed by ANZ		(589)	781	(794)	1,422
Collateral received		(1,027)	1,073	(554)	854
Payables and other liabilities		70	(974)	619	(1,491)
Change in operating assets and liabilities arising from cash flow movements		4,781	(1,891)	3,575	(22)
Net cash provided by operating activities	10(a)	10,841	21,476	9,582	20,380
Cash flows from investing activities					
Available-for-sale assets					
Purchases		(44,182)	(24,236)	(26,035)	(18,876)
Proceeds from sale or maturity		23,745	15,705	8,771	11,256
Controlled entities and associates					
Purchases (net of cash acquired)	10(c)	–	–	(387)	(1,375)
Proceeds from sale (net of cash disposed)	10(c)	–	4	–	–
Premises and equipment					
Purchases		(337)	(321)	(227)	(204)
Proceeds from sale		17	–	–	
Esanda Dealer Finance divestment		6,682	–	6,682	–
Other assets		(335)	(928)	83	(280)
Net cash used in investing activities		(14,410)	(9,776)	(11,113)	(9,479)
Cash flows from financing activities					
Debt issuances					
Issue proceeds		29,204	16,637	22,330	12,969
Redemptions		(27,959)	(15,966)	(23,389)	(12,250)
Subordinated debt					
Issue proceeds		6,177	2,683	6,176	2,517
Redemptions		(900)	–	(900)	–
Dividends paid		(4,564)	(3,763)	(4,589)	(3,784)
Share capital issues		–	3,207	–	3,207
Preference shares bought back		–	(755)	–	(755)
Net cash provided by financing activities		1,958	2,043	(372)	1,904
Net (decrease)/increase in cash and cash equivalents		(1,611)	13,743	(1,903)	12,805
Cash and cash equivalents at beginning of year		69,278	48,229	64,836	45,048
Effects of exchange rate changes on cash and cash equivalents		(1,447)	7,306	(939)	6,983
Cash and cash equivalents at end of year	10(b)	66,220	69,278	61,994	64,836

1 Comparative amounts have changed. Refer to note 43 for details.

The notes appearing on pages 68 to 173 form an integral part of these financial statements.

Statement of Changes in Equity for the year ended 30 September

Consolidated	Ordinary share capital $m	Preference shares $m	Reserves[1] $m	Retained earnings $m	Shareholders' equity attributable to equity holders of the Bank $m	Non-controlling interests $m	Total shareholders' equity $m
As at 1 October 2014	24,031	871	(239)	24,544	49,207	77	49,284
Profit or loss	–	–	–	7,493	7,493	14	7,507
Other comprehensive income for the year	–	–	1,802	33	1,835	16	1,851
Total comprehensive income for the year	–	–	1,802	7,526	9,328	30	9,358
Transactions with equity holders in their capacity as equity holders:							
Dividends paid	–	–	–	(4,907)	(4,907)	(1)	(4,908)
Dividend income on Treasury shares held within the Group's life insurance statutory funds	–	–	–	22	22	–	22
Dividend reinvestment plan	1,122	–	–	–	1,122	–	1,122
Preference shares bought back	–	(871)	–	–	(871)	–	(871)
Other equity movements:							
Share-based payments/(exercises)	–	–	16	–	16	–	16
Share placement and Share purchase plan	3,206	–	–	–	3,206	–	3,206
Treasury shares adjustment	5	–	–	–	5	–	5
Group share option scheme	2	–	–	–	2	–	2
Group employee share acquisition scheme	1	–	–	–	1	–	1
Transfer of options/rights lapsed	–	–	(8)	8	–	–	–
Foreign exchange gains on preference shares bought back	–	–	–	116	116	–	116
As at 30 September 2015	28,367	–	1,571	27,309	57,247	106	57,353
Profit or loss	–	–	–	5,709	5,709	11	5,720
Other comprehensive income for the year	–	–	(504)	(74)	(578)	(7)	(585)
Total comprehensive income for the year	–	–	(504)	5,635	5,131	4	5,135
Transactions with equity holders in their capacity as equity holders:							
Dividends paid	–	–	–	(5,001)	(5,001)	(1)	(5,002)
Dividend income on Treasury shares held within the Group's life insurance statutory funds	–	–	–	24	24	–	24
Dividend reinvestment plan	413	–	–	–	413	–	413
Preference shares bought back	–	–	–	–	–	–	–
Other equity movements:							
Share-based payments/(exercises)	–	–	19	–	19	–	19
Share placement and Share purchase plan	–	–	–	–	–	–	–
Treasury shares adjustment	(153)	–	–	–	(153)	–	(153)
Group share option scheme	–	–	–	–	–	–	–
Group employee share acquisition scheme	138	–	–	–	138	–	138
Transfer of options/rights lapsed	–	–	(8)	8	–	–	–
Foreign exchange gains on preference shares bought back	–	–	–	–	–	–	–
As at 30 September 2016	28,765	–	1,078	27,975	57,818	109	57,927

1 Further information on reserves is disclosed in note 31 to the financial statements.

The notes appearing on pages 68 to 173 form an integral part of these financial statements.

The Company	Ordinary share capital $m	Preference shares $m	Reserves[1] $m	Retained earnings[1] $m	Shareholders' equity attributable to equity holders of the Bank[1] $m	Non-controlling interests $m	Total shareholders' equity[1] $m
As at 1 October 2014	24,280	871	(6)	17,557	42,702	–	42,702
Profit or loss	–	–	–	7,306	7,306	–	7,306
Other comprehensive income for the year	–	–	937	57	994	–	994
Total comprehensive income for the year	–	–	937	7,363	8,300	–	8,300
Transactions with equity holders in their capacity as equity holders:							
Dividends paid	–	–	–	(4,906)	(4,906)	–	(4,906)
Dividend reinvestment plan	1,122	–	–	–	1,122	–	1,122
Preference shares bought back	–	(871)	–	–	(871)	–	(871)
Other equity movements:							
Share-based payments/(exercises)	–	–	16	–	16	–	16
Share placement and Share purchase plan	3,206	–	–	–	3,206	–	3,206
Group share option scheme	2	–	–	–	2	–	2
Group employee share acquisition scheme	1	–	–	–	1	–	1
Transfer of options/rights lapsed	–	–	(8)	8	–	–	–
Foreign exchange gains on preference shares bought back	–	–	–	116	116	–	116
As at 30 September 2015	28,611	–	939	20,138	49,688	–	49,688
Profit or loss	–	–	–	5,687	5,687	–	5,687
Other comprehensive income for the year	–	–	(606)	(79)	(685)	–	(685)
Total comprehensive income for the year	–	–	(606)	5,608	5,002	–	5,002
Transactions with equity holders in their capacity as equity holders:							
Dividends paid	–	–	–	(5,001)	(5,001)	–	(5,001)
Dividend reinvestment plan	413	–	–	–	413	–	413
Preference shares bought back	–	–	–	–	–	–	–
Other equity movements:							
Share-based payments/(exercises)	–	–	19	–	19	–	19
Share placement and Share purchase plan	–	–	–	–	–	–	–
Group share option scheme	–	–	–	–	–	–	–
Group employee share acquisition scheme	138	–	–	–	138	–	138
Transfer of options/rights lapsed	–	–	(8)	8	–	–	–
Foreign exchange gains on preference shares bought back	–	–	–	–	–	–	–
As at 30 September 2016	29,162	–	344	20,753	50,259	–	50,259

1 Further information on reserves is disclosed in note 31 to the financial statements.

The notes appearing on pages 68 to 173 form an integral part of these financial statements.

1: Significant Accounting Policies

The financial statements of Australia and New Zealand Banking Group Limited (the Company) and its controlled entities (the Group) for the year ended 30 September 2016 were authorised for issue in accordance with a resolution of the Directors on 2 November 2016.

The Company is incorporated and domiciled in Australia. The address of the Company's registered office is ANZ Centre, Level 9, 833 Collins Street, Docklands, Victoria, Australia 3008.

The Company and Group are for-profit entities.

ANZ provides a broad range of banking and financial products and services to retail, high net worth, small business, corporate and commercial and institutional customers.

Geographically, operations span Australia, New Zealand, a number of countries in the Asia Pacific region, the United Kingdom, France, Germany and the United States.

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied by the Company and all Group entities for all years presented in these financial statements.

A) BASIS OF PREPARATION

i) Statement of compliance

The financial statements of the Company and Group are general purpose financial statements (Tier 1) which have been prepared in accordance with the relevant provisions of the Banking Act 1959, Australian Accounting Standards (AASs) and other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and the Corporations Act 2001.

International Financial Reporting Standards (IFRS) are Standards and Interpretations adopted by the International Accounting Standards Board (IASB). IFRS forms the basis of AASs. The Group's application of AASs ensures that the financial statements of the Company and Group comply with IFRS.

ii) Use of estimates and assumptions

The preparation of these financial statements requires the use of management judgement, estimates and assumptions that affect reported amounts and the application of accounting policies. Discussion of the critical accounting treatments, which include complex or subjective decisions or assessments, are covered in note 2. Such estimates, judgements and assumptions are reviewed on an ongoing basis.

iii) Basis of measurement

The financial information has been prepared in accordance with the historical cost basis except that the following assets and liabilities are stated at their fair value:

- derivative financial instruments;
- available-for-sale financial assets;
- financial instruments held for trading; and
- assets and liabilities designated as fair value through profit or loss.

In accordance with AASB 1038 Life Insurance Contracts ('AASB 1038'), life insurance liabilities are measured using the Margin on Services model.

In accordance with AASB 119 Employee Benefits ('AASB 119'), defined benefit obligations are measured using the Projected Unit Credit Method.

iv) Rounding

The Company is an entity of the kind referred to in Australian Securities and Investments Commission Corporations Instrument 2016/191. Consequently, amounts in the financial statements have been rounded to the nearest million dollars, except where otherwise indicated.

v) Comparatives

Certain amounts in the comparative information have been reclassified to conform with current period financial statement presentations. Refer to note 43 for further details.

vi) Principles 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 it is determined that control over the entity exists. Control is deemed to exist when the Group is exposed, 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. Power is assessed by examining existing rights that give the Group the current ability to direct the relevant activities of the entity.

At times, the determination of control can be judgemental. Further detail on the judgement involved in assessing control has been provided in note 2 (iii).

The effect of all transactions between entities in the Group has been eliminated.

Where subsidiaries are sold or acquired during the year, their operating results are included to the date of disposal or from the date of acquisition. When control ceases, the assets and liabilities of the subsidiary, any related non-controlling interest and other components of equity are derecognised.

Any interest retained in the former subsidiary is initially measured at fair value and any resulting gain or loss is recognised in the income statement.

In the Company's financial statements, investments in subsidiaries are carried at cost less accumulated impairment losses.

vii) Associates

The equity method is applied to accounting for associates in both the consolidated financial statements of the Group and the financial statements of the Company.

Under the equity method, the share of results of associates is included in the income statement and statement of other comprehensive income. Investments in associates are carried in the balance sheet at cost plus the post-acquisition share of changes in associates' net assets less accumulated impairment.

Investments in associates are reviewed for any indication of impairment at least at each reporting date. Where an indication of impairment exists the recoverable amount of the associate is determined based on the higher of the associate's fair value less costs to sell and its value in use. A discounted cash flow methodology and other methodologies such as the capitalisation of earnings methodology are used to determine the recoverable amount.

1: Significant Accounting Policies (continued)

viii) Fiduciary activities

The Group provides fiduciary services to third parties including custody, nominee, trustee, administration and investment management services predominantly through the Wealth segment. This involves the Group holding assets on behalf of third parties and making decisions regarding the purchase and sale of financial instruments. In circumstances where ANZ is not the beneficial owner or does not control the assets, they are not recognised in these financial statements.

ix) Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each Group entity are measured using the currency of the primary economic environment in which the entity operates (the functional currency).

The consolidated financial statements are presented in Australian dollars, which is the Company's functional and presentation currency.

Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Monetary assets and liabilities resulting from foreign currency transactions are subsequently translated at the spot rate at reporting date.

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, are recognised in the income statement in the period in which they arise.

Translation differences on non-monetary items measured at fair value through profit or loss, are reported as part of the fair value gain or loss on these items.

Translation differences on non-monetary items classified as available-for-sale financial assets are included in the available-for-sale revaluation reserve in equity.

Translation to presentation currency

The results and financial position of all Group entities (none of which has the functional currency of a hyperinflationary economy) that have a functional currency different from the Group's presentation currency are translated into the Group's presentation currency as follows:

- assets and liabilities are translated at the rates of exchange ruling at reporting date;
- revenue and expenses are translated at the average exchange rate for the period, unless this average is not a reasonable approximation of the rate prevailing on transaction date, in which case revenue and expenses are translated at the exchange rate ruling at transaction date; and
- all resulting exchange differences are recognised in the foreign currency translation reserve.

When a foreign operation is disposed, cumulative exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill arising on the acquisition of a foreign operation is treated as an asset of the foreign operation and translated at the spot rate at reporting date.

B) INCOME RECOGNITION

i) Interest income

Interest income is recognised as it accrues using the effective interest rate method.

The effective interest rate method calculates the amortised cost of a financial asset or financial liability and allocates the interest income or interest expense over the expected life of the financial asset or financial liability so as to achieve a constant yield on the financial asset or liability.

For assets subject to prepayment, expected life is determined on the basis of the historical behaviour of the particular asset portfolio, taking into account contractual obligations and prepayment experience. This is assessed on a regular basis.

ii) Fee and commission income

Fees and commissions received that are integral to the effective interest rate of a financial asset are recognised using the effective interest rate method. For example, loan origination fees, together with related direct costs, are deferred and recognised as an adjustment to the effective interest rate on a loan once drawn.

Fees and commissions that relate to the execution of a significant act (for example, advisory or arrangement services, placement fees and underwriting fees) are recognised when the significant act has been completed.

Fees charged for providing ongoing services (for example, maintaining and administering existing facilities) are recognised as income over the period the service is provided.

iii) Dividend income

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

iv) Leasing income

Income on finance leases is recognised on a basis that reflects a constant periodic return on the net investment in the finance lease.

v) Gain or loss on sale of assets

The gain or loss on the disposal of assets is determined as the difference between the carrying amount of the asset at the time of disposal and the proceeds of disposal, net of incremental disposal costs. This is recognised as an item of other income in the year in which the significant risks and rewards of ownership transfer to the buyer.

C) EXPENSE RECOGNITION

i) Interest expense

Interest expense on financial liabilities measured at amortised cost is recognised as it accrues using the effective interest rate method.

ii) Loan origination expenses

Certain loan origination expenses are an integral part of the effective interest rate of a financial asset measured at amortised cost. These loan origination expenses include:

- fees and commissions payable to brokers and certain customer incentive payments in respect of originating lending business; and
- other expenses of originating lending business, such as external legal costs and valuation fees, provided these are direct and incremental costs related to the origination of a financial asset.

1: Significant Accounting Policies (continued)

Such loan origination expenses are initially recognised as part of the cost of acquiring the financial asset and amortised as part of the effective yield of the financial asset over its expected life using the effective interest rate method.

iii) Share-based compensation expense

The Group has various equity settled share-based compensation plans. These are described in note 39 and comprise the ANZ Employee Share Acquisition Plan and the ANZ Share Option Plan.

ANZ Employee Share Acquisition Plan

The fair value of ANZ ordinary shares granted under the Employee Share Acquisition Plan is measured at grant date, using the one-day volume weighted average market price of ANZ shares. The fair value is expensed on a straight-line basis over the relevant vesting period. This is recognised as share-based compensation expense with a corresponding increase in share capital.

ANZ Share Option Plan

The fair value of share options (deferred share rights, performance rights) is measured at grant date, using an option pricing model. The fair value is expensed on a straight line basis over the relevant vesting period. This is recognised as share based compensation expense with a corresponding increase in the share options reserve.

The option pricing model takes into account the exercise price of the option, the risk-free interest rate, the expected volatility of ANZ's ordinary share price and other factors. Market vesting conditions are taken into account in determining the fair value.

A deferred share right or a performance right is a right to acquire a share at nil cost to the employee subject to satisfactorily meeting time and/or performance hurdles. For equity grants made after 1 November 2012, any portion of the award which vests may be satisfied by a cash equivalent payment rather than shares at the Board's discretion.

Other adjustments

Subsequent to the grant of an equity-based award, the amount recognised as an expense is reversed when an employee fails to satisfy the minimum service period specified in the award upon resignation, termination or notice of dismissal for serious misconduct.

The expense is not reversed where the award does not vest due to the failure to meet a market-based performance condition.

iv) Lease payments

Leases entered into by the Group as lessee are predominantly operating leases. Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

D) INCOME TAX

i) Income tax expense

Income tax on earnings for the year comprises current and deferred tax and is based on the applicable tax law in each jurisdiction. It is recognised in the income statement as tax expense, except when it relates to items credited directly to equity, in which case it is recorded in equity, or where it arises from the initial accounting for a business combination, in which case it is included in the determination of goodwill.

ii) Current tax

Current tax is the expected tax payable on taxable income for the year, based on tax rates (and tax laws) which are enacted at the reporting date, including any adjustment for tax payable in previous periods. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

iii) Deferred tax

Deferred tax is accounted for using the comprehensive tax balance sheet method. It is generated by temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax base.

Deferred tax assets, including those related to the tax effects of income tax losses and credits available to be carried forward, are recognised only to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences or unused tax losses and credits can be utilised.

Deferred tax liabilities are recognised for all taxable temporary differences, other than those relating to taxable temporary differences arising from goodwill. They are also recognised for taxable temporary differences arising on investments in controlled entities, branches, and associates, except where the Group is able to control the reversal of the temporary differences and it is probable that temporary differences will not reverse in the foreseeable future. Deferred tax assets associated with these investments are recognised only to the extent that it is probable that the temporary difference will reverse in the foreseeable future and there will be sufficient taxable profits against which to utilise the benefits of the temporary difference.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date. The measurement reflects the tax consequences that would follow from the manner in which the Group, at the reporting date, expects to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax assets and liabilities are offset 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.

E) ASSETS

FINANCIAL ASSETS

i) Financial assets and liabilities at fair value through profit or loss

Purchases and sales of trading securities are recognised on trade date.

Trading securities are financial instruments acquired principally for the purpose of selling in the short-term or which are a part of a portfolio which is managed for short-term profit-taking. Trading securities are initially recognised and subsequently measured in the balance sheet at their fair value.

Derivatives that are not effective accounting hedges are measured at fair value through profit or loss.

The Group may designate certain financial assets and liabilities as measured at fair value through profit or loss in any of the following circumstances:

1: Significant Accounting Policies (continued)

- investments backing policy liabilities (refer to note 1 I (iii));
- life investment contract liabilities (refer to note 1 I (i));
- external unit holder liabilities (life insurance funds) (refer to note 1 I (ii);
- doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets and liabilities, or recognising the gains or losses thereon, on different bases;
- a group of financial assets or financial liabilities or both is managed and its performance is evaluated on a fair value basis; or
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Changes in the fair value of these financial instruments are recognised in the income statement except in the case of financial liabilities designated as fair value through profit or loss. For financial liabilities designated as fair value through profit or loss, the amount of fair value gain or loss attributable to changes in the Group's own credit risk is recognised in other comprehensive income (retained earnings). The remaining amount of fair value gain or loss is recognised in profit or loss. Amounts recognised in other comprehensive income are not subsequently reclassified to profit or loss.

ii) Derivative financial instruments

Derivative financial instruments are contracts whose value is derived from one or more underlying price, index or other variable. They include swaps, forward rate agreements, futures and options.

Derivative financial instruments are entered into for trading purposes (including customer-related reasons), or for hedging purposes where the derivative instruments are used to hedge the Group's exposures to interest rate risk, currency risk, credit risk and other exposures relating to non-trading positions.

Derivative financial instruments are recognised initially at fair value with gains or losses from subsequent measurement at fair value being recognised in the income statement. Valuation adjustments are integral in determining the fair value of derivatives. This includes a derivative credit valuation adjustment (CVA) methodology change to reflect the credit worthiness of the counterparty and a funding valuation adjustment (FVA) to account for the funding cost inherent in the portfolio.

Where the derivative is effective as a hedging instrument and is designated as such, the timing of the recognition of any resultant gain or loss in the income statement is dependent on the hedging designation.

Derivative credit valuation adjustment methodology change

In determining the fair value of a derivative the Group recognises CVA to reflect the probability that the counterparty may default at some point over the life of the transaction. It is calculated by applying a probability of default (PD) on the potential estimated future positive exposure of the counterparty after taking into account the impact of collateral arrangements. At 30 September 2016, the Group revised its methodology for estimating CVA to align with industry best practice. The revised methodology makes greater use of market information for determining the PD and enhanced exposure modelling. At 30 September 2016 the effect of the changes in fair value as a result of the revisions to the methodology was to increase the CVA applicable to derivative positions by $237 million with a corresponding charge recognised in Other operating income. It is impracticable to estimate the effect of the changes in fair value estimate on future periods.

Fair value hedge

Where the Group hedges the fair value of a recognised asset or liability or firm commitment, changes in the fair value of the derivative designated as a fair value hedge are recognised in the income statement. Changes in the fair value of the hedged item attributable to the hedged risk are reflected in adjustments to the carrying value of the hedged item, which are also recognised in the income statement.

Hedge accounting is discontinued when the hedge instrument expires or is sold, terminated, exercised or no longer qualifies for hedge accounting. The adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to the income statement over the period to maturity of the hedged item.

If the hedged item is sold or repaid, the unamortised fair value adjustment is recognised immediately in the income statement.

Cash flow hedge

The Group designates derivatives as cash flow hedges where the instrument hedges the variability in cash flows of a recognised asset or liability, a foreign exchange component of a firm commitment or a highly probable forecast transaction. For qualifying cash flow hedges, the fair value gain or loss associated with the effective portion of the cash flow hedge is recognised in other comprehensive income and then recycled to the income statement in the periods when the hedged item is recognised in the income statement. Any ineffective portion is recognised immediately in the income statement. When the hedging instrument expires, is sold, terminated, or no longer qualifies for hedge accounting, the cumulative amount deferred in equity remains in the cash flow hedge reserve, and is subsequently transferred to the income statement when the hedged item is recognised in the income statement.

When a forecast hedged transaction is no longer expected to occur, the amount deferred in the cash flow hedge reserve is recognised immediately in the income statement.

Net investment hedge

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Changes in the fair value of the hedging instrument relating to the effective portion of the hedge are deferred in the foreign currency translation reserve in other comprehensive income and the ineffective portion is recognised immediately in the income statement.

The cumulative gain or loss recognised in other comprehensive income is recognised in the income statement on the disposal or partial disposal of a foreign operation.

Derivatives that do not qualify for hedge accounting

All gains and losses from changes in the fair value of derivatives that are not designated in a hedging relationship but are entered into to manage the interest rate and foreign exchange risk of the Group are recognised in the income statement. Under certain circumstances, the component of the fair value change in the derivative which relates to current period realised and accrued interest is included in Net interest income. The remainder of the fair value movement is included in Other income.

iii) Available-for-sale financial assets

Purchases and sales of available-for-sale financial assets are recognised on trade date being the date on which the Group commits to purchase or sell the asset.

1: Significant Accounting Policies (continued)

Available-for-sale financial assets comprise non-derivative financial assets which the Group designates as available-for-sale but which are not deemed to be held principally for trading purposes, and include equity investments and debt securities.

Available-for-sale financial assets are initially recognised at fair value plus transaction costs. Subsequent gains or losses arising from changes in fair value are included as a separate component of equity in the available-for sale revaluation reserve except for interest, dividends and foreign exchange gains and losses on monetary assets, which are recognised directly in the income statement. When the asset is sold, the cumulative gain or loss relating to the asset is transferred from the available-for-sale revaluation reserve to the income statement.

Where there is objective evidence of impairment of an available-for-sale financial asset, the cumulative loss related to that asset is removed from equity and recognised in the income statement, as an impairment expense for debt instruments or as other income for equity instruments. If, in a subsequent period, the amount of an impairment loss relating to an available-for-sale debt instrument decreases and the decrease can be linked objectively to an event occurring after the impairment event, the loss is reversed through the income statement through the impairment expense line.

iv) Net loans and advances

Net loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money to a debtor with no intention of trading the loans and advances. Loans and advances are initially recognised at fair value plus transaction costs that are directly attributable to the issue of the loan or advance. They are subsequently measured at amortised cost using the effective interest rate method (refer to note 1 B (i)) unless specifically designated on initial recognition as fair value through profit or loss.

All loans are graded according to the level of credit risk.

Net loans and advances includes direct finance provided to customers such as bank overdrafts, credit cards, term loans, finance lease receivables and commercial bills.

Impairment of loans and advances

Loans and advances are reviewed at least at each reporting date for impairment.

Credit impairment provisions are raised for exposures that are known to be impaired. Exposures are impaired and impairment losses are recorded if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the loan and prior to the reporting date, and that loss event, or events, has had an impact on the estimated future cash flows of the individual loan or the collective portfolio of loans that can be reliably estimated.

Impairment is assessed for assets that are individually significant (or on a portfolio basis for small value assets) and then on a collective basis for those exposures not individually known to be impaired.

Exposures that are assessed collectively are placed in pools of similar assets with similar risk characteristics. The required provision is estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the collective pool.

The historical loss experience is adjusted based on current observable data such as changed economic conditions. The provision also takes account of the impact of inherent risk of large concentrated losses within the portfolio and an assessment of the economic cycle.

The estimated impairment losses are measured as the difference between the asset's carrying amount and the estimated future cash flows discounted to their present value.

As the discount unwinds during the period between recognition of impairment and recovery of the cash flow, it is recognised in interest income.

Impairment of capitalised acquisition-related expenses is assessed through comparing the actual behaviour of the portfolio against initial expected life assumptions.

The provision for impairment loss (individual and collective) is deducted from loans and advances in the balance sheet and the movement for the reporting period is reflected in the income statement.

When a loan is uncollectable, either partially or in full, it is written-off against the related provision for loan impairment. Unsecured facilities are normally written-off when they become 180 days past due or earlier in the event of the customer's bankruptcy or similar legal release from the obligation. In the case of secured facilities, remaining balances are written-off after proceeds from the realisation of collateral have been received if there is a shortfall.

Impairment losses recognised in previous periods are reversed in the income statement if the estimate of the loss subsequently decreases.

A provision is also raised for off-balance sheet items such as loan commitments that are considered to be onerous.

v) Lease receivables

Contracts to lease assets and hire purchase agreements are classified 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. All other lease contracts are classified as operating leases.

vi) Repurchase agreements

Securities sold under repurchase agreements are retained in the financial statements where substantially all the risks and rewards of ownership remain with the Group. A counterparty liability is recognised and classified as deposits and other borrowings. The difference between the sale price and the repurchase price is accrued over the life of the repurchase agreement and charged to interest expense in the income statement.

Securities purchased under agreements to resell, where the Group does not acquire the risks and rewards of ownership, are recorded as receivables in cash or net loans and advances if the original maturity is greater than 90 days. The security is not included in the balance sheet. Interest income is accrued on the underlying loan amount.

Securities borrowed are not recognised in the balance sheet, unless these are sold to third parties, at which point the obligation to repurchase is recorded as a financial liability at fair value with fair value movements included in the income statement.

vii) Derecognition

The Group enters into transactions where it transfers financial assets recognised on its balance sheet yet retains either all or a portion of the risks and rewards of the transferred assets. If all, or substantially all, of the risks and rewards are retained, the transferred assets are not derecognised from the balance sheet.

In transactions where substantially all the risks and rewards of ownership of a financial asset are neither retained nor transferred, the Group derecognises the asset if control over the asset is lost.

In transfers where control over the asset is retained, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

1: Significant Accounting Policies (continued)

The rights and obligations retained or created in the transfer are recognised separately as assets and liabilities as appropriate.

NON-FINANCIAL ASSETS

viii) Goodwill

Goodwill represents the excess of the purchase consideration over the fair value of the identifiable net assets of a controlled entity at the date of gaining control. Goodwill is recognised as an asset and not amortised, but is assessed for impairment at least annually or more frequently if there is an indication that the goodwill may be impaired. This involves using a discounted cash flow methodology or capitalisation of earnings methodology to determine the expected recoverable amount of the cash-generating units (CGU) to which the goodwill relates. Where the carrying value exceeds the recoverable amount, the difference is charged to the income statement. Any impairment of goodwill is not subsequently reversed.

ix) Software

Software includes costs incurred in acquiring and building software and computer systems.

In the current year the Group made a number of changes to the application of its accounting policy relating to the capitalisation of internally generated software assets by increasing the threshold for capitalisation of software development spend, reflecting the increasingly shorter useful life of smaller items of software, and by direct expensing of more project related costs. The impact of these changes was an accelerated amortisation charge of $556 million relating to previously capitalised software balances (of this, $183 million would otherwise have been amortised during the September 2016 full year) and higher operating expenses during the period of $370 million relating to development costs that would otherwise have been capitalised. These costs would otherwise have been amortised to the Income Statement in future periods of up to 5 years.

Software is amortised using the straight-line method over its expected useful life to the Group. The period of amortisation is between 3 and 5 years, except for certain major core infrastructure projects where the useful life has been determined to be 7 or 10 years and has been approved by the Audit Committee. The amortisation period for software assets is reviewed at least annually. Where the expected useful life of the asset is different from previous estimates the amortisation period is changed prospectively.

At each reporting date, software assets are reviewed for impairment indicators. If any such indication exists, the recoverable amount of the assets are estimated and compared against the existing carrying value. Where the carrying value exceeds the recoverable amount, the difference is charged to the income statement.

Costs incurred in planning or evaluating software proposals, or in maintaining systems after implementation, are not capitalised.

x) Acquired portfolio of insurance and investment business

Identifiable intangible assets in respect of acquired portfolios of insurance and investment business acquired in a business combination are stated initially at fair value at acquisition date. These are amortised over the period of expected benefits of between 15 and 23 years.

The amortisation period is reviewed annually and the asset is reviewed for indicators of impairment. Any impairment identified is charged to the income statement.

xi) Deferred acquisition costs

Refer to note 1 I (vii).

xii) Other intangible assets

Other intangible assets include management fee rights and aligned advisor relationships.

Management fee rights and aligned advisor relationships are amortised over the expected useful lives to the Group using the straight line method.

Where the intangible asset is assessed to have an indefinite life, it is carried at cost less any impairment losses.

The period of amortisation is no longer than:

Management fee rights	7 years
Aligned advisor relationships	8 years

The amortisation period is reviewed at least at the end of each annual reporting period and changed if there has been a significant change in the pattern of expected future benefits from the asset.

xiii) Premises and equipment

Assets other than freehold land are depreciated at rates based upon their expected useful lives to the Group, using the straight-line method. The depreciation rates used for each class of asset are:

Buildings	1.5%
Building integrals	10%
Furniture and equipment	10%–20%
Computer and office equipment	12.5%–33%

Leasehold improvements are amortised on a straight-line basis over the shorter of their useful life or the remaining term of the lease.

The depreciation rate is reviewed annually and changed if there has been a significant change in the pattern of expected future benefits from the asset.

At each reporting date, the carrying amounts of premises and equipment are reviewed for impairment. If any impairment indicator exists, the recoverable amount of the assets are estimated and compared against the carrying value. Where the carrying value exceeds the recoverable amount, the difference is charged to the income statement. If it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the CGU to which the asset belongs.

A previously recognised impairment loss is reversed if there has been an increase in the estimated recoverable amount.

xiv) Borrowing costs

Borrowing costs incurred for the construction of qualifying assets are capitalised into the cost of the qualifying asset during the period of time that is required to complete and prepare the asset for its intended use. The calculation of borrowing costs is based on an internal measure of the costs associated with the borrowing of funds.

F) LIABILITIES

FINANCIAL LIABILITIES

i) Deposits and other borrowings

Deposits and other borrowings include certificates of deposit, interest bearing deposits, debentures and other similar interest bearing financial instruments. Deposits and other borrowings not designated at fair value through profit or loss on initial recognition are measured at amortised cost. The interest expense is recognised using the effective interest rate method.

1: Significant Accounting Policies (continued)

ii) Financial liabilities at fair value through profit or loss

Refer to note 1 E (i).

iii) Debt issuances and subordinated debt

Debt issuances and subordinated debt are accounted for in the same way as deposits and other borrowings, except for those debt securities which are designated as at fair value through profit or loss on initial recognition.

iv) Financial guarantee contracts

Financial guarantee contracts that require the issuer to make specified payments to reimburse the holder for a loss the holder incurs because a specified debtor fails to make payments when due, are initially recognised in the financial statements at fair value on the date the guarantee is given (typically this is the premium received). Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of their amortised amount and the best estimate of the expenditure required to settle any financial obligation arising at the reporting date. These estimates are determined based on experience of similar transactions and the history of past losses.

v) Derecognition

Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expires.

NON-FINANCIAL LIABILITIES

vi) Employee benefits

Leave benefits

The liability for long service leave (including on-costs) is calculated and accrued for in respect of all applicable employees using an actuarial valuation. Expected future payments for long service leave are discounted using market yields at the reporting date for a blended rate of high quality corporate bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows. The amounts expected to be paid in respect of employees' entitlements to annual leave are accrued at expected salary rates including on-costs.

Defined contribution superannuation schemes

The Group operates a number of defined contribution schemes and 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 schemes.

The Group's contributions to these schemes are recognised as an expense in the income statement when incurred.

Defined benefit superannuation schemes

The Group operates a small number of defined benefit schemes. The liability and expense related to providing benefits to employees under each defined benefit scheme are calculated by independent actuaries.

A defined benefit liability is recognised to the extent that the present value of the defined benefit obligation of each scheme, calculated using the Projected Unit Credit Method, is greater than the fair value of each scheme's assets. Where this calculation results in an asset of the Group, a defined benefit asset is recognised, which is capped at the recoverable amount. In each reporting period, the movements in the net defined benefit liability are treated as follows:

- the net movement relating to the current period's service cost, net interest on the net defined benefit liability, past service costs and other costs (such as the effects of any curtailments and settlements) is recognised as an operating expense in the Income Statement;
- 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), are recognised directly in retained earnings through other comprehensive income; and
- contributions made by the Group are recognised directly against the net defined benefit position.

vii) Provisions

The Group recognises provisions when there is a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation at reporting date. 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.

G) EQUITY

i) Ordinary shares

Ordinary shares in the Company are recognised at the amount paid per ordinary share net of directly attributable issue costs.

ii) Treasury shares

Shares in the Company which are purchased on-market by the ANZ Employee Share Acquisition Plan or issued by the Company to the ANZ Employee Share Acquisition Plan are classified as treasury shares (to the extent that they relate to unvested employee share based awards) and are deducted from share capital.

In addition, the life insurance business may also purchase and hold shares in the Company to back policy liabilities in the life insurance statutory funds. These shares are also classified as treasury shares and deducted from share capital. These assets, plus any corresponding income statement fair value movement on the assets and dividend income, are eliminated when the life statutory funds are consolidated into the Group. The cost of the investment in the shares is deducted from share capital. However, the corresponding life investment contract and life insurance contract liabilities, and related changes in the liabilities recognised in the income statement, remain upon consolidation.

Treasury shares are excluded from the weighted average number of ordinary shares used in the earnings per share calculations.

iii) Non-controlling interest

Non-controlling interests represent the share in the net assets of subsidiaries attributable to equity interests not owned directly or indirectly by the Company.

iv) Reserves

Foreign currency translation reserve

As indicated in note 1 A (ix), exchange differences arising on translation of assets and liabilities into the Group's presentation currency are reflected in the foreign currency translation reserve. Any offsetting gains or losses on hedging these balances, together with any tax effect, are also reflected in this reserve. When a foreign operation is sold, attributable exchange differences are recognised in the income statement.

1: Significant Accounting Policies (continued)

Available-for-sale revaluation reserve

This reserve includes changes in the fair value and exchange differences on the revaluation of available-for-sale financial assets, net of tax. These changes are transferred to the income statement (in other operating income) when the asset is derecognised or impaired.

Cash flow hedge reserve

This reserve includes the fair value gains and losses associated with the effective portion of designated cash flow hedging instruments net of tax. The cumulative deferred gain or loss on the hedge is recognised in the income statement when the hedged transaction impacts the income statement.

Share option reserve

This reserve includes the amounts which arise on the recognition of share-based compensation expense (see note 1 C (iii)). Amounts are transferred out of the reserve into share capital when the equity instruments are exercised.

Transactions with non-controlling interests reserve

The transactions with non-controlling interests reserve represents the impact of transactions with non-controlling shareholders in their capacity as shareholders.

H) PRESENTATION

i) Offsetting of income and expenses

Income and expenses are not offset unless required or permitted by an accounting standard. This generally arises in the following circumstances:

- where transaction costs form an integral part of the effective interest rate of a financial instrument which is measured at amortised cost, these are offset against the interest income/ expense as part of the effective yield; or
- where gains and losses arise from a group of similar transactions, such as foreign exchange gains and losses.

ii) Offsetting assets and liabilities

Assets and liabilities are offset and the net amount reported in the balance sheet only where there is:

- a current enforceable legal right to offset the asset and liability; and
- an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

iii) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the Chief Executive Officer to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete information is available. Changes in the internal organisational structure of the Group can cause the composition of the Group's reportable segments to change. Where this occurs corresponding segment information for the previous financial year is restated, unless the information is not available and the cost to prepare it would be excessive.

I) LIFE INSURANCE AND FUNDS MANAGEMENT BUSINESS

The Group conducts its life insurance and funds management business (the Life Business) in Australia primarily through OnePath Life Limited, which is registered under the Life Insurance Act 1995 (Life Act) and in New Zealand through OnePath Life (NZ) Limited which is licensed under the Insurance (Prudential Supervision) Act 2010.

The operations of the Life Business are conducted within separate statutory funds, as required by the Life Act and are reported in aggregate with the shareholders' fund in the Income Statement, Statement of Changes in Equity, Balance Sheet and Cash Flow Statements of the Group. The assets of the Life Business in Australia are allocated between policyholder and shareholder funds in accordance with the requirements of the Life Act. Under AASs, the financial statements must include all assets, liabilities, revenues, expenses and equity, irrespective of whether they are designated as relating to shareholders or policyholders. Accordingly, the consolidated financial statements include both policyholder (statutory) and shareholders' funds.

i) Policy liabilities

Policy liabilities include liabilities arising from life insurance contracts and life investment contracts.

Life insurance contracts are insurance contracts regulated under the Life Act and similar contracts issued by entities operating outside Australia. An insurance contract is a contract under which an insurer accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder.

All contracts written by registered life insurers that do not meet the definition of an insurance contract are referred to as life investment contracts. Life investment contract business relates to funds management products in which the Group issues a contract where the resulting liability to policyholders is linked to the performance and value of the assets that back those liabilities.

Whilst the underlying assets are registered in the name of the life insurer and the policyholder has no direct access to the specific assets, the contractual arrangements are such that the policyholder bears the risks and rewards of the fund's underlying assets investment performance with the exception of capital guaranteed products where the policyholder is guaranteed a minimum return or asset value. The Group derives fee income from the administration of the underlying assets.

Life investment contracts that include a discretionary participation feature (participating contracts) are accounted for as if they are life insurance contracts under AASB 1038.

Life insurance liabilities

Life insurance liabilities are determined using the 'Margin on Services' (MoS) model using a projection method. Under the projection method, the liability is determined as the net present value of the expected future cash flows, plus planned margins of revenues over expenses relating to services yet to be provided, discounted using a risk-free discount rate that reflects the nature, structure and term of the liabilities. Expected future cash flows include premiums, expenses, redemptions and benefit payments, including bonuses.

Profits from life insurance contracts are brought to account using the MoS model in accordance with Actuarial Standard LPS 340 Valuation of Policy Liabilities as issued by APRA under the Life Act and Professional Standard 20 Determination of Life Insurance Policy Liabilities as issued by the New Zealand Society of Actuaries. Under the MoS model, profit is recognised as premiums are received and services are provided to policyholders. When premiums are received but the service has not been provided, the profit is deferred. Losses are expensed when identified.

Costs associated with the acquisition of policies are recognised over the period that the policy generates profits. Costs are only deferred to the extent that a contract is expected to be profitable.

1: Significant Accounting Policies (continued)

Participating contracts, defined as those contracts that entitle the policyholder to participate in the performance and value of certain assets in addition to the guaranteed benefit, are entitled to share in the profits that arise from the participating business. This profit sharing is governed by the Life Act and the life insurance company's constitution. The profit sharing entitlement is treated as an expense in the consolidated financial statements. Any benefits which remain payable at the end of the reporting period are recognised as part of life insurance liabilities.

Life investment contract liabilities

Life investment contracts consist of two components: a financial instrument and an investment management service.

The financial instrument component of the life investment contract liabilities is designated at fair value through profit or loss. The investment management service component, including associated acquisition costs, is recognised as revenue in the profit or loss as services are performed. See note 1 I (vii) for the deferral and amortisation of life investment contract acquisition costs and entry fees.

The life investment contract liability is directly linked to the performance and value of the assets that back them and is determined as the fair value of those assets after tax. For fixed income policies the liability is determined as the net present value of expected cash flows subject to a minimum of current surrender value.

ii) External unit holder liabilities (life insurance funds)

The life insurance business includes controlling interests in investment funds. The total amounts of the underlying assets, liabilities, revenues and expenses of the controlled entities are recognised in the Group's consolidated financial statements. When a controlled investment fund is consolidated, the share of the unit holder liability attributable to the Group is eliminated but amounts due to external unit holders remain as liabilities in the Group's consolidated balance sheet.

iii) Investments backing policy liabilities

All investments backing policy liabilities are designated as at fair value through profit or loss. All policyholder assets, being those assets held within the statutory funds of the life company that are not segregated and managed under a distinct shareholder investment mandate are held to back life insurance and life investment contract liabilities (collectively referred to as policy liabilities).

iv) Claims

Claims are recognised when the liability to the policyholder under the policy contract has been established or upon notification of the insured event depending on the type of claim.

Claims incurred in respect of life investment contracts represent withdrawals and are recognised as a reduction in life investment contract liabilities.

Claims incurred that relate to the provision of services and bearing of insurance risks are treated as expenses and these are recognised on an accruals basis once the liability to the policyholder has been established under the terms of the contract.

v) Revenue

Life insurance premiums

Life insurance premiums earned by providing services and bearing risks are treated as revenue. For annuity, risk and traditional business, all premiums are recognised as revenue. Premiums with no due date are recognised as revenue on a cash received basis. Premiums with a regular due date are recognised as revenue on an accruals basis.

Unpaid premiums are only recognised as revenue during the days of grace or where secured by the surrender value of the policy and are included as other assets in the balance sheet.

Life investment contract premiums

There is no premium revenue in respect of life investment contracts. Life investment deposit premiums are recognised as an increase in policy liabilities. Amounts received from policyholders in respect of life investment contracts are recognised as an investment contract liability where the receipt is in the nature of a deposit, or progressively as an investment management fee.

Fees

Fees are charged to policyholders in connection with life insurance and life investment contracts and are recognised when the service has been provided. Entry fees from life investment contracts are deferred and recognised over the average expected life of the contracts. Deferred entry fees are presented within other liabilities in the balance sheet.

vi) Reinsurance contracts

Reinsurance premiums, commissions and claim settlements, as well as the reinsurance element of insurance contract liabilities, are accounted for on the same basis as the underlying direct insurance contracts for which the reinsurance was purchased.

vii) Policy acquisition costs

Life insurance contract acquisition costs

Policy acquisition costs are the fixed and variable costs of acquiring new business. The appointed actuary assesses the value and future recoverability of these costs in determining policy liabilities. The net profit impact is presented in the income statement as a change in policy liabilities. The deferral is determined as the lesser of actual costs incurred and the allowance for recovery of these costs from the premiums or policy charge as appropriate for each business class. This is subject to an overall limit that future profits are anticipated to cover these costs. Amounts which are deemed recoverable from future premiums or policy charges are deferred and amortised over the life of the policy. Losses arising on acquisition are recognised in the income statement in the year in which they occur.

Life investment contract acquisition costs

Incremental acquisition costs, such as commissions, that are directly attributable to securing a life investment contract are recognised as an asset where they can be identified separately and measured reliably and if it is probable that they will be recovered. These deferred acquisition costs are presented in the balance sheet as an intangible asset and are amortised over the period that they will be recovered from future policy charges.

Any impairment losses arising on deferred acquisition costs are recognised in the income statement in the period in which they occur.

viii) Basis of expense apportionment

All life investment contracts and insurance contracts are categorised based on individual policy or product. Expenses for these products are then allocated between acquisition, maintenance, investment management and other expenses.

Expenses which are directly attributable to an individual policy or product are allocated directly to a particular expense category, fund, class of business and product line as appropriate. Where expenses are not directly attributable to an individual policy or product, they are appropriately apportioned based on detailed expense analysis having regard to the objective in incurring that expense and the outcome achieved.

1: Significant Accounting Policies (continued)

The apportionment has been made in accordance with Actuarial Standard LPS 340, issued by the Australian Prudential Regulation Authority, and on an equitable basis to the different classes of business in accordance with Division 2 of Part 6 of the Life Act.

J) OTHER

i) Contingent liabilities

Contingent liabilities acquired in a business combination are measured at fair value at the acquisition date. At subsequent reporting dates the value of such contingent liabilities is reassessed based on the estimate of the expenditure required to settle the contingent liability.

Other contingent liabilities are not recognised in the balance sheet but disclosed in note 41 unless it is considered remote that the Group will be liable to settle the possible obligation.

ii) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period after eliminating treasury shares.

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effect of dilutive ordinary shares.

iii) Accounting Standards not early adopted

The following accounting standards relevant to the Company and/or the Group have been issued but are not yet effective and have not been applied in these financial statements.

AASB 9 *Financial Instruments* ('AASB 9')

The AASB issued the final version of AASB 9 in December 2014. When operative, this standard will replace AASB 139 *Financial Instruments: Recognition and Measurement.* AASB 9 addresses recognition and measurement requirements for financial assets and financial liabilities, impairment requirements that introduce an expected credit loss impairment model and general hedge accounting requirements which more closely align with risk management activities undertaken when hedging financial and non-financial risks.

AASB 9 is not mandatorily effective for the Group until 1 October 2018. The Group is in the process of assessing the impact of AASB 9 and is not yet able to reasonably estimate the impact on its financial statements.

The Group early adopted, in isolation, the part of AASB 9 relating to gains and losses attributable to changes in own credit risk of financial liabilities designated as fair value through profit or loss in the prior financial year (effective from 1 October 2013). Refer to note 1 E (i) for a description of the accounting policy.

AASB 15 *Revenue from Contracts with Customers* ('AASB 15')

The AASB issued AASB 15 in December 2014. The standard is not mandatorily effective for the Group until 1 October 2018. AASB 15 contains new requirements for the recognition of revenue and additional disclosures about revenue.

While it is expected that a significant proportion of the Group's revenue will be outside the scope of AASB 15, the Group is in the process of assessing the impact of AASB 15 and is not yet able to reasonably estimate the impact on its financial statements.

AASB 16 Leases ('AASB 16')

The AASB issued the final version of AASB 16 in February 2016. The standard is not mandatorily effective for the Group until 1 October 2019. AASB 16 requires a lessee to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. AASB 16 substantially carries forward the lessor accounting requirements in AASB 117 Leases.

The Group is in the process of assessing the impact of AASB 16 and is not yet able to reasonably estimate the impact on its financial statements.

2: Critical Estimates and Judgements Used in Applying Accounting Policies

The preparation of the financial statements of the Company and Group involves making estimates and judgements that affect the reported amounts within the financial statements. The estimates and judgements are continually evaluated based on historical factors and expectations of future events, which are believed to be reasonable under the circumstances. All material changes to accounting policies and estimates and the application of these policies and judgements are approved by the Audit Committee of the Board.

A brief explanation of the critical estimates and judgements follows.

i) Provisions for credit impairment

The measurement of impairment of loans and advances requires management's best estimate of the losses incurred in the portfolio at reporting date.

Individual and collective provisioning involves the use of assumptions for estimating the amount and timing of expected future cash flows. The process of estimating the amount and timing of cash flows involves considerable management judgement. These judgements are regularly revised to reduce any differences between loss estimates and actual loss experience.

The collective provision involves estimates regarding the historical loss experience for assets with credit characteristics similar to those in the collective pool. The historical loss experience is adjusted based on current observable data and events and an assessment of the impact of model risk. The provision also takes into account management's assessment of the impact of large concentrated losses inherent within the portfolio and the economic cycle.

The use of such judgements and reasonable estimates is considered by management to be an essential part of the financial reporting process and does not impact on the reliability of the provision.

ii) Impairment of non-lending assets

The carrying values of non-lending assets are subject to impairment assessments at each reporting date. Judgement is required in identifying the cash-generating units to which goodwill and other assets are allocated for the purpose of impairment testing.

Impairment testing involves identifying appropriate internal and external indicators of impairment and whether these exist at each reporting date. Where an indication of impairment exists, the recoverable amount of the asset is determined based on the higher of the assets fair value less costs to sell and its value in use. Judgement is applied when determining the assumptions supporting the recoverable amount calculations.

2: Critical Estimates and Judgements Used in Applying Accounting Policies (continued)

During the year the impairment assessment of non-lending assets identified that two of the Group's associate investments (AMMB Holdings Berhad (Ambank) and PT Bank Pan Indonesia (PT Panin)) had indicators of impairment; specifically their market value (based on share price) was below their carrying value. The Group performed value in use (VIU) calculations to assess if the carrying value of the investments were impaired. The VIU calculation is sensitive to a number of key assumptions, including discount rate, long term growth rates, future profitability and capital levels. The key assumptions used in the VIU calculations are outlined in note 34.

The VIU calculation continues to support the carrying value of the investment in PT Panin, however did not support the carrying value of the Group's investment in Ambank. As a consequence the Group recorded an impairment charge of $260 million for the full year to reduce the carrying value to its VIU. The associate investment in Ambank forms part of the TSO and Group Centre operating segment.

iii) Consolidation

The Company assesses, at inception and at each reporting date, whether a structured entity should be consolidated based on the accounting policy outlined in note 1 A (vi). Such assessments are predominantly required for structured entities involved in securitisation activities and structured finance transactions, and investment funds. When assessing whether the Company controls (and therefore consolidates) such entities, judgement is required about whether the Company has power over the relevant activities as well as exposure to variable returns of that entity.

The Company is deemed to have power over an investment fund when it performs the function of Manager/Responsible Entity of that investment fund. Whether the Company controls the investment fund depends on whether it holds that power as principal, or as an agent for other investors. The Company is considered the principal, and thus controls an investment fund, when it cannot be easily removed from the position of Manager/Responsible Entity by other investors and has variable returns through significant aggregate economic interest in that investment fund. In all other cases the Company is considered to be acting in an agency capacity and does not control the investment fund.

iv) Financial instruments at fair value

The Group's financial instruments measured at fair value are stated in note 1 A (iii). In estimating the fair value of financial instruments the Group uses quoted market prices in an active market, wherever possible.

In the event that there is no active market for the instrument, fair value is based on present value estimates or other market accepted valuation techniques. The valuation models incorporate the impact of bid/ask spreads, counterparty credit spreads and other factors that market participants would consider in determining the fair value. The selection of appropriate valuation techniques, methodologies and inputs requires judgement. These are reviewed and updated as market practices evolve.

The majority of valuation techniques employ only observable market data. However, for certain financial instruments, the fair value cannot be determined with reference to current market transactions or valuation techniques whose variables only include data from observable markets. For these financial instruments, the fair value is determined using data derived and extrapolated from market data and tested against historic transactions and observed market trends.

Application of professional judgement is required to analyse the data available to support each assumption upon which these valuations are based. Changing the assumptions changes the resulting estimate of fair value.

The majority of outstanding derivative positions are transacted over-the-counter where no active market exists for such instruments and therefore need to be valued using valuation techniques. Included in the determination of the fair value of derivatives is a CVA to reflect the credit worthiness of the counterparty. Judgement is required in selecting the appropriate methodology and determining credit related inputs where they are not readily observable. Further, in order to account for the funding costs inherent in the derivative, a funding valuation adjustment (FVA) is applied. Judgment is required to determine the appropriate cost of funding and the future expected cash flows used to determine FVA.

v) Provisions (other than loan impairment)

The Group holds provisions for various obligations including employee entitlements, restructurings and litigation related claims. The provision for long-service leave is supported by an independent actuarial report and involves assumptions regarding employee turnover, future salary growth rates and discount rates. Other provisions involve judgements regarding the 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.

vi) Life insurance contract liabilities

Policy liabilities for life insurance contracts are computed using statistical or mathematical methods, which are expected to give approximately the same results as if an individual liability was calculated for each contract. The computations are made by suitably qualified personnel on the basis of recognised actuarial methods, with due regard to relevant actuarial principles and standards. The methodology takes into account the risks and uncertainties of the particular class of life insurance business written. Deferred policy acquisition costs are connected with the measurement basis of life insurance liabilities and are equally sensitive to the factors that are considered in the liability measurement.

The key factors that affect the estimation of these liabilities and related assets are:

- the cost of providing the benefits and administering the insurance contracts;
- mortality and morbidity experience on life insurance products, including enhancements to policyholder benefits;
- discontinuance experience, which affects the Company's ability to recover the cost of acquiring new business over the lives of the contracts; and
- the amounts credited to policyholders' accounts compared to the returns on invested assets through asset-liability management and strategic and tactical asset allocation.

In addition, factors such as regulation, competition, interest rates, taxes and general economic conditions affect the level of these liabilities.

The total value of policy liabilities for life insurance contracts have been appropriately calculated in accordance with these principles.

vii) Taxation

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.

3: Net Interest Income

	Consolidated		The Company	
	2016 $m	2015 $m	2016 $m	2015 $m
Interest income				
Loans and advances and acceptances	26,842	27,515	20,555	20,657
Trading securities	1,288	1,594	851	1,109
Available-for-sale assets	1,028	759	842	609
Other	793	658	550	468
Total external interest income	29,951	30,526	22,798	22,843
Controlled entities	–	–	3,589	3,822
Total interest income	29,951	30,526	26,387	26,665
Interest income is analysed by types of financial assets as follows:				
Financial assets not classified at fair value through profit or loss	28,649	28,916	25,533	25,549
Trading securities	1,288	1,594	851	1,109
Financial assets designated at fair value through profit or loss	14	16	3	7
Total interest income	29,951	30,526	26,387	26,665
Interest expense				
Deposits	10,145	11,159	7,920	8,514
Borrowing corporation debt	63	70	–	–
Commercial paper	571	515	360	255
Debt issuances and subordinated debt	3,773	3,747	3,043	2,874
Other	304	419	262	358
Total external interest expense	14,856	15,910	11,585	12,001
Controlled entities	–	–	4,037	4,248
Total interest expense	14,856	15,910	15,622	16,249
Interest expense is analysed by types of financial liabilities as follows:				
Financial liabilities not classified at fair value through profit or loss	14,379	15,427	15,376	16,048
Securities sold short	166	145	146	123
Financial liabilities designated at fair value through profit or loss	311	338	100	78
Total interest expense	14,856	15,910	15,622	16,249
Net Interest Income	15,095	14,616	10,765	10,416

4: Non-Interest Income

	Consolidated[1]		The Company[1]	
	2016 $m	2015 $m	2016 $m	2015 $m
Non Interest Income				
i) Fee and commission income				
Lending fees[2]	779	833	670	727
Non-lending fees and commissions[3,4]	2,911	2,885	2,108	2,104
	3,690	3,718	2,778	2,831
Controlled entities	–	–	1,252	1,144
Total fee and commission income[3,4]	3,690	3,718	4,030	3,975
Fee and commission expense[3,5]	(1,162)	(1,087)	(936)	(887)
Net fee and commission income[3,4]	2,528	2,631	3,094	3,088
ii) Net funds management and insurance income				
Funds management income[4]	932	942	75	84
Investment income	2,350	1,848	–	–
Insurance premium income[4]	1,562	1,633	48	43
Commission income/(expense)[4]	(457)	(452)	75	83
Claims[4]	(734)	(743)	–	–
Changes in policy liabilities	(1,843)	(1,434)	–	–
Elimination of treasury share (loss)/gain	(46)	21	–	–
Total net funds management and insurance income[4]	1,764	1,815	198	210
iii) Share of associates' profit	541	625	347	376
iv) Other income				
Net foreign exchange earnings[4]	1,176	1,005	767	719
Net (losses) from trading securities and derivatives[4]	(101)	(125)	(37)	(161)
Credit risk on credit intermediation trades	6	8	6	8
Movement on other financial instruments measured at fair value through profit or loss[6]	(214)	241	(116)	129
Dividends received from controlled entities[7]	–	–	2,010	2,571
Brokerage income/(expense)	50	58	–	–
Impairment of AMMB Holdings Berhad	(260)	–	–	–
Gain on cessation of equity accounting of investment in Bank of Tianjin (BoT)	29	–	29	–
Gain on Esanda Dealer Finance divestment	66	–	66	–
Derivative CVA methodology change[8]	(237)	–	(196)	–
Other[3,4]	86	216	37	233
Total other income[3,4]	601	1,403	2,566	3,499
Total non-interest income[3,4]	5,434	6,474	6,205	7,173

1 Comparative amounts have changed. Refer to note 43 for details.
2 Lending fees exclude fees treated as part of the effective yield calculation and included in interest income. Refer to note 1 B (ii).
3 Certain card related fees integral to the generation of income have been reclassified within operating income and operating expenses to better reflect the nature of the items. Comparatives have been restated. Refer to note 43 for details.
4 Income from certain insurance and other wealth related products have been reclassified within operating income to better reflect the nature of the items. Comparatives have been restated. Refer to note 43 for details.
5 Includes interchange fees paid.
6 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 financial liabilities designated at fair value.
7 Dividends received from controlled entities are subject to meeting applicable regulatory and company law requirements, including solvency requirements.
8 Represents $237 million charge for the Group and $196 million for the Company due to revising the methodology for calculating the credit valuation adjustment applied to the Group's derivatives portfolio. Refer to note 1 E (ii).

5: Expenses

	Consolidated		The Company	
	2016 $m	2015 $m	2016 $m	2015 $m
Operating expenses				
i) Personnel				
Salaries and related costs[1]	4,879	4,749	3,580	3,441
Superannuation costs				
– defined benefit plans (note 38)	4	7	(2)	2
– defined contribution plans	333	324	281	269
Equity-settled share-based payments	182	216	152	185
Other[1]	143	183	84	118
Total personnel expenses	5,541	5,479	4,095	4,015
ii) Premises				
Depreciation of buildings and integrals	194	192	128	128
Rent	485	479	387	379
Utilities and other outgoings	170	180	110	119
Other	79	71	63	57
Total premises expenses	928	922	688	683
iii) Technology				
Data communications	121	115	70	70
Depreciation and amortisation[2]	1,198	675	1,041	599
Licences and outsourced services	597	447	400	290
Rentals and repairs	168	158	135	129
Software impairment	27	17	23	12
Other	39	50	25	31
Total technology expenses	2,150	1,462	1,694	1,131
iv) Restructuring	278	31	249	24
v) Other				
Advertising and public relations[3]	261	325	199	236
Audit and other fees (note 42)	22	21	11	11
Non-lending losses, frauds and forgeries	112	66	80	56
Professional fees	413	324	364	273
Travel and entertainment expenses	158	205	113	146
Amortisation and impairment of other intangible assets	83	88	8	9
Freight, stationery, postage and telephone	277	263	211	192
Other[3]	199	192	628	593
Total other expenses	1,525	1,484	1,614	1,516
Total operating expenses	10,422	9,378	8,340	7,369

1 In 2015 $705 million for the Group and $530 million for the Company previously classified as 'other personnel expenses' moved to 'salaries and related costs'.
2 In 2016 the Group recorded a $556 million charge for accelerated amortisation associated with software capitalisation changes. Refer to note 1 E (ix).
3 Certain cards related fees that are integral to the generation of income have been reclassified from operating expenses to other operating income to better reflect the nature of the items. Comparatives have been restated and $19 million of card related fees for the Group and the Company have been reclassified from other operating income to operating expenses. Refer to note 43 for details.

6: Income Tax

INCOME TAX EXPENSE

	Consolidated 2016 $m	Consolidated 2015 $m	The Company 2016 $m	The Company 2015 $m
Income tax recognised in the income statement				
Tax expense comprises:				
Current tax expense	2,738	2,932	1,630	1,866
Adjustments recognised in the current year in relation to the current tax of prior years	(23)	–	(17)	1
Deferred tax expense/(income) relating to the origination and reversal of temporary differences	(257)	94	(209)	78
Total income tax expense charged in the income statement	2,458	3,026	1,404	1,945
Reconciliation of the prima facie income tax expense on pre-tax profit with the income tax expense charged in the income statement				
Profit before income tax	8,178	10,533	7,091	9,251
Prima facie income tax expense at 30%	2,453	3,160	2,127	2,775
Tax effect of permanent differences:				
Overseas tax rate differential	(45)	(95)	10	(22)
Share of associates' profit	(162)	(187)	(104)	(113)
Offshore Banking Units	–	(1)	–	(1)
Wealth Australia – policyholder income and contributions tax	152	130	–	–
Wealth Australia – tax consolidation benefit	–	(56)	–	–
Write-down of investment in Ambank	78	–	–	–
Gain on cessation of equity accounting for BoT	(9)	–	(9)	–
Tax provisions no longer required	(71)	(17)	(73)	(17)
Interest on convertible instruments	70	72	70	72
Rebateable and non-assessable dividends	–	(2)	(603)	(771)
Other	15	22	3	21
	2,481	3,026	1,421	1,944
Income tax under/(over) provided in previous years	(23)	–	(17)	1
Total income tax expense charged in the income statement	2,458	3,026	1,404	1,945
Effective tax rate	30.1%	28.7%	19.8%	21.0%
Australia	1,752	2,144	1,332	1,806
Overseas	706	882	72	139

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. Tax expense/income and deferred tax liabilities/assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax consolidated group on a 'group allocation' basis. Current tax liabilities and assets of the tax consolidated group are recognised by the Company (as head entity in the tax-consolidated group).

Due to the existence of 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 in accordance with the arrangement.

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 should the head entity default on its income tax payment obligations.

6: Income Tax (continued)

TAX ASSETS

	Consolidated 2016 $m	Consolidated 2015 $m	The Company 2016 $m	The Company 2015 $m
Australia				
Current tax asset	88	59	88	59
Deferred tax asset	457	208	800	585
	545	267	888	644
New Zealand				
Deferred tax asset	–	–	3	5
	–	–	3	5
Asia Pacific, Europe and America				
Current tax asset	38	31	28	25
Deferred tax asset	166	194	84	122
	204	225	112	147
Total current and deferred tax assets	749	492	1,003	796
Total current tax assets	126	90	116	84
Total deferred tax assets	623	402	887	712
Deferred tax assets recognised in profit or loss				
Collective provision for loans and advances	762	767	588	626
Individual provision for impaired loans and advances	278	259	232	215
Other provisions	324	285	224	205
Provision for employee entitlements	155	158	116	120
Software	152	10	120	6
Other	133	160	61	60
	1,804	1,639	1,341	1,232
Deferred tax assets recognised directly in equity				
Available-for-sale revaluation reserve	–	–	25	9
	–	–	25	9
Set-off of deferred tax assets pursuant to set-off provisions[1]	(1,181)	(1,237)	(479)	(529)
Net deferred tax assets	623	402	887	712

Unrecognised deferred tax assets

The following deferred tax assets will only be recognised if:

- assessable income derived is of a nature and an amount sufficient to enable the benefit to be realised;
- the conditions for deductibility imposed by tax legislation are complied with; and
- no changes in tax legislation adversely affect the Group in realising the benefit.

	Consolidated 2016 $m	Consolidated 2015 $m	The Company 2016 $m	The Company 2015 $m
Unused realised tax losses (on revenue account)	4	5	–	–
Total unrecognised deferred tax assets	4	5	–	–

1 Deferred tax assets and liabilities are set-off where they relate to income tax levied by the same taxation authority on either the same taxable entity or different taxable entities within the same taxable group.

6: Income Tax (continued)

TAX LIABILITIES	Consolidated 2016 $m	Consolidated 2015 $m	The Company 2016 $m	The Company 2015 $m
New Zealand				
Current tax payable	21	74	20	18
Deferred tax liabilities	141	113	–	–
	162	187	20	18
Asia Pacific, Europe and America				
Current tax payable	167	193	42	76
Deferred tax liabilities	86	136	78	123
	253	329	120	199
Total current and deferred income tax liability	415	516	140	217
Total current tax liabilities	188	267	62	94
Total deferred income tax liabilities	227	249	78	123
Deferred tax liabilities recognised in profit or loss				
Acquired portfolio of insurance and investment business	193	214	–	–
Insurance related deferred acquisition costs	160	135	–	–
Lease finance	273	289	28	64
Software	65	64	65	64
Other	528	596	291	370
	1,219	1,298	384	498
Deferred tax liabilities recognised directly in equity				
Cash flow hedges	138	117	115	122
Foreign currency translation reserve	36	36	36	–
Available-for-sale revaluation reserve	–	14	–	–
Defined benefits obligation	13	16	20	27
Own credit risk of financial liabilities	2	5	2	5
	189	188	173	154
Set-off of deferred tax liabilities pursuant to set-off provision[1]	(1,181)	(1,237)	(479)	(529)
Net deferred tax liability	227	249	78	123
Unrecognised deferred tax liabilities				
The following deferred tax liabilities have not been brought to account as liabilities:				
Other unrealised taxable temporary differences[2]	416	386	67	70
Total unrecognised deferred tax liabilities	416	386	67	70

1 Deferred tax assets and liabilities are set-off where they relate to income tax levied by the same taxation authority on either the same taxable entity or different taxable entities within the same taxable group.

2 Represents additional potential foreign tax costs should all retained earnings in offshore branches and subsidiaries be repatriated.

7: Dividends

	Consolidated[1]		The Company	
	2016 $m	2015 $m	2016 $m	2015 $m
Ordinary share dividends[2]				
Interim dividend	2,334	2,379	2,334	2,379
Final dividend	2,758	2,619	2,758	2,619
Bonus option plan adjustment	(91)	(92)	(91)	(92)
Dividend on ordinary shares	5,001	4,906	5,001	4,906

1 Excludes dividends paid by subsidiaries of the Group to non-controlling equity holders (2016: $1.4 million, 2015: $1.0 million).
2 Dividends are recorded when paid and not accrued.

A final dividend of 80 cents, fully franked for Australian tax purposes, is proposed to be paid on each eligible fully paid ANZ ordinary share on 16 December 2016 (2015: final dividend of 95 cents, paid 16 December 2015, fully franked for Australian tax purposes). It is proposed that New Zealand imputation credits of NZ 9 cents per fully paid ANZ ordinary share will also be attached to the 2016 final dividend (2015: NZ 11 cents). The 2016 interim dividend of 80 cents, paid 1 July 2016, was fully franked for Australian tax purposes (2015: interim dividend of 86 cents, paid 1 July 2015, fully franked for Australian tax purposes). New Zealand imputation credits of NZ 10 cents per fully paid ANZ ordinary share were attached to the 2016 interim dividend (2015: NZ 10 cents).

The tax rate applicable to the Australian franking credits attached to the 2016 interim dividend and to be attached to the proposed 2016 final dividend is 30% (2015: 30%).

Dividends paid in cash or satisfied by the issue of shares under the dividend reinvestment plan during the years ended 30 September 2016 and 2015 were as follows:

	Consolidated		The Company	
	2016 $m	2015 $m	2016 $m	2015 $m
Paid in cash[1]	4,588	3,784	4,588	3,784
Satisfied by share issue[2]	413	1,122	413	1,122
	5,001	4,906	5,001	4,906

	Consolidated		The Company	
	2016 $m	2015 $m	2016 $m	2015 $m
Preference share dividend[3]				
Euro Trust Securities[4]	–	1	–	–
Dividend on preference shares	–	1	–	–

1 Refers to cash paid to shareholders who did not elect to participate in the dividend reinvestment plan or the bonus option plan.
2 Includes shares issued to participating shareholders under the dividend reinvestment plan.
3 Dividends are recorded when paid and not accrued.
4 Refer to note 31 for details.

DIVIDEND FRANKING ACCOUNT

	2016 $m	2015 $m
Australian franking credits available for subsequent financial years at a corporate tax rate of 30% (2015: 30%)	118	593

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 that will arise from the receipt/payment of dividends that have been recognised as tax receivables/payables as at the end of the financial year.

7: Dividends (continued)

The final proposed 2016 dividend will utilise the entire balance of $118 million franking credits available at 30 September 2016. Instalment tax payments on account of the 2017 financial year which will be made after 30 September 2016 will generate sufficient franking credits to enable the final 2016 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 that will be subject to tax in Australia.

New Zealand imputation credits can be attached to our Australian dividends, but may only be used by New Zealand resident shareholders. The amount of available New Zealand imputation credits at the end of the financial year, adjusted for credits that will arise from the payment of New Zealand income tax payable as at the end of the financial year and New Zealand imputation credits that will arise from dividends receivable as at the end of the financial year, is NZ$3,494 million (2015: NZ$3,508 million).

RESTRICTIONS WHICH LIMIT THE PAYMENT OF DIVIDENDS

There are presently no significant restrictions on the payment of dividends from material controlled entities to the Company. There are various capital adequacy, liquidity, foreign currency controls, statutory reserve and other prudential and legal requirements that must be observed by certain controlled entities and the impact of these requirements on the payment of cash dividends is monitored. In particular, if any interest payment is not paid on any scheduled payment date on the ANZ NZ Capital Notes, ANZ Bank New Zealand Limited may be restricted from paying a dividend on its ordinary shares (subject to a number of exceptions).

There are presently no significant restrictions on the payment of dividends by the Company, although reductions in shareholders' equity through the payment of cash dividends are monitored having regard to the following:

- There are regulatory and other legal requirements to maintain a specified level of capital. Further, APRA has advised that a bank under its supervision, including the Company, must obtain its written approval before paying dividends (i) on ordinary shares which exceed its after tax earnings after taking into account any payments on more senior capital instruments in the financial year to which they relate or (ii) where the Company's Common Equity Tier 1 capital ratio falls within capital range buffers specified by APRA from time to time;
- The Corporations Act 2001 (Cth) provides that the Company must not pay a dividend on any instrument unless (i) it has sufficient net assets for the payment, (ii) the payment is fair and reasonable to the Company's shareholders as a whole, and (iii) the payment does not materially prejudice the Company's ability to pay its creditors;
- The terms of the Company's ANZ Convertible Preference Shares also limit the payment of dividends on these securities in certain circumstances. Generally the Company may not pay a dividend on these securities if to do so would result in the Company becoming, or likely to become, insolvent or breaching specified capital adequacy ratios, if the dividend would exceed its after tax prudential profits (as defined by APRA from time to time) or if APRA so directs; and
- If any dividend, interest or redemption payments or other distributions are not paid on the scheduled payment date, or shares or other qualifying Tier 1 securities are not issued on the applicable conversion or redemption dates, on the Company's ANZ Convertible Preference Shares, ANZ Capital Notes or ANZ Capital Securities in accordance with their terms, the Company may be restricted from declaring or paying any dividends or other distributions on Tier 1 securities including ANZ ordinary shares and preference shares. This restriction is subject to a number of exceptions.

DIVIDEND REINVESTMENT PLAN

During the year ended 30 September 2016, 7,937,264 fully paid ANZ ordinary shares were issued at $27.08 per share and 7,979,719 fully paid ANZ ordinary shares at $24.82 per share to participating shareholders under the Dividend Reinvestment Plan (2015: 8,031,825 fully paid ANZ ordinary shares at $32.02 per share, and 27,073,309 fully paid ANZ ordinary shares at $31.93 per share). All eligible shareholders can elect to participate in the Dividend Reinvestment Plan.

For the 2016 final dividend, no discount will be applied when calculating the 'Acquisition Price' used in determining the number of fully paid ANZ ordinary shares to be provided under the Dividend Reinvestment Plan and Bonus Option Plan terms and conditions, and the 'Pricing Period' under the Dividend Reinvestment Plan and Bonus Option Plan terms and conditions will be the ten trading days commencing on 18 November 2016 (unless otherwise determined by the Directors and announced to ASX).

BONUS OPTION PLAN

The amount paid in dividends during the year has been reduced as a result of certain eligible shareholders participating in the bonus option plan and foregoing all or part of their right to dividends. These shareholders were issued fully paid ANZ ordinary shares under the bonus option plan.

During the year ended 30 September 2016, 3,516,214 fully paid ANZ ordinary shares were issued under the Bonus Option Plan (2015: 2,899,350 fully paid ANZ ordinary shares).

8: Earnings Per Ordinary Share

	Consolidated 2016 $m	Consolidated 2015 $m
Earnings reconciliation ($millions)		
Profit for the year	5,720	7,507
Less: profit attributable to non-controlling interests	11	14
Less: preference share dividend paid	–	1
Earnings used in calculating basic earnings per share	5,709	7,492
Weighted average number of ordinary shares (millions)[1]	2,891.7	2,759.0
Basic earnings per share (cents)	197.4	271.5
Earnings reconciliation ($millions)		
Earnings used in calculating basic earnings per share	5,709	7,492
Add: ANZ Convertible Preference Shares interest expense	124	128
Add: ANZ Capital Notes interest expense	149	134
Add: ANZ NZ Capital Notes interest expense	24	12
Earnings used in calculating diluted earnings per share	6,006	7,766
Weighted average number of ordinary shares (millions)[1]		
Used in calculating basic earnings per share	2,891.7	2,759.0
Add: weighted average number of options/rights potentially convertible to ordinary shares	6.8	6.2
Add: weighted average number of ANZ Convertible Preference Shares	120.6	123.4
Add: weighted average number of ANZ Capital Notes	135.9	122.7
Add: weighted average number of ANZ NZ Capital Notes	17.4	8.5
Used in calculating diluted earnings per share	3,172.4	3,019.8
Diluted earnings per share (cents)	189.3	257.2

1 Weighted average number of ordinary shares excludes 11.1 million weighted average number of ordinary treasury shares held in ANZEST Pty Ltd (2015: 11.8 million) for the Group employee share acquisition scheme and 14.5 million weighted average number of ordinary treasury shares held in Wealth Australia (2015: 12.4 million).

9: Segment Analysis

(i) DESCRIPTION OF SEGMENTS

During 2016, the Group announced changes to the organisation's structure to better meet the needs of our retail, commercial and institutional customers. As a result of these organisational changes there are now six reported divisions: Australia, New Zealand, Institutional, Asia Retail & Pacific, Wealth Australia and Technology, Services and Operations (TSO) and Group Centre.

These divisions were created by removing the Asia Retail & Pacific business from the former International and Institutional Banking (IIB) division, and repositioning minority investments in Asia from IIB to the Group Centre with the residual IIB business re-named Institutional. The New Zealand funds management and insurance businesses were repositioned to the New Zealand division, and the Private Bank business was reorganised along geographic lines under the Australia, New Zealand and Asia Retail & Pacific divisions with the residual Global Wealth business re-named Wealth Australia. Comparative information has been restated.

Other than those described above, there have been no significant structural changes. However, certain prior period comparatives have been restated to align with current period presentation as a result of changes to customer segmentation and the continued realignment of support functions. The TSO organisational changes announced in September 2016 did not take effect until 1 October 2016.

The primary sources of external revenue across all divisions are interest income, fee income and trading income. The Australia and New Zealand divisions derive revenue from products and services from retail and commercial banking. The Institutional division derives its revenue from retail and institutional products and services. Wealth derives revenue from funds management and insurance businesses.

(ii) OPERATING SEGMENTS

Transactions between business units across segments within ANZ are conducted on an arms length basis.

Year ended 30 September 2016 ($m)	Australia	Institutional	New Zealand	Wealth Australia	Asia Retail & Pacific	TSO and Group Centre	Other items[1]	Group Total
External interest income	16,152	7,070	5,634	81	813	201	–	29,951
External interest expense	(4,404)	(3,036)	(2,705)	(16)	(283)	(4,412)	–	(14,856)
Adjustment for intersegment interest	(3,548)	(582)	(478)	(55)	168	4,495	–	–
Net interest income	8,200	3,452	2,451	10	698	284	–	15,095
Other external operating income	1,205	1,726	634	1,244	477	(345)	(48)	4,893
Share of associates' profit	3	(3)	5	–	–	536	–	541
Segment revenue	9,408	5,175	3,090	1,254	1,175	475	(48)	20,529
Other external expenses	(1,904)	(1,653)	(709)	(419)	(389)	(5,348)	–	(10,422)
Adjustments for intersegment expenses	(1,485)	(1,282)	(516)	(377)	(424)	4,084	–	–
Operating expenses	(3,389)	(2,935)	(1,225)	(796)	(813)	(1,264)	–	(10,422)
Profit before credit impairment and income tax	6,019	2,240	1,865	458	362	(789)	(48)	10,107
Credit impairment (charge)/release	(920)	(741)	(120)	–	(174)	(1)	27	(1,929)
Segment result before tax	5,099	1,499	1,745	458	188	(790)	(21)	8,178
Income tax expense	(1,526)	(431)	(478)	(133)	(34)	303	(159)	(2,458)
Non-controlling interests	–	(11)	–	2	(2)	–	–	(11)
Profit after income tax attributed to shareholders of the Company	3,573	1,057	1,267	327	152	(487)	(180)	5,709
Non-cash expenses								
Depreciation and amortisation	(176)	(164)	(14)	(80)	(17)	(1,024)	–	(1,475)
Equity-settled share based payment expenses	(16)	(105)	(11)	(6)	(4)	(40)	–	(182)
Credit impairment (charge)/release	(920)	(741)	(120)	–	(174)	(1)	27	(1,929)
Financial position								
Goodwill	–	1,119	2,061	1,452	97	–	–	4,729
Investments in associates	17	4	6	3	–	4,242	–	4,272

1 In evaluating the performance of the operating segments, certain items are removed from the operating segment result where they are not considered integral to the ongoing performance of the segment and are evaluated separately. These items are set out in part (iii) of this note (refer pages 188 to 189 for further analysis).

9: Segment Analysis (continued)

Year ended 30 September 2015 ($m)[1]	Australia	Institutional	New Zealand	Wealth Australia	Asia Retail & Pacific	TSO and Group Centre	Other items[2]	Group Total
External interest income	16,065	7,606	5,958	85	745	67	–	30,526
External interest expense	(4,764)	(3,041)	(3,311)	(40)	(287)	(4,467)	–	(15,910)
Adjustment for intersegment interest	(3,603)	(980)	(266)	(37)	185	4,701	–	–
Net interest income	7,698	3,585	2,381	8	643	301	–	14,616
Other external operating income	1,211	2,177	601	1,265	480	(438)	553	5,849
Share of associates' profit	3	–	3	–	–	619	–	625
Segment revenue	8,912	5,762	2,985	1,273	1,123	482	553	21,090
Other external expenses	(1,780)	(1,614)	(713)	(395)	(424)	(4,452)	–	(9,378)
Adjustments for intersegment expenses	(1,413)	(1,192)	(484)	(356)	(410)	3,855	–	–
Operating expenses	(3,193)	(2,806)	(1,197)	(751)	(834)	(597)	–	(9,378)
Profit before credit impairment and income tax	5,719	2,956	1,788	522	289	(115)	553	11,712
Credit impairment (charge)/release	(852)	(198)	(55)	–	(98)	(2)	26	(1,179)
Segment result before tax	4,867	2,758	1,733	522	191	(117)	579	10,533
Income tax expense	(1,454)	(779)	(479)	(94)	(50)	132	(302)	(3,026)
Non-controlling interests	–	(12)	–	–	(2)	–	–	(14)
Profit after income tax attributed to shareholders of the Company	3,413	1,967	1,254	428	139	15	277	7,493
Non-cash expenses								
Depreciation and amortisation	(158)	(165)	(20)	(104)	(22)	(486)	–	(955)
Equity-settled share based payment expenses	(16)	(132)	(12)	(6)	(5)	(45)	–	(216)
Credit impairment (charge)/release	(852)	(198)	(55)	–	(98)	(2)	26	(1,179)
Financial position								
Goodwill	–	1,078	1,964	1,452	103	–	–	4,597
Investments in associates	14	4	4	3	–	5,415	–	5,440

1 For the September 2015 full year, certain amounts reported as comparative information have changed as a result of organisational restructure. Refer to note 43 for details.

2 In evaluating the performance of the operating segments, certain items are removed from the operating segment result where they are not considered integral to the ongoing performance of the segment and are evaluated separately. These items are set out in part (iii) of this note (refer pages 188 to 189 for further analysis).

(iii) OTHER ITEMS

The table below sets out the profit after tax impact of other items.

Item	Related segment	Profit after tax 2016 $m	Profit after tax 2015 $m
Treasury shares adjustment	Wealth Australia	(44)	16
Revaluation of policy liabilities	Wealth Australia and New Zealand Division	54	73
Economic hedges	Institutional	(102)	179
Revenue hedges	TSO and Group Centre	(92)	3
Structured credit intermediation trades	Institutional	4	6
Total		(180)	277

9: Segment Analysis (continued)

(iv) EXTERNAL SEGMENT REVENUE BY PRODUCTS AND SERVICES

The table below sets out revenue from external customers for groups of similar products and services. No single customer amounts to greater than 10% of the Group's revenue.

	Revenue[1]	
	2016 $m	2015 $m
Retail	9,167	8,323
Commercial	3,987	4,200
Funds management and insurance	1,764	1,815
Institutional	5,175	5,762
Minority investments in Asia	335	615
Other	101	375
	20,529	21,090

(v) GEOGRAPHICAL INFORMATION

The following table sets out revenue and non-current assets based on the geographical locations in which the Group operates.

	Australia		APEA		New Zealand		Total	
Consolidated	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m
Total external revenue[1]	13,266	13,365	3,686	4,013	3,577	3,712	20,529	21,090
Non-current assets[2]	378,774	347,041	48,479	55,257	92,006	79,337	519,259	481,635

1 Includes net interest income.
2 Consists of available-for-sale assets, net loans and advances and investments backing policy liabilities with a maturity of more than one year.

10: Notes to the Cash Flow Statement

a) Reconciliation of net profit after income tax to net cash provided by operating activities

	Consolidated		The Company	
	2016 $m	2015 $m	2016 $m	2015 $m
Operating profit after income tax attributable to shareholders of the Company	5,709	7,493	5,687	7,306
Adjustments to reconcile operating profit after income tax to net cash provided by operating activities				
Provision for credit impairment	1,929	1,179	1,539	969
Depreciation and amortisation	1,475	955	1,177	735
Profit on Esanda Dealer Finance divestment	(66)	–	(66)	–
(Profit)/Loss on disposal of premises and equipment	(4)	6	12	12
Net derivatives/foreign exchange adjustment	(1,434)	14,395	(1,420)	11,976
Equity settled share-based payments expense[1]	147	18	117	(13)
Impairment of investment in AmBank	260	–	–	–
Other non-cash movements	(485)	(499)	(331)	(429)
Net (increase)/decrease in operating assets				
Collateral paid	(3,183)	(3,585)	(3,157)	(2,427)
Trading securities	332	2,870	203	2,161
Loans and advances	(14,797)	(32,280)	(9,503)	(21,759)
Investments backing policy liabilities	(2,062)	(1,787)	–	–
Net intra-group loans and advances	–	–	2,053	(992)
Interest receivable	41	106	22	54
Accrued income	(99)	(44)	(100)	(46)
Net tax assets	(383)	(56)	(701)	(443)
Net (decrease)/increase in operating liabilities				
Deposits and other borrowings	23,128	30,050	14,708	22,210
Settlement balances owed by ANZ	(589)	781	(794)	1,422
Collateral received	(1,027)	1,073	(554)	854
Life insurance contract policy liabilities	1,921	1,507	–	–
Payables and other liabilities	70	(974)	619	(1,491)
Interest payable	(90)	452	(35)	435
Accrued expenses	(83)	(148)	1	(186)
Provisions including employee entitlements	131	(36)	105	32
Total adjustments	5,132	13,983	3,895	13,074
Net cash provided by operating activities	10,841	21,476	9,582	20,380

1 The equity settled share-based payments expense is net of on-market share purchases of $35 million (2015: $198 million) in the Group and the Company used to satisfy the obligation.

b) Reconciliation of cash and cash equivalents

Cash and cash equivalents at the end of the period as shown in the Cash Flow Statement is reflected in the related items in the Balance Sheet as follows:

	Consolidated		The Company	
	2016 $m	2015 $m	2016 $m	2015 $m
Cash	48,675	53,903	46,072	51,217
Settlement balances owed to ANZ	17,545	15,375	15,922	13,619
Total cash and cash equivalents	66,220	69,278	61,994	64,836

c) Acquisitions and disposals

Cash (outflows) from acquisitions and investments (net of cash acquired)				
Investments in controlled entities	–	–	(387)	(1,375)
	–	–	(387)	(1,375)
Cash inflows from disposals (net of cash disposed)				
Disposals of associates	–	4	–	–
	–	4	–	–

d) Non-cash financing activities

Dividends satisfied by share issue	413	1,122	413	1,122
Dividends satisfied by bonus share issue	91	92	91	92
	504	1,214	504	1,214

11: Cash

	Consolidated		The Company	
	2016 $m	2015 $m	2016 $m	2015 $m
Coins, notes and cash at bank	1,457	1,716	1,008	1,045
Money at call, bills receivable and remittances in transit	98	1	–	1
Securities purchased under agreements to resell in less than three months	21,200	12,053	20,950	11,757
Balances with Central Banks	25,920	40,133	24,114	38,414
Total cash	48,675	53,903	46,072	51,217

12: Trading Securities

	Consolidated		The Company	
	2016 $m	2015 $m	2016 $m	2015 $m
Government securities	28,498	24,702	22,557	18,515
Corporate and financial institution securities	11,634	18,389	5,502	12,947
Equity and other securities	7,056	5,909	7,000	5,911
Total trading securities	47,188	49,000	35,059	37,373

13: Derivative Financial Instruments

Derivative financial instruments are contracts whose value is derived from one or more underlying variables or indices defined in the contract, require little or no initial net investment and are settled at a future date. Derivatives include contracts traded on registered exchanges and contracts agreed between counterparties. The use of derivatives and their sale to customers as risk management products is an integral part of the Group's trading and sales activities. Derivatives are also used to manage the Group's own exposure to fluctuations in foreign exchange and interest rates as part of its asset and liability management activities.

Derivative financial instruments are subject to market and credit risk, and these risks are managed in a manner consistent with the risks arising on other financial instruments. Refer to note 1 E (ii) on page 71 for further information.

The Group's objectives and policies on managing risks that arise in connection with derivatives, including the policies for hedging, are outlined in note 20.

TYPES OF DERIVATIVE FINANCIAL INSTRUMENTS

The Group transacts principally in foreign exchange, interest rate, commodity and credit derivative contracts. The principal types of derivative contracts include swaps, forwards, futures and options contracts and agreements.

Derivatives, except for those that are specifically designated as effective hedging instruments, are classified as held for trading. The held for trading classification includes two categories of derivative financial instruments: those held as trading positions and those used in the Group's balance sheet risk management activities.

TRADING POSITIONS

Trading positions arise from both sales to customers and market making activities. Sales to customers include the structuring and marketing of derivative products which enable customers to manage their own risks. Market making activities consist of derivatives entered into principally for the purpose of generating profits from short-term fluctuations in prices or margins. Positions may be traded actively or held over a period of time to benefit from expected changes in market rates.

Trading derivatives are managed within the Group's market risk management policies, which are outlined in note 20.

Gains or losses, including any current period interest, from the change in fair value of trading positions are recognised in the income statement as 'Other income' in the period in which they occur.

BALANCE SHEET RISK MANAGEMENT

The Group designates balance sheet risk management derivatives into hedging relationships in order to minimise income statement volatility. This volatility is created by differences in the timing of recognition of gains and losses between the derivative and the hedged item. Hedge accounting is not applied to all balance sheet risk management positions.

Gains or losses from the change in fair value of balance sheet risk management derivatives that form part of an effective hedging relationship are recognised in the income statement based on the hedging relationship. Any ineffectiveness is recognised in the income statement as 'Other income' in the period in which it occurs.

Gains or losses, excluding any current period interest, from the change in fair value of balance sheet risk management positions that are not designated into hedging relationships are recognised in the income statement as 'Other income' in the period in which they occur. Current period interest is included in interest income and expense.

The tables on the following pages provide an overview of the Group's and the Company's foreign exchange, interest rate, commodity and credit derivatives. They include all trading and balance sheet risk management contracts. Notional principal amounts measure the amount of the underlying physical or financial commodity and represent the volume of outstanding transactions. They are not a measure of the risk associated with a derivative. Further information on netting of derivative financial instruments is included in note 24 Offsetting. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market rates relative to the terms of the derivative. Notional amounts of the contracts are not recorded on the Balance sheet.

13: Derivative Financial Instruments (continued)

		Fair Value									
		Trading		Hedging						Total	
	Notional Principal Amount			Fair value		Cash flow		Net investment			
Consolidated at 30 September 2016	$m	Assets $m	Liabilities $m	Assets $m	Liabilities $m	Assets $m	Liabilities $m	Assets $m	Liabilities $m	Assets $m	Liabilities $m
Foreign exchange contracts											
Spot and forward contracts	1,301,257	10,957	(10,794)	–	–	–	–	3	–	10,960	(10,794)
Swap agreements	667,862	10,678	(14,306)	2	–	–	–	–	(3)	10,680	(14,309)
Options purchased	39,767	887	–	–	–	–	–	–	–	887	–
Options sold	44,204	–	(802)	–	–	–	–	–	–	–	(802)
	2,053,090	22,522	(25,902)	2	–	–	–	3	(3)	22,527	(25,905)
Commodity contracts											
Derivative contracts	49,555	2,294	(1,395)	–	–	–	–	–	–	2,294	(1,395)
Interest rate contracts											
Forward rate agreements	224,725	12	(17)	–	–	–	–	–	–	12	(17)
Swap agreements	5,042,302	57,656	(55,475)	2,661	(2,616)	1,038	(920)	–	–	61,355	(59,011)
Futures contracts	180,685	28	(107)	5	(12)	–	–	–	–	33	(119)
Options purchased	62,255	1,098	–	–	–	–	–	–	–	1,098	–
Options sold	59,874	–	(2,076)	–	–	–	–	–	–	–	(2,076)
	5,569,841	58,794	(57,675)	2,666	(2,628)	1,038	(920)	–	–	62,498	(61,223)
Credit default swaps											
Structured credit derivatives purchased	737	40	–	–	–	–	–	–	–	40	–
Other credit derivatives purchased	8,397	117	(125)	–	–	–	–	–	–	117	(125)
Total credit derivatives purchased	9,134	157	(125)	–	–	–	–	–	–	157	(125)
Structured credit derivatives sold	737	–	(50)	–	–	–	–	–	–	–	(50)
Other credit derivatives sold	7,796	20	(27)	–	–	–	–	–	–	20	(27)
Total credit derivatives sold	8,533	20	(77)	–	–	–	–	–	–	20	(77)
	17,667	177	(202)	–	–	–	–	–	–	177	(202)
Total	7,690,153	83,787	(85,174)	2,668	(2,628)	1,038	(920)	3	(3)	87,496	(88,725)

13: Derivative Financial Instruments (continued)

		Fair Value									
		Trading		Hedging						Total	
				Fair value		Cash flow		Net investment			
Consolidated at 30 September 2015	Notional Principal Amount $m	Assets $m	Liabilities $m	Assets $m	Liabilities $m	Assets $m	Liabilities $m	Assets $m	Liabilities $m	Assets $m	Liabilities $m
Foreign exchange contracts											
Spot and forward contracts	1,267,164	15,200	(13,964)	–	–	–	–	8	–	15,208	(13,964)
Swap agreements	652,681	20,965	(20,257)	2	(4)	–	–	–	(9)	20,967	(20,270)
Options purchased	92,330	2,441	–	–	–	–	–	–	–	2,441	–
Options sold	110,956	–	(2,081)	–	–	–	–	–	–	–	(2,081)
	2,123,131	38,606	(36,302)	2	(4)	–	–	8	(9)	38,616	(36,315)
Commodity contracts											
Derivative contracts	43,869	2,750	(2,207)	–	–	–	–	–	–	2,750	(2,207)
Interest rate contracts											
Forward rate agreements	343,457	37	(51)	–	–	–	–	–	–	37	(51)
Swap agreements	3,665,593	39,278	(38,004)	2,329	(1,770)	1,360	(973)	–	–	42,967	(40,747)
Futures contracts	158,579	27	(79)	1	(17)	–	–	–	–	28	(96)
Options purchased	93,055	944	–	–	–	–	–	–	–	944	–
Options sold	72,462	–	(1,573)	–	–	–	–	–	–	–	(1,573)
	4,333,146	40,286	(39,707)	2,330	(1,787)	1,360	(973)	–	–	43,976	(42,467)
Credit default swaps											
Structured credit derivatives purchased	728	52	–	–	–	–	–	–	–	52	–
Other credit derivatives purchased	22,284	205	(194)	–	–	–	–	–	–	205	(194)
Total credit derivatives purchased	23,012	257	(194)	–	–	–	–	–	–	257	(194)
Structured credit derivatives sold	728	–	(67)	–	–	–	–	–	–	–	(67)
Other credit derivatives sold	21,474	26	(20)	–	–	–	–	–	–	26	(20)
Total credit derivatives sold	22,202	26	(87)	–	–	–	–	–	–	26	(87)
	45,214	283	(281)	–	–	–	–	–	–	283	(281)
Total	6,545,360	81,925	(78,497)	2,332	(1,791)	1,360	(973)	8	(9)	85,625	(81,270)

13: Derivative Financial Instruments (continued)

The Company at 30 September 2016	Notional Principal Amount $m	Fair Value – Trading – Assets $m	Fair Value – Trading – Liabilities $m	Fair Value – Hedging – Fair value – Assets $m	Fair Value – Hedging – Fair value – Liabilities $m	Fair Value – Hedging – Cash flow – Assets $m	Fair Value – Hedging – Cash flow – Liabilities $m	Fair Value – Hedging – Net investment – Assets $m	Fair Value – Hedging – Net investment – Liabilities $m	Fair Value – Total – Assets $m	Fair Value – Total – Liabilities $m
Foreign exchange contracts											
Spot and forward contracts	1,227,265	10,410	(9,936)	–	–	–	–	–	–	10,410	(9,936)
Swap agreements	632,507	10,916	(13,251)	2	–	–	–	–	(3)	10,918	(13,254)
Options purchased	37,582	854	–	–	–	–	–	–	–	854	–
Options sold	42,120	–	(748)	–	–	–	–	–	–	–	(748)
	1,939,474	22,180	(23,935)	2	–	–	–	–	(3)	22,182	(23,938)
Commodity contracts											
Derivative contracts	50,590	2,291	(1,393)	–	–	–	–	–	–	2,291	(1,393)
Interest rate contracts											
Forward rate agreements	241,294	13	(14)	–	–	–	–	–	–	13	(14)
Swap agreements	4,619,614	46,665	(45,454)	2,522	(2,464)	897	(625)	–	–	50,084	(48,543)
Futures contracts	105,363	25	(64)	5	(12)	–	–	–	–	30	(76)
Options purchased	63,338	1,095	–	–	–	–	–	–	–	1,095	–
Options sold	61,696	–	(2,077)	–	–	–	–	–	–	–	(2,077)
	5,091,305	47,798	(47,609)	2,527	(2,476)	897	(625)	–	–	51,222	(50,710)
Credit default swaps											
Structured credit derivatives purchased	737	40	–	–	–	–	–	–	–	40	–
Other credit derivatives purchased	8,443	117	(125)	–	–	–	–	–	–	117	(125)
Total credit derivatives purchased	9,180	157	(125)	–	–	–	–	–	–	157	(125)
Structured credit derivatives sold	737	–	(50)	–	–	–	–	–	–	–	(50)
Other credit derivatives sold	7,842	20	(27)	–	–	–	–	–	–	20	(27)
Total credit derivatives sold	8,579	20	(77)	–	–	–	–	–	–	20	(77)
	17,759	177	(202)	–	–	–	–	–	–	177	(202)
Total	7,099,128	72,446	(73,139)	2,529	(2,476)	897	(625)	–	(3)	75,872	(76,243)

13: Derivative Financial Instruments (continued)

The Company at 30 September 2015	Notional Principal Amount $m	Fair Value: Trading Assets $m	Trading Liabilities $m	Hedging: Fair value Assets $m	Fair value Liabilities $m	Cash flow Assets $m	Cash flow Liabilities $m	Net investment Assets $m	Net investment Liabilities $m	Total Assets $m	Total Liabilities $m
Foreign exchange contracts											
Spot and forward contracts	1,267,837	14,206	(13,352)	–	–	–	–	1	–	14,207	(13,352)
Swap agreements	630,805	20,554	(19,225)	2	(4)	–	–	–	(9)	20,556	(19,238)
Options purchased	90,683	2,392	–	–	–	–	–	–	–	2,392	–
Options sold	109,805	–	(2,066)	–	–	–	–	–	–	–	(2,066)
	2,099,130	37,152	(34,643)	2	(4)	–	–	1	(9)	37,155	(34,656)
Commodity contracts											
Derivative contracts	43,697	2,743	(2,205)	–	–	–	–	–	–	2,743	(2,205)
Interest rate contracts											
Forward rate agreements	334,992	45	(50)	–	–	–	–	–	–	45	(50)
Swap agreements	3,263,084	31,361	(30,833)	2,120	(1,526)	1,028	(640)	–	–	34,509	(32,999)
Futures contracts	117,310	16	(63)	1	(17)	–	–	–	–	17	(80)
Options purchased	93,515	942	–	–	–	–	–	–	–	942	–
Options sold	73,187	–	(1,574)	–	–	–	–	–	–	–	(1,574)
	3,882,088	32,364	(32,520)	2,121	(1,543)	1,028	(640)	–	–	35,513	(34,703)
Credit default swaps											
Structured credit derivatives purchased	728	52	–	–	–	–	–	–	–	52	–
Other credit derivatives purchased	22,284	205	(194)	–	–	–	–	–	–	205	(194)
Total credit derivatives purchased	23,012	257	(194)	–	–	–	–	–	–	257	(194)
Structured credit derivatives sold	728	–	(67)	–	–	–	–	–	–	–	(67)
Other credit derivatives sold	21,474	26	(19)	–	–	–	–	–	–	26	(19)
Total credit derivatives sold	22,202	26	(86)	–	–	–	–	–	–	26	(86)
	45,214	283	(280)	–	–	–	–	–	–	283	(280)
Total	6,070,129	72,542	(69,648)	2,123	(1,547)	1,028	(640)	1	(9)	75,694	(71,844)

HEDGE ACCOUNTING

There are three types of hedge accounting relationships: fair value hedges, cash flow hedges and hedges of a net investment in a foreign operation. Each type of hedge has specific requirements when accounting for the fair value changes in the hedge relationship. For details on the accounting treatment of each type of hedge relationship refer to note 1 E (ii).

FAIR VALUE HEDGE ACCOUNTING

The risk being hedged in a fair value hedge is a change in the fair value of an asset or liability or unrecognised firm commitment that may affect the income statement. Changes in fair value might arise through changes in interest rates or foreign exchange rates. The Group's fair value hedges consist principally of interest rate swaps and cross currency swaps that are used to protect against changes in the fair value of fixed-rate financial instruments due to movements in market interest rates and exchange rates.

The application of fair value hedge accounting results in the fair value adjustment on the hedged item attributable to the hedged risk being recognised in the income statement at the same time the hedging instrument impacts the income statement. If hedge relationships no longer meet the criteria for hedge accounting, hedge accounting is discontinued and the fair value adjustment to the hedged item continues to be recognised as part of the carrying amount of the item or group of items and is amortised to the income statement as a part of the effective yield over the period to maturity. Where the hedged item is derecognised from the Group's balance sheet, the fair value adjustment is included in the income statement as 'other income' as a part of the gain or loss on disposal.

	Consolidated 2016 $m	Consolidated 2015 $m	The Company 2016 $m	The Company 2015 $m
Gain/(loss) arising from fair value hedges				
Hedged item	469	158	463	14
Hedging Instrument	(428)	(146)	(424)	(2)

13: Derivative Financial Instruments (continued)

CASH FLOW HEDGE ACCOUNTING

The risk being hedged in a cash flow hedge is the potential variability in future cash flows that may affect the income statement. The variability in future cash flows may result from changes in interest rates or exchange rates affecting recognised financial assets and liabilities and highly probable forecast transactions. The Group's cash flow hedges consist principally of interest rate swaps, forward rate agreements and cross currency swaps that are used to protect against exposures to variability in future cash flows on non-trading assets and liabilities which bear interest at variable rates or which are expected to be refunded or reinvested in the future. The Group primarily applies cash flow hedge accounting to its variable rate loan assets, variable rate liabilities and short-term re-issuances of fixed rate customer and wholesale deposit liabilities. The amounts and timing of future cash flows, representing both principal and interest flows, are projected for each portfolio of financial assets and liabilities on the basis of their forecast repricing profile. This forms the basis for identifying gains and losses on the effective portions of derivatives designated as cash flow hedges.

The effective portion of changes in the fair value of derivatives qualifying and designated as cash flow hedges is recognised initially in other comprehensive income. These are recognised in the income statement in the period during which the hedged forecast transactions take place. The ineffective portion of a designated cash flow hedge relationship is recognised immediately as other income in the income statement. The schedule below shows the movements in the hedging reserve:

	Consolidated		The Company	
	2016 $m	2015 $m	2016 $m	2015 $m
Opening balances	269	169	277	174
Item recorded in net interest income	17	(15)	10	–
Tax effect on items recorded in net interest income	(5)	4	(3)	–
Valuation gain/(loss) taken to other comprehensive income	64	160	(22)	149
Tax effect on net gain/(loss) on cash flow hedges	(16)	(49)	8	(46)
Closing balance	329	269	270	277

The table below shows the breakdown of the hedging reserve attributable to each type of cash flow hedging relationship:

	Consolidated		The Company	
	2016 $m	2015 $m	2016 $m	2015 $m
Variable rate assets	863	799	581	628
Variable rate liabilities	(256)	(255)	(175)	(191)
Re-issuances of short term fixed rate liabilities	(278)	(275)	(136)	(160)
Total hedging reserve	329	269	270	277

All underlying hedged cash flows are expected to be recognised in the income statement in the period in which they occur which is anticipated to take place over the next 0–10 years (2015: 0–10 years).

All gains and losses associated with the ineffective portion of the hedging derivatives are recognised immediately as 'Other income' in the income statement. Ineffectiveness recognised in the income statement in respect of cash flow hedges amounted to a $5 million gain for the Group (2015: nil) and a $5 million gain for the Company (2015: $1 million gain).

HEDGES OF NET INVESTMENTS IN FOREIGN OPERATIONS

In a hedge of a net investment in a foreign operation, the risk being hedged is the exposure to exchange rate differences arising on consolidation of foreign operations with a functional currency other than the Australian Dollar. Hedging is undertaken using foreign exchange derivative contracts or by financing with borrowings in the same currency as the applicable foreign functional currency.

Ineffectiveness arising from hedges of net investments in foreign operations and recognised as 'Other income' in the income statement amounted to nil (2015: nil).

14: Available-for-sale Assets

	Consolidated 2016 $m	Consolidated 2015 $m	The Company 2016 $m	The Company 2015 $m
Government securities	39,466	25,012	34,829	20,419
Corporate and Financial institution securities	19,115	14,506	16,535	13,381
Equity and other securities	4,532	4,149	4,357	3,812
Total available-for-sale assets	63,113	43,667	55,721	37,612

During the year net gains (before tax) recognised in the income statement in respect of available-for-sale assets amounted to $48 million for the Group (2015: $71 million net gain before tax) and $4 million for the Company (2015: $49 million net gain before tax).

AVAILABLE-FOR-SALE ASSETS BY MATURITY AT 30 SEPTEMBER 2016

	Less than 3 months $m	Between 3 and 12 months $m	Between 1 and 5 years $m	Between 5 and 10 years $m	After 10 years $m	No maturity specified $m	Total fair value $m
Government securities	3,760	2,483	9,762	20,189	3,272	–	39,466
Corporate and Financial institution securities	1,457	2,729	14,045	824	60	–	19,115
Equity and other securities	–	–	592	693	2,392	855	4,532
Total available-for-sale assets	5,217	5,212	24,399	21,706	5,724	855	63,113

AVAILABLE-FOR-SALE ASSETS BY MATURITY AT 30 SEPTEMBER 2015[1]

	Less than 3 months $m	Between 3 and 12 months $m	Between 1 and 5 years $m	Between 5 and 10 years $m	After 10 years $m	No maturity specified $m	Total fair value $m
Government securities	4,878	2,712	6,238	10,248	936	–	25,012
Corporate and Financial institution securities	932	1,793	10,281	1,429	71	–	14,506
Equity and other securities	–	38	214	1,023	2,823	51	4,149
Total available-for-sale assets	5,810	4,543	16,733	12,700	3,830	51	43,667

1 Certain amounts in Equity and other securities in 2015 have been restated between maturity buckets 1–5 years, 5–10 years and after 10 years.

15: Net Loans and Advances

	Consolidated 2016 $m	Consolidated 2015 $m	The Company 2016 $m	The Company 2015 $m
Overdrafts	8,153	8,955	6,805	7,472
Credit card outstandings	11,846	11,930	9,340	9,446
Commercial bills	12,592	14,201	12,397	13,982
Term loans – housing	323,144	300,468	256,004	242,949
Term loans – non-housing	219,198	232,693	162,577	174,277
Lease receivables	1,605	1,901	953	1,166
Hire purchase	1,877	1,971	786	1,048
Other	529	251	40	34
Subtotal	578,944	572,370	448,902	450,374
Unearned income	(544)	(739)	(261)	(438)
Capitalised brokerage/mortgage origination fees[1]	1,064	1,253	697	944
Customer liability for acceptances	571	1,371	321	649
Gross loans and advances (including assets classified as held for sale)	580,035	574,255	449,659	451,529
Provision for credit impairment (refer to note 16)	(4,183)	(4,017)	(3,128)	(3,081)
Net loans and advances (including assets classified as held for sale)	575,852	570,238	446,531	448,448
Esanda Dealer Finance assets held for sale	–	(8,065)	–	(8,065)
Net loans and advances	575,852	562,173	446,531	440,383

1 Capitalised brokerage/mortgage origination fees are amortised over the term of the loan.

15: Net Loans and Advances (continued)

LEASE RECEIVABLES

	Consolidated 2016 $m	Consolidated 2015 $m	The Company 2016 $m	The Company 2015 $m
Lease receivables				
a) Finance lease receivables				
Gross finance lease receivables				
Less than 1 year	208	276	107	117
1 to 5 years	622	912	438	590
Later than 5 years	326	196	8	17
Net investment in finance lease receivables	1,156	1,384	553	724
b) Operating lease receivables				
Gross operating lease receivables				
Less than 1 year	80	22	34	19
1 to 5 years	369	495	366	423
Later than 5 years	–	–	–	–
Total operating lease receivables	449	517	400	442
Total lease receivables	1,605	1,901	953	1,166
Less: unearned future finance income on finance leases	(108)	(142)	(26)	(36)
Net lease receivables	1,497	1,759	927	1,130
Present value of net investment in finance lease receivables				
Less than 1 year	189	248	102	112
1 to 5 years	579	830	418	560
Later than 5 years	280	164	7	16
Total net investment in finance lease receivables	1,048	1,242	527	688
Add back: unearned future finance income on finance leases	108	142	26	36
Total finance lease receivables	1,156	1,384	553	724
Hire purchase receivables				
Less than 1 year	592	678	193	310
1 to 5 years	1,267	1,282	575	727
Later than 5 years	18	11	18	11
Total hire purchase	1,877	1,971	786	1,048

16: Provision for Credit Impairment

Credit impairment charge analysis	Consolidated 2016 $m	Consolidated 2015 $m	The Company 2016 $m	The Company 2015 $m
New and increased provisions				
Australia	1,607	1,203	1,606	1,190
New Zealand	227	211	7	13
Asia Pacific, Europe and America	611	343	345	117
	2,445	1,757	1,958	1,320
Write-backs	(311)	(434)	(200)	(245)
	2,134	1,323	1,758	1,075
Recoveries of amounts previously written off	(222)	(239)	(176)	(193)
Individual credit impairment charge	1,912	1,084	1,582	882
Collective credit impairment charge/(release)	17	95	(43)	87
Credit impairment charge	1,929	1,179	1,539	969

MOVEMENT IN PROVISION FOR CREDIT IMPAIRMENT BY FINANCIAL ASSET CLASS

Consolidated	Net loans and advances 2016 $m	Net loans and advances 2015 $m	Credit related commitments 2016 $m	Credit related commitments 2015 $m	Total provision 2016 $m	Total provision 2015 $m
Individual provision						
Balance at start of year	1,038	1,130	23	46	1,061	1,176
New and increased provisions	2,435	1,757	10	–	2,445	1,757
Write-backs	(311)	(434)	–	–	(311)	(434)
Adjustment for exchange rate fluctuations and transfers	(5)	63	(4)	(23)	(9)	40
Discount unwind	(65)	(54)	–	–	(65)	(54)
Bad debts written off	(1,722)	(1,424)	–	–	(1,722)	(1,424)
Esanda Dealer Finance divestment	(92)	–	–	–	(92)	–
Total individual provision	1,278	1,038	29	23	1,307	1,061
Collective provision						
Balance at start of year	2,279	2,144	677	613	2,956	2,757
Adjustment for exchange rate fluctuations and transfers	(5)	67	(14)	37	(19)	104
Esanda Dealer Finance divestment	(78)	–	–	–	(78)	–
Charge/(release) to income statement	49	68	(32)	27	17	95
Total collective provision	2,245	2,279	631	677	2,876	2,956
Total provision for credit impairment	3,523	3,317	660	700	4,183	4,017

	Consolidated 2016 %	Consolidated 2015 %
Ratios (as a percentage of total gross loans and advances)		
Individual provision	0.23	0.18
Collective provision	0.50	0.52
Bad debts written off	0.30	0.25

The table below contains a detailed analysis of the movements in individual provisions for net loans and advances.

Consolidated	Australia[2] 2016 $m	Australia[2] 2015 $m	Institutional Banking[2] 2016 $m	Institutional Banking[2] 2015 $m	New Zealand[2] 2016 $m	New Zealand[2] 2015 $m	Retail Asia & Pacific[2] 2016 $m	Retail Asia & Pacific[2] 2015 $m	Other[1] 2016 $m	Other[1] 2015 $m	Total 2016 $m	Total 2015 $m
Individual provision												
Balance at start of year	590	631	278	237	138	187	32	75	–	–	1,038	1,130
New and increased provisions	1,223	1,103	807	289	202	190	203	175	–	–	2,435	1,757
Write-backs	(179)	(194)	(50)	(73)	(76)	(110)	(6)	(56)	–	(1)	(311)	(434)
Adjustment for exchange rate fluctuations and transfers	7	–	(17)	51	5	6	–	4	–	2	(5)	63
Discount unwind	(23)	(32)	(32)	(17)	(10)	(4)	–	–	–	(1)	(65)	(54)
Bad debts written off	(920)	(918)	(447)	(209)	(144)	(131)	(211)	(166)	–	–	(1,722)	(1,424)
Esanda Dealer Finance divestment	(92)	–	–	–	–	–	–	–	–	–	(92)	–
Total individual provision	606	590	539	278	115	138	18	32	–	–	1,278	1,038

1 Other contains Wealth Australia and TSO and Group Centre.
2 Comparative amounts have changed due to organisational changes. Refer to note 43 for details.

16: Provision for Credit Impairment (continued)

The Company	Net loans and advances 2016 $m	Net loans and advances 2015 $m	Credit related commitments 2016 $m	Credit related commitments 2015 $m	Total provision 2016 $m	Total provision 2015 $m
Individual provision						
Balance at start of year	740	814	19	40	759	854
New and increased provisions	1,958	1,319	–	–	1,958	1,319
Adjustment for exchange rate fluctuations and transfers	(6)	45	(4)	(21)	(10)	24
Write-backs	(200)	(245)	–	–	(200)	(245)
Discount unwind	(42)	(45)	–	–	(42)	(45)
Bad debts written off	(1,416)	(1,148)	–	–	(1,416)	(1,148)
Esanda Dealer Finance divestment	(92)	–	–	–	(92)	–
Total individual provision	942	740	15	19	957	759
Collective provision						
Balance at start of year	1,765	1,669	557	488	2,322	2,157
Adjustment for exchange rate fluctuations and transfers	(14)	43	(16)	35	(30)	78
Esanda Dealer Finance divestment	(78)	–	–	–	(78)	–
Charge/(credit) to income statement	5	53	(48)	34	(43)	87
Total collective provision	1,678	1,765	493	557	2,171	2,322
Total provision for credit impairment	2,620	2,505	508	576	3,128	3,081

	The Company 2016 %	The Company 2015 %
Ratios (as a percentage of total gross loans and advances)		
Individual provision	0.21	0.17
Collective provision	0.48	0.52
Bad debts written off	0.31	0.25

IMPAIRED ASSETS

The table below is a summary of impaired financial assets that are measured on the balance sheet at amortised cost. The table also includes financial assets carried on the balance sheet at fair value, such as derivatives.

Detailed information on impaired financial assets is provided in note 20 Financial Risk Management.

	Consolidated 2016 $m	Consolidated 2015 $m	The Company 2016 $m	The Company 2015 $m
Summary of impaired financial assets				
Impaired loans	2,646	2,441	1,851	1,574
Restructured items[1]	403	184	247	94
Non-performing commitments and contingencies[2]	124	94	63	80
Gross impaired financial assets	3,173	2,719	2,161	1,748
Individual provisions				
Impaired loans	(1,278)	(1,038)	(942)	(740)
Non-performing commitments and contingencies	(29)	(23)	(15)	(19)
Net impaired financial assets	1,866	1,658	1,204	989
Accruing loans past due 90 days or more[3]				
These amounts are not classified as impaired assets as they are either 90 days or more past due and well secured, or are portfolio managed facilities that can be held on a productive basis for up to 180 days past due	2,703	2,378	2,512	2,127

1 Restructured items are facilities in which the original contractual terms have been modified for reasons related to the financial difficulties of the customer. Restructuring may consist of reduction of interest, principal or other payments legally due, or an extension in maturity materially beyond those typically offered to new facilities with similar risk.
2 Includes impaired derivative financial instruments.
3 Includes unsecured credit card and personal loans 90 days past due accounts which are retained on a performing basis for up to 180 days past due amounting to $204 million (2015: $180 million) for the Group and $152 million (2015: $126 million) for the Company.

17: Deposits and Other Borrowings

	Consolidated 2016 $m	Consolidated 2015 $m	The Company 2016 $m	The Company 2015 $m
Certificates of deposit	61,429	63,446	59,626	62,980
Term Deposits	192,147	194,676	147,754	154,485
On demand and short term deposits	235,101	229,330	190,621	187,327
Deposits not bearing interest	20,892	19,013	11,095	9,970
Deposits from banks	57,278	38,985	56,480	38,448
Commercial Paper	19,349	22,988	14,236	18,477
Securities sold under repurchase agreements	481	778	151	344
Borrowing corporation debt[1]	1,518	1,578	–	–
Deposits and other borrowings	588,195	570,794	479,963	472,031

1 Secured investments of the consolidated subsidiary UDC Finance Limited (UDC) of NZD 1.6 billion (September 2015: NZD 1.7 billion) and the accrued interest thereon which are secured by a security interest over all the assets of UDC NZD $2.7 billion (September 2015: NZD 2.6 billion).

18: Debt Issuances

ANZ utilises a variety of established and flexible funding programmes to issue medium term notes featuring either senior or subordinated debt status (details of subordinated debt are presented in note 19: Subordinated Debt). All risks associated with originating term funding are closely managed. Refer to description of ANZ risk management practices in note 20: Financial Risk Management in relation to market risks such as interest rate and foreign currency risks, as well as liquidity risk.

The table below presents debt issuances by currency of issue which is broadly representative of the investor base location.

		Consolidated 2016 $m	Consolidated 2015 $m	The Company 2016 $m	The Company 2015 $m
Debt issuances by currency					
USD	United States dollars	38,666	42,367	32,015	36,009
GBP	Pounds Sterling	1,744	6,317	1,744	5,744
AUD	Australian dollars	11,988	7,694	11,958	7,289
NZD	New Zealand dollars	5,703	4,947	1,773	1,639
JPY	Japanese yen	3,547	4,499	3,521	4,412
EUR	Euro	23,917	22,048	16,775	16,356
HKD	Hong Kong dollars	1,188	858	1,188	858
CHF	Swiss francs	2,074	3,063	749	1,450
CAD	Canadian dollars	152	430	152	430
NOK	Norwegian krone	447	465	447	465
SGD	Singapore dollars	188	202	87	70
TRY	Turkish lira	258	265	258	265
ZAR	South African rand	133	151	133	151
MXN	Mexico peso	147	255	147	255
CNH	Chinese yuan	928	186	928	186
Total Debt issuances		91,080	93,747	71,875	75,579

19: Subordinated Debt

Subordinated debt comprises perpetual and dated securities as follows (net of issue costs):

			Consolidated 2016 $m	Consolidated 2015 $m	The Company 2016 $m	The Company 2015 $m
Additional Tier 1 capital (perpetual subordinated securities)						
ANZ Convertible Preference Shares (ANZ CPS)[1]						
AUD	1,068m	ANZ CPS2[2]	1,068	1,969	1,068	1,969
AUD	1,340m	ANZ CPS3	1,340	1,336	1,340	1,336
ANZ Capital Notes (ANZ CN)						
AUD	1,120m	ANZ CN1	1,115	1,112	1,115	1,112
AUD	1,610m	ANZ CN2	1,602	1,598	1,602	1,598
AUD	970m	ANZ CN3	962	959	962	959
AUD	1,622m	ANZ CN4	1,604	–	1,604	–
ANZ Capital Securities						
USD	1,000m	ANZ Capital Securities	1,329	–	1,329	–
ANZ NZ Capital Notes (ANZ NZ CN)						
NZD	500m	ANZ NZ Capital Notes	473	449	–	–
			9,493	7,423	9,020	6,974
Tier 2 capital (subordinated notes)						
Perpetual subordinated notes						
USD	300m	floating rate notes[3]	394	429	394	429
NZD	835m	fixed rate notes[4]	796	759	–	–
			1,190	1,188	394	429
Dated subordinated notes						
EUR	750m	fixed rate notes due 2019	1,224	1,355	1,225	1,355
AUD	500m	floating rate notes due 2022[5]	499	499	500	500
AUD	1,509m	floating rate notes due 2022[5]	1,507	1,504	1,507	1,506
USD	750m	fixed rate notes due 2022[5]	978	1,068	981	1,071
AUD	750m	floating rate notes due 2023[5]	749	748	750	750
AUD	750m	floating rate notes due 2024[5,6]	750	750	750	750
USD	800m	fixed rate notes due 2024[6]	1,158	1,222	1,164	1,226
CNY	2,500m	fixed rate notes due 2025[5,6]	491	562	491	562
SGD	500m	fixed rate notes due 2027[5,6]	493	491	493	491
AUD	200m	fixed rate notes due 2027[5,6]	199	199	199	198
JPY	20,000m	fixed rate notes due 2026[6]	264	–	264	–
AUD	700m	floating rate notes due 2026[5,6]	700	–	700	–
USD	1,500m	fixed rate notes due 2026[6]	2,011	–	2,011	–
JPY	10,000m	fixed rate notes due 2026[5,6]	129	–	129	–
JPY	10,000m	fixed rate notes due 2028[5,6]	129	–	129	–
			11,281	8,398	11,293	8,409
Total subordinated debt			21,964	17,009	20,707	15,812

		Consolidated 2016 $m	Consolidated 2015 $m	The Company 2016 $m	The Company 2015 $m
Subordinated debt by currency					
AUD	Australian dollars	12,095	10,674	12,097	10,678
NZD	New Zealand dollars	1,269	1,208	–	–
USD	United States dollars	5,870	2,719	5,879	2,726
CNY	Chinese renminbi	491	562	491	562
SGD	Singapore dollars	493	491	493	491
EUR	Euro	1,224	1,355	1,225	1,355
JPY	Japanese yen	522	–	522	–
		21,964	17,009	20,707	15,812

1 Fully franked preference share dividend cash payments on ANZ CPS2 and ANZ CPS3 made during the years ended 30 September 2016 and 30 September 2015 (which are treated as interest expense):

	Consolidated 2016 $m	Consolidated 2015 $m	The Company 2016 $m	The Company 2015 $m
ANZ CPS2	75	77	75	77
ANZ CPS3	51	52	51	52

2 $900 million of ANZ CPS2 was bought back and cancelled on 27 September 2016 and reinvested into ANZ CN4.
3 Callable on each semi-annual interest payment date (subject to prior APRA approval).
4 Rate reset on 18 April 2013 to the five year swap rate +2.00% until the call date on 18 April 2018, whereupon if not called, reverts to a floating rate at the three month FRA rate +3.00% and is callable on any interest payment date thereafter (subject to prior RBNZ and APRA approval).
5 Callable five years prior to maturity (subject to prior APRA approval).
6 The convertible subordinated notes convert into ANZ ordinary shares if a Non-viability Trigger Event occurs.

19: Subordinated Debt (continued)

Subordinated debt is subordinated in right of payment to the claims of depositors and other creditors of the Company or its controlled entities which have issued the notes or preference shares.

As defined by APRA for capital adequacy purposes, ANZ CPS, ANZ Capital Notes, ANZ Capital Securities and ANZ NZ Capital Notes constitute Additional Tier 1 ('AT1') capital and all other subordinated notes constitute Tier 2 capital.

ADDITIONAL TIER 1 CAPITAL (PERPETUAL SUBORDINATED SECURITIES)

The ANZ Capital Notes, ANZ Capital Securities and ANZ NZ Capital Notes are Basel 3 compliant instruments. APRA has granted ANZ transitional Basel 3 capital treatment for each of the ANZ CPS until their first conversion date. Each of the ANZ CPS, the ANZ Capital Notes and the ANZ Capital Securities issued by the Company rank equally with each other.

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

Where specified, if a Common Equity Capital Trigger Event or a Non-viability Trigger Event occurs, the AT1 capital securities will immediately convert into a variable number of ANZ ordinary shares based on the average market price of ANZ ordinary shares less a 1% discount, subject to a maximum conversion number. A Common Equity Capital Trigger Event occurs if ANZ's Common Equity Tier 1 capital ratio is equal to or less than 5.125%. A Non-viability Trigger Event occurs if 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.

The AT1 capital securities (other than the ANZ Capital Securities) are mandatorily convertible into a variable number of ANZ ordinary shares based on the average market price of the shares less a 1% discount on a specified date, or on an earlier date under certain circumstances. The mandatory conversion is deferred for a specified period if conversion tests are not met.

ANZ CONVERTIBLE PREFERENCE SHARES (ANZ CPS)

ANZ CPS are fully paid, mandatorily convertible preference shares and are listed on the Australian Securities Exchange. A summary of the key terms of the ANZ CPS are as follows:

	CPS2	CPS3
Issue Date	17 December 2009	28 September 2011
Issue Amount	$1,068 million[1]	$1,340 million
Face Value	$100	$100
Dividend Frequency	Quarterly in arrears in March, June, September and December	Semi-annually in arrears in March and September
Dividend Rate	Floating rate: (90 day Bank Bill Rate + 3.1%) x (1 – Australian corporate tax rate)	Floating rate: (180 day Bank Bill Rate + 3.1%) x (1 – Australian corporate tax rate)
Issuer's early redemption or conversion option[2]	No	1 September 2017 and each subsequent semi-annual dividend payment date
Mandatory conversion date	15 December 2016[3]	1 September 2019
Common Equity Capital Trigger Event	No	Yes
Non-viability Trigger Event	No	No

1 $900 million of ANZ CPS2 was bought back and cancelled on 27 September 2016 and reinvested into ANZ CN4.
2 Subject to receiving APRA's prior approval and satisfying certain other conditions, ANZ also has a right in other limited circumstances (such as certain tax or regulatory events).
3 Subject to receipt of various approvals, ANZ expects to issue a CPS2 resale notice so that a nominated purchaser purchases all of the CPS2 held by a CPS2 holder for their face value on 15 December 2016.

19: Subordinated Debt (continued)

ANZ CAPITAL NOTES (ANZ CN)

ANZ CN are fully paid mandatorily convertible subordinated perpetual notes and are listed on the Australian Securities Exchange. A summary of the key terms of the ANZ CN are as follows:

	CN1	CN2	CN3[1]	CN4
Issue Date	7 August 2013	31 March 2014	5 March 2015	27 September 2016
Issue Amount	$1,120 million	$1,610 million	$970 million	$1,622 million
Face Value	$100	$100	$100	$100
Distribution Frequency	Semi-annually in arrears in March and September	Semi-annually in arrears in March and September	Semi-annually in arrears in March and September	Quarterly in arrears in March, June, September and December
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)	Floating rate: (90 day Bank Bill Rate + 4.7%) x (1 – Australian corporate tax rate)
Issuer's early redemption or conversion option[2]	1 September 2021	24 March 2022	24 March 2023	20 March 2024
Mandatory conversion date	1 September 2023	24 March 2024	24 March 2025	20 March 2026
Common Equity Capital Trigger Event	Yes	Yes	Yes	Yes
Non-viability Trigger Event	Yes	Yes	Yes	Yes

1 Issued by the New Zealand branch of the Company.
2 Subject to receiving APRA's prior approval and satisfying other certain conditions. ANZ also has a right in other limited circumstances (such as certain tax or regulatory events).

ANZ CAPITAL SECURITIES

On 15 June 2016, the Company acting through its London branch issued fully-paid perpetual subordinated contingent convertible securities ('ANZ Capital Securities') with a minimum denomination of USD200,000 and an integral multiple of USD1,000 above that, raising USD1,000 million. The ANZ Capital Securities are listed on the Australian Securities Exchange.

Interest on the securities is payable semi annually in arrears in June and December in each year. The initial fixed interest rate until 15 June 2026 ('First Reset Date') is 6.75% per annum. On the First Reset Date and each 5 year anniversary, the fixed interest rate is reset to the aggregate of the 5 year USD mid-market swap rate and 5.168%.

If a Common Equity Capital Trigger Event or a Non-viability Trigger Event occurs, the securities will immediately convert into a variable number of ANZ ordinary shares, subject to a maximum conversion number.

On the First Reset Date and each 5 year anniversary, subject to receiving APRA's prior approval and satisfying certain conditions, the Company has the right to redeem all of the securities at its discretion.

ANZ NZ CAPITAL NOTES

On 31 March 2015, ANZ Bank New Zealand Limited ('ANZ NZ') issued 500 million convertible notes ('ANZ NZ CN') at NZ$1 each, raising NZ$500 million.

ANZ NZ CN are fully paid, mandatorily convertible subordinated perpetual notes and are listed on the New Zealand Stock Exchange.

Interest on the notes is payable quarterly in arrears in February, May, August and November in each year. The interest rate is fixed at 7.2% per annum until 25 May 2020, and subsequently will be based on a floating rate equal to the aggregate of the New Zealand 3 month bank bill rate plus a 350 basis point margin. Interest payments are subject to ANZ NZ's absolute discretion and certain payment conditions being satisfied (including APRA and Reserve Bank of New Zealand ('RBNZ') requirements).

On 25 May 2022, or an earlier date under certain circumstances, the notes will mandatorily convert into a variable number of ANZ ordinary shares based on the average market price of ANZ ordinary shares less a 1% discount. The mandatory conversion is however deferred for a specified period if conversion tests are not met.

If a Common Equity Capital Trigger Event, a Non-viability Trigger Event or an RBNZ Non-viability Trigger Event occurs the notes will immediately convert into ANZ ordinary shares, subject to a maximum conversion number. A Common Equity Capital Trigger Event in this case occurs if ANZ's or ANZ NZ's Common Equity Tier 1 capital ratio is equal to or less than 5.125%. An RBNZ Non-viability Trigger Event occurs if 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.

On 25 May 2020, ANZ NZ has the right to, subject to satisfying certain conditions, redeem (subject to receiving APRA's and RBNZ's prior approval), or convert into ANZ ordinary shares, all or some of the notes at its discretion.

TIER 2 SECURITIES (SUBORDINATED NOTES)

The convertible dated subordinated notes are Basel 3 compliant instruments. If a Non-viability Trigger Event occurs, the convertible dated subordinated notes will immediately convert into ANZ ordinary shares based on the average market price of ANZ ordinary shares less a 1% discount, subject to a maximum conversion number.

APRA has granted transitional Basel 3 capital treatment for:

- all other term subordinated notes until their first call date;
- the USD300 million perpetual subordinated notes until the end of the transitional period (December 2021); and
- the NZD835 million perpetual subordinated notes until the April 2018 call date.

20: Financial Risk Management

STRATEGY IN USING FINANCIAL INSTRUMENTS

Financial instruments are fundamental to the Group's business, constituting the core element of its operations. Accordingly, the risks associated with financial instruments are a significant component of the risks faced by the Group. Financial instruments create, modify or reduce the credit, market (including traded and non-traded interest rate and foreign currency related risks) and liquidity risks of the Group's balance sheet. These risks, and the Group's objectives, policies and processes for managing and measuring such risks are outlined below.

Credit Risk

Credit risk is the risk of financial loss resulting from the failure of ANZ's customers and counterparties to honour or perform fully the terms of a loan or contract. The Group assumes credit risk in a wide range of lending and other activities in diverse markets and in many jurisdictions. Credit risks arise not only from traditional lending to customers, but also from inter-bank, treasury, international trade and capital market activities around the world.

The Group has an overall objective of sound growth for appropriate returns. The credit risk principles of the Group have been set by the Board and are implemented and monitored within a tiered structure of delegated authority designed to oversee multiple facets of credit risk, including business writing strategies, credit policies and controls, portfolio monitoring and risk concentrations.

Credit Risk Management Overview

The credit risk management framework ensures a consistent approach is applied across the Group in measuring, monitoring and managing the credit risk appetite set by the Board.

The Board is assisted and advised by the Board Risk Committee in discharging its duty to oversee credit risk. The Board Risk Committee sets the credit risk appetite and credit strategies, as well as approving credit transactions beyond the discretion of executive management.

Responsibility for the oversight and control of the credit risk framework (including the risk appetite) resides with the Credit and Market Risk Committee (CMRC), which is an executive management committee comprising senior risk, business and Group executives, chaired by the Chief Risk Officer (CRO).

Central to the Group's management of credit risk is the existence of an independent credit risk management function that is staffed by risk specialists. Independence is achieved by having all credit risk staff ultimately report to the CRO, including where they are embedded in business units. The primary responsibility for prudent and profitable management of credit risk and customer relationships rests with the business units.

The authority to make credit decisions is delegated by the Board to the CEO who in turn delegates authority to the CRO. The CRO in turn delegates some of his credit discretion to individuals as part of a 'cascade' of authority from senior to the most junior credit officers. Individuals must be suitably skilled and accredited in order to be granted and retain a credit discretion. Credit discretions are reviewed on an annual basis, and may be varied based on the holder's performance.

The Group has two main approaches to assessing credit risk arising from transactions:

- the larger and more complex credit transactions are assessed on a judgemental credit basis. Rating models provide a consistent and structured assessment, with judgement required around the use of out-of-model factors. Credit approval for judgemental lending is typically on a dual approval basis, jointly by the business writer in the business unit and an independent credit officer; and
- programmed credit assessment typically covers retail and some small business lending, and refers to the automated assessment of credit applications using a combination of scoring (application and behavioural), policy rules and external credit reporting information. Where an application does not meet the automated assessment criteria it will be referred out for manual assessment, with assessors considering the decision tool recommendation.

Central and divisional credit risk teams perform key roles in portfolio management such as the development and validation of credit risk measurement systems, loan asset quality reporting, stress testing, and the development of credit policies and requirements. Credit policies and requirements cover all aspects of the credit life cycle such as transaction structuring, risk grading, initial approval, ongoing management and problem debt management, as well as specialist policy topics.

The Group's credit grading system is fundamental to the management of credit risk, seeking to measure the probability of default (PD), the exposure at default (EAD) and the loss in the event of default (LGD) for all transactions.

From an operational perspective, the Group's credit grading system has two separate and distinct dimensions that:

- measure the PD, which is expressed by a 27-grade Customer Credit Rating (CCR), reflecting the ability to service and repay debt. Within the programmed credit assessment sphere, the CCR is typically expressed as a score which maps back to the PD; and
- measure the LGD, which is expressed by a Security Indicator (SI) ranging from A to G. The SI is calculated by reference to the percentage of the loan covered by security which can be realised in the event of default. The security-related SIs are supplemented with a range of other SIs to cover situations where ANZ's LGD research indicates certain transaction characteristics have different recovery outcomes. Within the programmed credit assessment sphere, exposures are grouped into large homogenous pools – and the LGD is assigned at the pool level.

The development and regular validation of rating models is undertaken by specialist central risk teams. The outputs from these models drive many day-to-day credit decisions, such as origination, pricing, approval levels, regulatory capital adequacy, economic capital allocation and provisioning. The risk grading process includes monitoring of model-generated results to ensure appropriate judgement is exercised (such as overrides to take into account any out-of-model factors).

20: Financial Risk Management (continued)

Collateral management

Collateral is used to mitigate credit risk, as the secondary source of repayment in case the counterparty cannot meet its contractual repayment obligations.

ANZ credit principles specify to only lend when the counterparty has the capacity and ability to repay, and the Group sets limits on the acceptable level of credit risk. Acceptance of credit risk is firstly based on the counterparty's assessed capacity to meet contractual obligations (such as the scheduled repayment of principal and interest).

In certain cases, such as where the customer risk profile is considered very sound or by the nature of the product (for instance, small limit products such as credit cards), a transaction may not be supported by collateral. For some products, the collateral provided is fundamental to its structuring so is not strictly the secondary source of repayment. For example, lending secured by trade receivables is typically repaid by the collection of those receivables.

The most common types of collateral typically taken by ANZ include:

- collateral received in respect of derivative trading;
- charges over cash deposits;
- security over real estate including residential, commercial, industrial or rural property; and
- other security includes charges over business assets, security over specific plant and equipment, charges over listed shares, bonds or securities and guarantees and pledges.

Credit policy requirements set out the acceptable types of collateral, as well as a process by which additional instruments and/or asset types can be considered for approval. ANZ's credit risk modelling approach uses historical internal loss data and other relevant external data to assist in determining the discount that each type of collateral would be expected to incur in a forced sale. This discounted value is used in the determination of the SI for LGD purposes.

In the event of customer default, any loan security is usually held as mortgagee in possession while the Group is actively seeking to realise it. Therefore the Group does not usually hold any real estate or other assets acquired through the enforcement of security.

The Group generally uses Master Agreements with its counterparties for derivatives activities. Generally, International Swaps and Derivatives Association (ISDA) Master Agreements will be used. Under the ISDA Master Agreement, if a default of a counterparty occurs, all contracts with the counterparty are terminated. They are then settled on a net basis at market levels current at the time of default.

In addition to the terms noted above, ANZ's preferred practice is to use a Credit Support Annex (CSA) to the ISDA Master Agreement. Under a CSA, 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 that is out of the money. Upon termination of the trade, payment is required only for the final daily mark-to-market movement rather than the mark-to-market movement since inception.

Concentrations of credit risk

Concentrations of credit risk arise when a number of customers are engaged in similar business activities or activities within the same geographic region, or when they have similar risk characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

The Group monitors its portfolios, to identify and assess risk concentrations. The Group's strategy is to maintain well-diversified credit portfolios focused on achieving an acceptable risk-return balance. Credit risk portfolios are actively monitored and frequently reviewed to identify, assess and guard against unacceptable risk concentrations. Concentration analysis will typically include geography, industry, credit product and risk grade. The Group also applies single customer counterparty limits to protect against unacceptably large exposures to single name risk. These limits are established based on a combination of factors including the nature of the counterparty, probability of default and collateral provided.

20: Financial Risk Management (continued)

Concentrations of credit risk analysis

Composition of financial instruments that give rise to credit risk by industry:

Consolidated	Cash, settlement balances owed to ANZ and collateral paid 2016 $m	Cash, settlement balances owed to ANZ and collateral paid 2015 $m	Trading securities and AFS[1] 2016 $m	Trading securities and AFS[1] 2015 $m	Derivatives 2016 $m	Derivatives 2015 $m	Loans and advances[2] 2016 $m	Loans and advances[2] 2015 $m	Other financial assets[3] 2016 $m	Other financial assets[3] 2015 $m	Credit related commitments[4] 2016 $m	Credit related commitments[4] 2015 $m	Total 2016 $m	Total 2015 $m
Australia														
Agriculture, forestry, fishing and mining	–	–	13	60	492	691	14,670	15,192	85	119	8,584	9,713	23,844	25,775
Business services	13	4	–	–	84	108	5,994	6,254	35	49	3,348	3,365	9,474	9,780
Construction	–	–	–	23	28	20	5,485	5,516	32	43	3,473	4,568	9,018	10,170
Electricity, gas and water supply	–	–	91	99	1,052	837	3,537	3,462	20	27	2,449	2,388	7,149	6,813
Entertainment, leisure and tourism	–	–	16	37	466	323	9,830	8,908	57	70	2,532	2,494	12,901	11,832
Financial, investment and insurance	32,567	21,885	16,608	18,722	50,011	49,733	23,990	22,061	138	174	10,171	6,757	133,485	119,332
Government and official institutions	907	130	50,339	32,305	582	685	781	707	5	6	681	2,081	53,295	35,914
Manufacturing	12	4	159	1,382	2,126	2,535	7,127	6,844	41	54	7,395	7,815	16,860	18,634
Personal lending	–	–	–	–	–	–	263,544	252,242	1,524	1,983	47,796	48,282	312,864	302,507
Property services	–	–	18	79	821	677	27,653	27,034	160	212	11,023	10,199	39,675	38,201
Retail trade	4	2	–	50	169	221	9,974	11,273	58	89	4,102	3,639	14,307	15,274
Transport and storage	104	2	76	181	984	951	7,307	7,052	42	55	3,673	4,145	12,186	12,386
Wholesale trade	183	354	2	12	1,701	1,520	5,981	6,287	35	49	5,882	8,212	13,784	16,434
Other	1	30	198	251	384	453	10,611	10,397	61	82	5,536	5,878	16,791	17,091
	33,791	22,411	67,520	53,201	58,900	58,754	396,484	383,229	2,293	3,012	116,645	119,536	675,633	640,143
New Zealand														
Agriculture, forestry, fishing and mining	–	–	–	–	66	61	18,391	17,554	100	108	1,645	1,749	20,202	19,472
Business services	–	–	–	–	12	5	871	996	5	6	338	380	1,226	1,387
Construction	–	–	–	–	16	11	1,423	1,222	8	7	799	713	2,246	1,953
Electricity, gas and water supply	–	–	20	37	613	430	1,119	1,122	6	7	1,121	1,079	2,879	2,675
Entertainment, leisure and tourism	–	–	–	–	30	43	1,286	972	7	6	344	243	1,667	1,264
Financial, investment and insurance	2,250	2,217	7,369	6,322	13,556	10,118	906	1,132	5	9	765	874	24,851	20,672
Government and official institutions	1,766	1,679	6,704	5,884	1,025	1,216	1,188	1,052	6	6	652	664	11,341	10,501
Manufacturing	–	–	11	28	176	379	3,304	3,155	18	19	1,702	1,597	5,211	5,178
Personal lending	–	–	–	–	–	–	71,434	63,067	387	387	13,479	12,534	85,300	75,988
Property services	–	–	–	1	63	16	9,898	8,836	54	54	1,931	1,399	11,946	10,306
Retail trade	–	–	–	–	61	16	1,876	1,827	10	11	818	827	2,765	2,681
Transport and storage	–	–	5	5	87	55	1,536	1,489	8	9	831	688	2,467	2,246
Wholesale trade	–	–	–	–	22	15	1,542	1,334	8	8	1,457	1,132	3,029	2,489
Other	–	–	40	52	134	40	733	670	4	4	923	1,042	1,834	1,808
	4,016	3,896	14,149	12,329	15,861	12,405	115,507	104,428	626	641	26,805	24,921	176,964	158,620

1 Available-for-sale Assets.
2 Excludes individual and collective provisions for credit impairment held in respect of credit related commitments.
3 Mainly comprises trade dated assets, regulatory deposits and accrued interest.
4 Credit related commitments comprise undrawn facilities and customer contingent liabilities.

20: Financial Risk Management (continued)

Concentrations of credit risk analysis (continued):

Composition of financial instruments that give rise to credit risk by industry (continued):

Consolidated	Cash, settlement balances owed to ANZ and collateral paid		Trading securities and AFS[1]		Derivatives		Loans and advances[2]		Other financial assets[3]		Credit related commitments[4]		Total	
	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m
Overseas Markets														
Agriculture, forestry, fishing and mining	2	3	62	43	68	94	3,942	5,659	170	166	6,861	9,326	11,105	15,291
Business services	2	5	22	–	26	15	981	1,331	42	39	3,734	4,988	4,807	6,378
Construction	10	2	7	1	5	27	357	716	15	21	2,396	3,637	2,790	4,404
Electricity, gas and water supply	28	35	60	60	53	56	1,732	3,520	75	103	2,330	2,600	4,278	6,374
Entertainment, leisure and tourism	–	–	2	–	–	16	856	1,382	37	40	753	853	1,648	2,291
Financial, investment and insurance	43,753	54,079	18,467	17,666	11,773	12,661	14,198	13,534	614	397	11,271	13,703	100,076	112,040
Government and official institutions	125	1	8,311	8,083	25	281	255	475	11	14	1,751	928	10,478	9,782
Manufacturing	40	230	103	107	280	611	12,482	18,831	540	553	36,500	43,000	49,945	63,332
Personal lending	1	2	–	–	–	–	11,944	12,867	516	377	8,881	8,782	21,342	22,028
Property services	1	1	34	8	86	112	3,936	5,303	170	155	1,657	2,495	5,884	8,074
Retail trade	–	1	86	26	8	21	1,481	2,344	64	69	1,828	3,597	3,467	6,058
Transport and storage	1	–	128	87	85	81	4,305	4,679	186	137	2,438	2,575	7,143	7,559
Wholesale trade	36	64	117	60	292	437	7,276	12,084	315	354	18,291	27,006	26,327	40,005
Other	86	20	378	945	34	54	3,779	3,359	163	98	3,048	3,182	7,488	7,658
	44,085	54,443	27,777	27,086	12,735	14,466	67,524	86,084	2,918	2,523	101,739	126,672	256,778	311,274
Consolidated – aggregate														
Agriculture, forestry, fishing and mining	2	3	75	103	626	846	37,003	38,405	355	393	17,090	20,788	55,151	60,538
Business services	15	9	22	–	122	128	7,846	8,581	82	94	7,420	8,733	15,507	17,545
Construction	10	2	7	24	49	58	7,265	7,454	55	71	6,668	8,918	14,054	16,527
Electricity, gas and water supply	28	35	171	196	1,718	1,323	6,388	8,104	101	137	5,900	6,067	14,306	15,862
Entertainment, leisure and tourism	–	–	18	37	496	382	11,972	11,262	101	116	3,629	3,590	16,216	15,387
Financial, investment and insurance	78,570	78,181	42,444	42,710	75,340	72,512	39,094	36,727	757	580	22,207	21,334	258,412	252,044
Government and official institutions	2,798	1,810	65,354	46,272	1,632	2,182	2,224	2,234	22	26	3,084	3,673	75,114	56,197
Manufacturing	52	234	273	1,517	2,582	3,525	22,913	28,830	599	626	45,597	52,412	72,016	87,144
Personal lending	1	2	–	–	–	–	346,922	328,176	2,427	2,747	70,156	69,598	419,506	400,523
Property services	1	1	52	88	970	805	41,487	41,173	384	421	14,611	14,093	57,505	56,581
Retail trade	4	3	86	76	238	258	13,331	15,444	132	169	6,748	8,063	20,539	24,013
Transport and storage	105	2	209	273	1,156	1,087	13,148	13,220	236	201	6,942	7,408	21,796	22,191
Wholesale trade	219	418	119	72	2,015	1,972	14,799	19,705	358	411	25,630	36,350	43,140	58,928
Other	87	50	616	1,248	552	547	15,123	14,426	228	184	9,507	10,102	26,113	26,557
Gross Total	81,892	80,750	109,446	92,616	87,496	85,625	579,515	573,741	5,837	6,176	245,189	271,129	1,109,375	1,110,037
Individual provision for credit impairment	–	–	–	–	–	–	(1,278)	(1,038)	–	–	(29)	(23)	(1,307)	(1,061)
Collective provision for credit impairment	–	–	–	–	–	–	(2,245)	(2,279)	–	–	(631)	(677)	(2,876)	(2,956)
	81,892	80,750	109,446	92,616	87,496	85,625	575,992	570,424	5,837	6,176	244,529	270,429	1,105,192	1,106,020
Income yet to mature	–	–	–	–	–	–	(544)	(739)	–	–	–	–	(544)	(739)
Capitalised brokerage/ mortgage origination fees	–	–	–	–	–	–	1,064	1,253	–	–	–	–	1,064	1,253
	81,892	80,750	109,446	92,616	87,496	85,625	576,512	570,938	5,837	6,176	244,529	270,429	1,105,712	1,106,534
Excluded from analysis above	1,457	1,716	855	51	–	–	–	–	35,656	34,820	–	–	37,968	36,587
Net Total	83,349	82,466	110,301	92,667	87,496	85,625	576,512	570,938	41,493	40,996	244,529	270,429	1,143,680	1,143,121

1 Available-for-sale Assets.
2 Excludes individual and collective provisions for credit impairment held in respect of credit related commitments.
3 Mainly comprises trade dated assets, regulatory deposits and accrued interest.
4 Credit related commitments comprise undrawn facilities and customer contingent liabilities.

20: Financial Risk Management (continued)

Concentrations of credit risk analysis (continued):

Composition of financial instruments that give rise to credit risk by industry (continued):

The Company	Cash, settlement balances owed to ANZ and collateral paid 2016 $m	Cash, settlement balances owed to ANZ and collateral paid 2015 $m	Trading securities and AFS[1] 2016 $m	Trading securities and AFS[1] 2015 $m	Derivatives 2016 $m	Derivatives 2015 $m	Loans and advances[2] 2016 $m	Loans and advances[2] 2015 $m	Other financial assets[3] 2016 $m	Other financial assets[3] 2015 $m	Credit related commitments[4] 2016 $m	Credit related commitments[4] 2015 $m	Total 2016 $m	Total 2015 $m
Australia														
Agriculture, forestry, fishing and mining	–	–	13	59	492	691	14,598	15,185	49	79	8,494	9,573	23,646	25,587
Business services	13	4	–	–	84	108	5,985	6,254	20	32	3,308	3,340	9,410	9,738
Construction	–	–	–	23	28	20	5,477	5,516	18	29	3,467	4,537	8,990	10,125
Electricity, gas and water supply	–	–	91	99	1,052	837	3,531	3,455	12	18	2,449	2,266	7,135	6,675
Entertainment, leisure and tourism	–	–	16	37	466	323	9,816	8,888	33	46	2,532	2,494	12,863	11,788
Financial, investment and insurance[5]	33,578	22,601	16,898	18,547	61,257	59,663	23,956	22,086	81	115	9,820	6,499	145,590	129,511
Government and official institutions	907	130	50,338	32,008	582	685	780	706	3	4	681	2,081	53,291	35,614
Manufacturing	12	4	159	1,369	2,126	2,535	7,114	6,844	24	36	6,973	7,333	16,408	18,121
Personal lending	–	–	–	–	–	–	263,167	251,707	885	1,306	47,798	48,282	311,850	301,295
Property services	–	–	18	78	821	677	27,610	26,991	93	140	10,913	10,194	39,455	38,080
Retail trade	4	2	–	50	169	221	9,958	11,269	33	59	3,999	3,567	14,163	15,168
Transport and storage	104	2	76	180	984	951	7,296	7,052	25	37	3,663	4,114	12,148	12,336
Wholesale trade	183	354	2	12	1,701	1,520	5,972	6,287	20	33	5,447	7,544	13,325	15,750
Other	1	30	198	248	384	453	10,595	10,374	36	54	5,264	5,693	16,478	16,852
	34,802	23,127	67,809	52,710	70,146	68,684	395,855	382,614	1,332	1,988	114,808	117,517	684,752	646,640
New Zealand														
Agriculture, forestry, fishing and mining	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Business services	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Construction	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Electricity, gas and water supply	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Entertainment, leisure and tourism	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Financial, investment and insurance	–	–	–	–	46	64	–	–	–	–	–	–	46	64
Government and official institutions	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Manufacturing	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Personal lending	–	–	–	–	–	–	5,746	7,289	–	–	–	19	5,746	7,308
Property services	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Retail trade	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Transport and storage	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Wholesale trade	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Other	–	–	–	–	–	–	–	–	–	–	–	1	–	1
	–	–	–	–	46	64	5,746	7,289	–	–	–	20	5,792	7,373

1 Available-for-sale Assets.
2 Excludes individual and collective provisions for credit impairment held in respect of credit related commitments.
3 Mainly comprises trade dated assets, regulatory deposits and accrued interest.
4 Credit related commitments comprise undrawn facilities and customer contingent liabilities.
5 Includes amounts due from other Group entities.

20: Financial Risk Management (continued)

Concentrations of credit risk analysis (continued):

Composition of financial instruments that give rise to credit risk by industry (continued):

The Company	Cash, settlement balances owed to ANZ and collateral paid		Trading securities and AFS[1]		Derivatives		Loans and advances[2]		Other financial assets[3]		Credit related commitments[4]		Total	
	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m
Overseas Markets														
Agriculture, forestry, fishing and mining	–	–	58	42	31	47	3,477	4,839	77	84	6,146	8,174	9,789	13,186
Business services	2	5	20	–	12	7	777	1,073	17	19	3,257	4,436	4,085	5,540
Construction	–	2	6	1	2	14	177	519	4	9	1,897	3,047	2,086	3,592
Electricity, gas and water supply	28	34	38	28	18	20	1,317	2,948	29	51	1,989	2,170	3,419	5,251
Entertainment, leisure and tourism	–	–	2	–	–	8	608	1,165	13	20	580	677	1,203	1,870
Financial, investment and insurance	40,755	51,586	15,732	15,566	5,336	6,216	10,705	9,687	237	168	9,883	11,785	82,648	95,008
Government and official institutions	125	1	5,749	5,586	12	145	240	446	5	8	1,740	919	7,871	7,105
Manufacturing	40	193	2	17	73	216	7,523	11,050	167	191	27,528	31,817	35,333	43,484
Personal lending	–	1	–	–	–	–	6,843	7,581	152	131	4,660	4,351	11,655	12,064
Property services	–	–	32	7	40	58	3,462	4,519	77	78	1,540	2,142	5,151	6,804
Retail trade	–	1	19	7	4	10	993	1,570	22	27	1,251	1,216	2,289	2,831
Transport and storage	1	–	119	84	34	27	3,543	3,832	79	66	1,704	1,947	5,480	5,956
Wholesale trade	8	37	10	24	102	155	5,133	9,505	114	165	15,231	22,672	20,598	32,558
Other	86	20	352	883	16	23	2,824	2,386	63	41	2,307	2,650	5,648	6,003
	41,045	51,880	22,139	22,245	5,680	6,946	47,622	61,120	1,056	1,058	79,713	98,003	197,255	241,252
The Company – aggregate														
Agriculture, forestry, fishing and mining	–	–	71	101	523	738	18,075	20,024	126	163	14,640	17,747	33,435	38,773
Business services	15	9	20	–	96	115	6,762	7,327	37	51	6,565	7,776	13,495	15,278
Construction	–	2	6	24	30	34	5,654	6,035	22	38	5,364	7,584	11,076	13,717
Electricity, gas and water supply	28	34	129	127	1,070	857	4,848	6,403	41	69	4,438	4,436	10,554	11,926
Entertainment, leisure and tourism	–	–	18	37	466	331	10,424	10,053	46	66	3,112	3,171	14,066	13,658
Financial, investment and insurance	74,333	74,187	32,630	34,113	66,639	65,943	34,661	31,773	318	283	19,703	18,284	228,284	224,583
Government and official institutions	1,032	131	56,087	37,594	594	830	1,020	1,152	8	12	2,421	3,000	61,162	42,719
Manufacturing	52	197	161	1,386	2,199	2,751	14,637	17,894	191	227	34,501	39,150	51,741	61,605
Personal lending	–	1	–	–	–	–	275,756	266,577	1,037	1,437	52,458	52,652	329,251	320,667
Property services	–	–	50	85	861	735	31,072	31,510	170	218	12,453	12,336	44,606	44,884
Retail trade	4	3	19	57	173	231	10,951	12,839	55	86	5,250	4,783	16,452	17,999
Transport and storage	105	2	195	264	1,018	978	10,839	10,884	104	103	5,367	6,061	17,628	18,292
Wholesale trade	191	391	12	36	1,803	1,675	11,105	15,792	134	198	20,678	30,216	33,923	48,308
Other	87	50	550	1,131	400	476	13,419	12,760	99	95	7,571	8,344	22,126	22,856
Gross Total	75,847	75,007	89,948	74,955	75,872	75,694	449,223	451,023	2,388	3,046	194,521	215,540	887,799	895,265
Individual provision for credit impairment	–	–	–	–	–	–	(942)	(740)	–	–	(15)	(19)	(957)	(759)
Collective provision for credit impairment	–	–	–	–	–	–	(1,678)	(1,765)	–	–	(493)	(557)	(2,171)	(2,322)
	75,847	75,007	89,948	74,955	75,872	75,694	446,603	448,518	2,388	3,046	194,013	214,964	884,671	892,184
Income yet to mature	–	–	–	–	–	–	(261)	(438)	–	–	–	–	(261)	(438)
Capitalised brokerage/ mortgage origination fees	–	–	–	–	–	–	697	944	–	–	–	–	697	944
	75,847	75,007	89,948	74,955	75,872	75,694	447,039	449,024	2,388	3,046	194,013	214,964	885,107	892,690
Excluded from analysis above	1,008	1,045	832	30	–	–	–	–	–	–	–	–	1,840	1,075
Net total	76,855	76,052	90,780	74,985	75,872	75,694	447,039	449,024	2,388	3,046	194,013	214,964	886,947	893,765

1 Available-for-sale Assets.
2 Excludes individual and collective provisions for credit impairment held in respect of credit related commitments.
3 Mainly comprises trade dated assets, regulatory deposits and accrued interest.
4 Credit related commitments comprise undrawn facilities and customer contingent liabilities.

20: Financial Risk Management (continued)

Credit quality

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 investments which are primarily subject to market risk, or bank notes and coins. For contingent exposures, the maximum exposure to credit risk is the maximum amount the Group would have to pay if the instrument is called upon. For undrawn facilities, the maximum exposure to credit risk is the full amount of the committed facilities.

The following tables present the maximum exposure to credit risk of on-balance sheet and off-balance sheet financial assets before taking account of any collateral held or other credit enhancements.

	Reported on Balance Sheet		Excluded[1]		Maximum exposure to credit risk	
Consolidated	2016 $m	2015[5] $m	2016 $m	2015 $m	2016 $m	2015[5] $m
On-balance sheet positions						
Cash	48,675	53,903	1,457	1,716	47,218	52,187
Settlement balances owed to ANZ	21,951	18,596	–	–	21,951	18,596
Collateral paid	12,723	9,967	–	–	12,723	9,967
Trading securities	47,188	49,000	–	–	47,188	49,000
Derivative financial instruments[2]	87,496	85,625	–	–	87,496	85,625
Available-for-sale assets	63,113	43,667	855	51	62,258	43,616
Net loans and advances[3]						
– Australia	326,618	314,572	–	–	326,618	314,572
– Institutional	125,940	142,196	–	–	125,940	142,196
– New Zealand	107,893	97,020	–	–	107,893	97,020
– Wealth Australia	2,022	1,894	–	–	2,022	1,894
– Asia Retail & Pacific	13,379	14,556	–	–	13,379	14,556
Regulatory deposits	2,296	1,773	–	–	2,296	1,773
Investments backing policy liabilities	35,656	34,820	35,656	34,820	–	–
Other financial assets[4]	3,541	4,403	–	–	3,541	4,403
	898,491	871,992	37,968	36,587	860,523	835,405
Off-balance sheet positions						
Undrawn facilities	207,410	230,794	–	–	207,410	230,794
Contingent facilities	37,779	40,335	–	–	37,779	40,335
	245,189	271,129	–	–	245,189	271,129
Total	1,143,680	1,143,121	37,968	36,587	1,105,712	1,106,534

	Reported on balance Sheet		Excluded[1]		Maximum exposure to credit risk	
The Company	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m
On-balance sheet positions						
Cash	46,072	51,217	1,008	1,045	45,064	50,172
Settlement balances owed to ANZ	19,905	16,601	–	–	19,905	16,601
Collateral paid	10,878	8,234	–	–	10,878	8,234
Trading securities	35,059	37,373	–	–	35,059	37,373
Derivative financial instruments[2]	75,872	75,694	–	–	75,872	75,694
Available-for-sale assets	55,721	37,612	832	30	54,889	37,582
Net loans and advances[3]	446,531	448,448	–	–	446,531	448,448
Regulatory deposits	671	557	–	–	671	557
Other financial assets[4]	1,717	2,489	–	–	1,717	2,489
	692,426	678,225	1,840	1,075	690,586	677,150
Off-balance sheet positions						
Undrawn facilities	161,178	180,847	–	–	161,178	180,847
Contingent facilities	33,343	34,693	–	–	33,343	34,693
	194,521	215,540	–	–	194,521	215,540
Total	886,947	893,765	1,840	1,075	885,107	892,690

1 Includes bank notes and coins and cash at bank within liquid assets, equity instruments within available-for-sale financial assets and investments relating to the insurance business where the credit risk is passed onto the policy holder.
2 Derivative financial instruments are net of credit valuation adjustments.
3 Includes individual and collective provisions for credit impairment held in respect of credit related commitments. Australia includes net loans and advances for TSO and Group Centre.
4 Mainly comprises trade dated assets and accrued interest.
5 Comparative amounts have changed. Refer to note 43 for details.

20: Financial Risk Management (continued)

Distribution of financial assets by credit quality

The Group has a comprehensive rating system that is used to quantify credit risk. The use of masterscales ensures consistency across exposure types at the Group, providing a consistent framework for reporting and analysis.

All customers with whom ANZ has a credit relationship, including guarantors, are assigned a Customer Credit Rating (CCR) or score at origination either by programmed credit assessment or by judgemental assessment. In addition, the CCR or score is reviewed on an ongoing basis to ensure it accurately reflects the credit risk of the customer and the prevailing economic conditions.

The Group's risk grade profile therefore changes dynamically through new lending, repayment and/or existing counterparty movements in either risk or volume.

Restructured items

Restructured items are facilities in which the original contractual terms have been modified for reasons related to the financial difficulties of the customer. Restructuring may consist of reduction of interest, principal or other payments legally due or an extension in maturity materially beyond those typically offered to new facilities with similar risk.

	Neither past due nor impaired		Past due but not impaired		Restructured		Impaired		Total	
Consolidated	2016 $m	2015[5] $m	2016 $m	2015[5] $m	2016 $m	2015[5] $m	2016 $m	2015[5] $m	2016 $m	2015[5] $m
Cash	47,218	52,187	–	–	–	–	–	–	47,218	52,187
Settlement balances owed to ANZ	21,951	18,596	–	–	–	–	–	–	21,951	18,596
Collateral paid	12,723	9,967	–	–	–	–	–	–	12,723	9,967
Trading securities	47,188	49,000	–	–	–	–	–	–	47,188	49,000
Derivative financial instruments[1]	87,482	85,588	–	–	–	–	14	37	87,496	85,625
Available-for-sale assets	62,258	43,616	–	–	–	–	–	–	62,258	43,616
Net loans and advances[2]										
– Australia	314,862	303,696	11,420	10,505	40	5	516	586	326,838	314,792
– Institutional	125,359	141,778	162	193	163	36	590	569	126,274	142,576
– New Zealand	106,199	95,138	1,536	1,753	24	13	202	182	107,961	97,086
– Wealth Australia	2,022	1,894	–	–	–	–	–	–	2,022	1,894
– Asia Retail & Pacific	12,650	13,887	531	507	176	130	60	66	13,417	14,590
Regulatory deposits	2,296	1,773	–	–	–	–	–	–	2,296	1,773
Other financial assets[3]	3,541	4,403	–	–	–	–	–	–	3,541	4,403
Credit related commitments[4]	244,448	270,395	–	–	–	–	81	34	244,529	270,429
Total	1,090,197	1,091,918	13,649	12,958	403	184	1,463	1,474	1,105,712	1,106,534

	Neither past due nor impaired		Past due but not impaired		Restructured		Impaired		Total	
The Company	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m
Cash	45,064	50,172	–	–	–	–	–	–	45,064	50,172
Settlement balances owed to ANZ	19,905	16,601	–	–	–	–	–	–	19,905	16,601
Collateral paid	10,878	8,234	–	–	–	–	–	–	10,878	8,234
Trading securities	35,059	37,373	–	–	–	–	–	–	35,059	37,373
Derivative financial instruments[1]	75,861	75,657	–	–	–	–	11	37	75,872	75,694
Available-for-sale assets	54,889	37,582	–	–	–	–	–	–	54,889	37,582
Net loans and advances[2]	434,072	437,153	11,811	10,943	247	94	909	834	447,039	449,024
Regulatory deposits	671	557	–	–	–	–	–	–	671	557
Other financial assets[3]	1,717	2,489	–	–	–	–	–	–	1,717	2,489
Credit related commitments[4]	193,976	214,940	–	–	–	–	37	24	194,013	214,964
Total	872,092	880,758	11,811	10,943	247	94	957	895	885,107	892,690

1 Derivative financial instruments, considered impaired, are net of credit valuation adjustments.
2 Individual and collective provisions for credit impairment held in respect of credit related commitments have been reallocated to credit related commitments in this table. Australia includes net loans and advances for TSO and Group Centre.
3 Mainly comprises trade dated assets and accrued interest.
4 Credit related commitments comprise undrawn facilities and customer contingent liabilities net of collective and individual provisions.
5 Comparative amounts have changed. Refer to note 43 for details.

20: Financial Risk Management (continued)

Credit quality of financial assets neither past due nor impaired

The credit quality of financial assets is managed by the Group using internal CCRs based on their current probability of default. The Group's masterscales are mapped to external rating agency scales, to enable wider comparisons.

Internal rating

Strong credit profile	Customers that have demonstrated superior stability in their operating and financial performance over the long-term, and whose debt servicing capacity is not significantly vulnerable to foreseeable events. This rating broadly corresponds to ratings 'Aaa' to 'Baa3' and 'AAA' to 'BBB-' of Moody's and Standard & Poor's respectively.
Satisfactory risk	Customers that have consistently 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. This rating broadly corresponds to ratings 'Ba2' to 'Ba3' and 'BB' to 'BB-' of Moody's and Standard & Poor's respectively.
Sub-standard but not past due or impaired	Customers that have demonstrated some operational and financial instability, with variability and uncertainty in profitability and liquidity projected to continue over the short and possibly medium term. This rating broadly corresponds to ratings 'B1' to 'Caa' and 'B+' to 'CCC' of Moody's and Standard & Poor's respectively.

Consolidated	Strong credit profile 2016 $m	Strong credit profile 2015[4] $m	Satisfactory risk 2016 $m	Satisfactory risk 2015[4] $m	Sub-standard but not past due or impaired 2016 $m	Sub-standard but not past due or impaired 2015[4] $m	Total 2016 $m	Total 2015[4] $m
Cash	47,171	52,139	47	48	–	–	47,218	52,187
Settlement balances owed to ANZ	21,185	17,845	730	665	36	86	21,951	18,596
Collateral paid	12,635	9,957	15	6	73	4	12,723	9,967
Trading securities	47,009	48,898	123	79	56	23	47,188	49,000
Derivative financial instruments	86,144	84,074	1,266	1,351	72	163	87,482	85,588
Available-for-sale assets	60,729	42,097	1,529	1,519	–	–	62,258	43,616
Net loans and advances[1]								
– Australia	242,876	227,958	58,468	61,045	13,518	14,693	314,862	303,696
– Institutional	105,868	118,799	17,800	20,813	1,691	2,166	125,359	141,778
– New Zealand	73,995	66,914	29,663	26,032	2,541	2,192	106,199	95,138
– Wealth Australia	2,022	1,894	–	–	–	–	2,022	1,894
– Asia Retail & Pacific	7,288	8,007	4,930	4,932	432	948	12,650	13,887
Regulatory deposits	1,660	1,083	574	657	62	33	2,296	1,773
Other financial assets[2]	3,214	3,948	283	404	44	51	3,541	4,403
Credit related commitments[3]	200,510	220,815	41,500	46,681	2,438	2,899	244,448	270,395
Total	912,306	904,428	156,928	164,232	20,963	23,258	1,090,197	1,091,918

The Company	Strong credit profile 2016 $m	Strong credit profile 2015 $m	Satisfactory risk 2016 $m	Satisfactory risk 2015 $m	Sub-standard but not past due or impaired 2016 $m	Sub-standard but not past due or impaired 2015 $m	Total 2016 $m	Total 2015 $m
Cash	45,017	50,126	47	46	–	–	45,064	50,172
Settlement balances owed to ANZ	19,656	16,253	217	277	32	71	19,905	16,601
Collateral paid	10,790	8,224	15	6	73	4	10,878	8,234
Trading securities	34,987	37,322	17	28	55	23	35,059	37,373
Derivative financial instruments	74,796	74,394	1,001	1,114	64	149	75,861	75,657
Available-for-sale assets	54,864	37,567	25	15	–	–	54,889	37,582
Net loans and advances[1]	343,830	339,549	75,439	80,488	14,803	17,116	434,072	437,153
Regulatory deposits	452	393	166	145	53	19	671	557
Other financial assets[2]	1,514	2,159	172	293	31	37	1,717	2,489
Credit related commitments[3]	161,559	177,323	30,498	35,132	1,919	2,485	193,976	214,940
Total	747,465	743,310	107,597	117,544	17,030	19,904	872,092	880,758

1 Individual and collective provisions for credit impairment held in respect of credit related commitments have been reallocated to credit related commitments in this table.
2 Mainly comprises trade dated assets and accrued interest.
3 Credit related commitments comprise undrawn facilities and customer contingent liabilities net of collective and individual provisions.
4 Comparative amounts have changed. Refer to note 43 for details.

20: Financial Risk Management (continued)

Ageing analysis of financial assets that are past due but not impaired

Ageing analysis of past due loans is used by the Group to measure and manage emerging credit risks. Financial assets that are past due but not impaired include those which are assessed, approved and managed on a portfolio basis within a centralised environment (for example credit cards and personal loans) that can be held on a productive basis until they are 180 days past due, as well as those which are managed on an individual basis.

A large portion of retail credit exposures, such as residential mortgages, are generally well secured. That is, the value of associated security is sufficient to cover amounts outstanding.

	Consolidated						The Company					
As at 30 September 2016	1–5 days $m	6–29 days $m	30–59 days $m	60–89 days $m	>90 days $m	Total $m	1–5 days $m	6–29 days $m	30–59 days $m	60–89 days $m	>90 days $m	Total $m
Net loans and advances[1]							2,430	4,267	1,678	924	2,512	11,811
– Australia	2,330	4,112	1,634	885	2,459	11,420	–	–	–	–	–	–
– Institutional	80	34	9	10	29	162	–	–	–	–	–	–
– New Zealand	778	271	219	123	145	1,536	–	–	–	–	–	–
– Wealth Australia	–	–	–	–	–	–	–	–	–	–	–	–
– Asia Retail & Pacific	173	188	48	52	70	531	–	–	–	–	–	–
Total	3,361	4,605	1,910	1,070	2,703	13,649	2,430	4,267	1,678	924	2,512	11,811

	Consolidated						The Company					
As at 30 September 2015[2]	1–5 days $m	6–29 days $m	30–59 days $m	60–89 days $m	>90 days $m	Total $m	1–5 days $m	6–29 days $m	30–59 days $m	60–89 days $m	>90 days $m	Total $m
Net loans and advances[1]							1,831	4,646	1,461	878	2,127	10,943
– Australia	1,813	4,373	1,431	814	2,074	10,505	–	–	–	–	–	–
– Institutional	14	108	8	28	35	193	–	–	–	–	–	–
– New Zealand	793	408	236	115	201	1,753	–	–	–	–	–	–
– Wealth Australia	–	–	–	–	–	–	–	–	–	–	–	–
– Asia Retail & Pacific	165	182	57	35	68	507	–	–	–	–	–	–
Total	2,785	5,071	1,732	992	2,378	12,958	1,831	4,646	1,461	878	2,127	10,943

1 Individual and collective provisions for credit impairment held in respect of credit related commitments have been reallocated to credit related commitments in this table.
2 Greater granularity in past due loans has resulted in comparative information being restated accordingly.

Estimated value of collateral for all financial assets

	Total value of collateral		Credit exposure		Unsecured portion of credit exposure	
Consolidated	2016 $m	2015[4] $m	2016 $m	2015[4] $m	2016 $m	2015[4] $m
Cash	19,673	11,770	47,218	52,187	27,545	40,417
Settlement balances owed to ANZ	149	300	21,951	18,596	21,802	18,296
Collateral paid	–	–	12,723	9,967	12,723	9,967
Trading securities	1,791	1,081	47,188	49,000	45,397	47,919
Derivative financial instruments	6,386	7,829	87,496	85,625	81,110	77,796
Available-for-sale assets	1,606	1,603	62,258	43,616	60,652	42,013
Net loans and advances[1]						
– Australia	301,332	284,671	326,838	314,792	25,506	30,121
– Institutional	47,115	44,554	126,274	142,576	79,159	98,022
– New Zealand	101,504	90,688	107,961	97,086	6,457	6,398
– Wealth Australia	1,241	1,239	2,022	1,894	781	655
– Asia Retail & Pacific	10,079	11,581	13,417	14,590	3,338	3,009
Regulatory deposits	–	–	2,296	1,773	2,296	1,773
Other financial assets[2]	1,363	1,351	3,541	4,403	2,178	3,052
Credit related commitments[3]	49,786	50,401	244,529	270,429	194,743	220,028
Total	542,025	507,068	1,105,712	1,106,534	563,687	599,466

1 Individual and collective provisions for credit impairment held in respect of credit related commitments have been reallocated to credit related commitments in this table.
2 Mainly comprises trade dated assets and accrued interest.
3 Credit related commitments comprise undrawn facilities and customer contingent liabilities net of collective and individual provisions.
4 Comparative amounts have changed. Refer to note 43 for details.

20: Financial Risk Management (continued)

Estimated value of collateral for all financial assets

The Company	Total value of collateral 2016 $m	Total value of collateral 2015 $m	Credit exposure 2016 $m	Credit exposure 2015 $m	Unsecured portion of credit exposure 2016 $m	Unsecured portion of credit exposure 2015 $m
Cash	19,434	11,479	45,064	50,172	25,630	38,693
Settlement balances owed to ANZ	133	271	19,905	16,601	19,772	16,330
Collateral paid	–	–	10,878	8,234	10,878	8,234
Trading securities	555	838	35,059	37,373	34,504	36,535
Derivative financial instruments	5,882	6,886	75,872	75,694	69,990	68,808
Available-for-sale assets	1,500	1,603	54,889	37,582	53,389	35,979
Net loans and advances[1]	355,936	340,139	447,039	449,024	91,103	108,885
Regulatory deposits	–	–	671	557	671	557
Other financial assets[2]	923	1,000	1,717	2,489	794	1,489
Credit related commitments[3]	34,007	35,414	194,013	214,964	160,006	179,550
Total	418,370	397,630	885,107	892,690	466,737	495,060

1 Individual and collective provisions for credit impairment held in respect of credit related commitments have been reallocated to credit related commitments in this table.
2 Mainly comprises trade dated assets and accrued interest.
3 Credit related commitments comprise undrawn facilities and customer contingent liabilities net of collective and individual provisions.

Financial assets that are individually impaired

	Consolidated				The Company			
	Gross Impaired assets		Individual provision balance		Gross Impaired assets		Individual provision balance	
	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m
Australia								
Derivative financial instruments[1]	1	33	–	–	1	33	–	–
Loans and advances	1,538	1,446	742	679	1,529	1,356	739	667
Credit related commitments[2]	53	44	15	19	52	43	15	19
Subtotal	1,592	1,523	757	698	1,582	1,432	754	686
New Zealand								
Derivative financial instruments[1]	3	–	–	–	–	–	–	–
Loans and advances	389	354	133	143	6	20	3	7
Credit related commitments[2]	51	13	14	4	–	–	–	–
Subtotal	443	367	147	147	6	20	3	7
Asia Pacific, Europe and America								
Derivative financial instruments[1]	10	4	–	–	10	4	–	–
Loans and advances	719	641	403	216	316	198	200	66
Credit related commitments[2]	6	–	–	–	–	–	–	–
Subtotal	735	645	403	216	326	202	200	66
Aggregate								
Derivative financial instruments[1]	14	37	–	–	11	37	–	–
Loans and advances	2,646	2,441	1,278	1,038	1,851	1,574	942	740
Credit related commitments[2]	110	57	29	23	52	43	15	19
Total	2,770	2,535	1,307	1,061	1,914	1,654	957	759

1 Derivative financial instruments considered impaired are net of CVA.
2 Credit related commitments comprise undrawn facilities and customer contingent liabilities.

20: Financial Risk Management (continued)

Market risk (excludes insurance and funds management)

Market Risk stems from ANZ's trading and balance sheet activities and is the risk to ANZ's earnings arising from changes in interest rates, foreign exchange rates, credit spreads, volatility, and correlations or from fluctuations in bond, commodity or equity prices.

ANZ has a detailed market risk management and control framework, to support its trading and balance sheet activities, which incorporates an independent risk measurement approach to quantify the magnitude of market risk within the trading and balance sheet portfolios. This approach, along with related analysis, identifies the range of possible outcomes that can be expected over a given period of time, and establishes the likelihood of those outcomes and allocates an appropriate amount of capital to support these activities.

Group-wide responsibility for the strategies and policies relating to the management of market risk lies with the Board Risk Committee. Responsibility for day to day management of both market risks and compliance with market risk policy is delegated by the Risk Committee to the Credit and Market Risk Committee (CMRC) and the Group Asset and Liability Committee (GALCO). The CMRC, chaired by the Chief Risk Officer, is responsible for the oversight of market risk. All committees receive regular reporting on the range of trading and balance sheet market risks that ANZ incurs.

Within overall strategies and policies, the control of market risk at the Group level is the joint responsibility of Business Units and Risk Management, with the delegation of market risk limits from the Board and CMRC allocated to both Risk Management and the Business Units.

The management of risk is supported by a comprehensive limit and policy framework to control the amount of risk that the Group will accept. Market risk limits are allocated at various levels and are reported and monitored by Market Risk on a daily basis. The detailed limit framework allocates individual limits to manage and control asset classes (eg. interest rates, foreign exchange), risk factors (eg. interest rates, volatilities) and profit and loss limits (to monitor and manage the performance of the trading portfolios).

Market risk management and control responsibilities

To facilitate the management, measurement and reporting of market risk, ANZ has grouped market risk into two broad categories:

a) Traded market risk

This is the risk of loss from changes in the value of financial instruments due to movements in price factors for both physical and derivative trading positions. Trading positions arise from transactions where ANZ acts as principal with customers, financial exchanges or interbank counterparties.

The principal risk categories monitored are:

- Currency risk is the potential loss arising from the decline in the value of a financial instrument due to changes in foreign exchange rates or their implied volatilities.
- Interest rate risk is the potential loss arising from the change in the value of a financial instrument due to changes in market interest rates or their implied volatilities.
- Credit spread risk is the potential loss arising from a change in value of an instrument due to a movement of its margin or spread relative to a benchmark.
- Commodity risk is the potential loss arising from the decline in the value of a financial instrument due to changes in commodity prices or their implied volatilities.
- Equity risk is the potential loss arising from the decline in the value of a financial instrument due to changes in equity prices or their implied volatilities.

b) Non-traded market risk (or balance sheet risk)

This comprises the management of non-traded interest rate risk, liquidity, and the risk to the Australian dollar denominated value of the Group’s capital and earnings as a result of foreign exchange rate movements.

Some instruments that do not fall into either category also expose ANZ to market risk. These include equity securities classified as available-for-sale financial assets.

Value at Risk (VaR) measure

A key measure of market risk is Value at Risk (VaR). VaR is a statistical estimate of the possible daily loss and is based on historical market movements.

ANZ measures VaR at a 99% confidence interval. This means that there is a 99% chance that the loss will not exceed the VaR estimate on any given day.

The Group’s standard VaR approach for both traded and non-traded risk is historical simulation. The Group calculates VaR using historical changes in market rates, prices and volatilities over the previous 500 business days. Traded and non-traded VaR is calculated using a one-day holding period.

It should be noted that because VaR is driven by actual historical observations, it is not an estimate of the maximum loss that the Group could experience from an extreme market event. As a result of this limitation, the Group utilises a number of other risk measures (such as stress testing) and risk sensitivity limits to measure and manage market risk.

20: Financial Risk Management (continued)

Traded Market Risk

Below are the aggregate Value at Risk (VaR) exposures at a 99% confidence level covering both physical and derivative trading positions for the Bank's principal trading centres.

	30 September 2016				30 September 2015			
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
Value at risk at 99% confidence								
Foreign exchange	4.0	11.4	2.2	5.2	5.0	18.2	2.8	7.9
Interest rate	4.7	20.1	4.1	9.1	10.1	20.2	4.8	9.3
Credit	3.3	4.6	2.2	3.2	3.5	5.4	2.9	3.8
Commodity	2.5	2.8	1.1	1.7	1.6	3.6	1.3	2.4
Equity	0.5	2.0	0.1	0.2	2.5	6.3	0.1	1.1
Diversification benefit	(6.8)	n/a	n/a	(6.2)	(6.0)	n/a	n/a	(13.2)
	8.2	25.4	6.1	13.2	16.7	19.7	6.9	11.3

	30 September 2016				30 September 2015			
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
Value at risk at 99% confidence								
Foreign exchange	4.4	11.4	2.5	5.3	5.2	18.3	2.8	8.0
Interest rate	4.7	17.6	3.9	8.3	8.5	19.7	4.7	8.8
Credit	3.0	4.0	2.0	2.9	3.1	4.7	2.6	3.6
Commodity	2.5	2.8	1.1	1.7	1.6	3.6	1.3	2.4
Equity	0.5	2.0	0.1	0.2	2.5	6.3	0.1	1.1
Diversification benefit	(6.3)	n/a	n/a	(6.2)	(5.8)	n/a	n/a	(12.8)
	8.8	23.2	5.7	12.2	15.1	19.3	6.7	11.1

VaR is calculated separately for foreign exchange, interest rate, credit, commodity and equities and for the Group. The diversification benefit reflects the historical correlation between these products. Electricity commodities risk is measured under the standard approach for regulatory purposes.

To supplement the VaR methodology, ANZ applies a wide range of stress tests, both on individual portfolios and at a Group level. ANZ's stress-testing regime provides senior management with an assessment of the financial impact of identified extreme events on market risk exposures of ANZ. Standard stress tests are applied on a daily basis and measure the potential loss arising from applying extreme market movements to individual and groups of individual market factors. Extraordinary stress tests are applied daily and measure the potential loss arising as a result of scenarios generated from major financial market events.

Non-traded Market Risk (Balance Sheet Risk)

The principal objectives of balance sheet 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.

20: Financial Risk Management (continued)

Interest rate risk

The objective of balance sheet interest rate risk management is to secure stable and optimal net interest income over both the short (next 12 months) and long-term. 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: mismatches between the repricing dates of interest bearing assets and liabilities; and the investment of capital and other non-interest bearing liabilities in interest bearing assets. Interest rate risk is reported using various techniques including VaR and scenario analysis (to a 1% shock).

a) VaR non-traded interest rate risk

The repricing assumptions used to determine the VaR and 1% rate shock have been independently validated. Below are aggregate VaR figures covering non-traded interest rate risk.

	30 September 2016				30 September 2015			
Consolidated	As at $m	High for year $m	Low for year $m	Avg for year $m	As at $m	High for year $m	Low for year $m	Avg for year $m
Value at risk at 99% confidence								
Australia	38.4	40.6	28.0	33.7	25.4	38.5	21.2	27.2
New Zealand	11.4	11.4	8.8	10.0	9.7	11.4	8.9	10.2
Asia Pacific, Europe and America	14.7	17.3	14.4	15.8	14.4	14.4	7.9	10.4
Diversification benefit	(24.0)	n/a	n/a	(22.9)	(16.8)	n/a	n/a	(14.8)
	40.5	44.7	31.3	36.6	32.7	37.4	28.6	33.0

	30 September 2016				30 September 2015			
The Company	As at $m	High for year $m	Low for year $m	Avg for year $m	As at $m	High for year $m	Low for year $m	Avg for year $m
Value at risk at 99% confidence								
Australia	38.4	40.6	28.0	33.7	25.4	38.5	21.2	27.2
New Zealand	0.1	0.1	0.0	0.1	0.0	0.2	0.0	0.1
Asia Pacific, Europe and America	14.6	16.8	14.0	15.3	13.9	13.9	6.8	9.9
Diversification benefit	(9.2)	n/a	n/a	(13.2)	(11.2)	n/a	n/a	(7.9)
	43.9	43.9	29.4	35.9	28.1	39.2	21.3	29.3

VaR is calculated separately for the Australia, New Zealand and APEA geographies, as well as for the Group.

To supplement the VaR methodology, ANZ applies a wide range of stress tests, both on individual portfolios and at Group level. ANZ's stress testing regime provides senior management with an assessment of the financial impact of identified extreme events on market risk exposures of ANZ.

b) Scenario Analysis – a 1% shock on the next 12 months' net interest income

A 1% overnight parallel positive shift in the yield curve is modelled to determine the potential impact on net interest income over the succeeding 12 months. This is a standard risk measure which assumes the parallel shift is reflected in all wholesale and customer rates.

The figures in the table below indicate the outcome of this risk measure for the current and previous financial years – expressed as a percentage of reported net interest income. The sign indicates the nature of the rate sensitivity with a positive number signifying that a rate increase is positive for net interest income over the next 12 months.

	Consolidated		The Company	
	2016	2015	2016	2015
Impact of 1% rate shock				
As at period end	0.37%	0.61%	0.85%	0.86%
Maximum exposure	0.48%	1.36%	0.91%	1.74%
Minimum exposure	0.00%	0.45%	0.01%	0.86%
Average exposure (in absolute terms)	0.21%	0.93%	0.40%	1.19%

The extent of mismatching between the repricing characteristics and timing of interest bearing assets and liabilities at any point has implications for future net interest income. On a global basis, the Group quantifies the potential variation in future net interest income as a result of these repricing mismatches.

The repricing gaps themselves are constructed based on contractual repricing information. However, for those assets and liabilities where the contractual term to repricing is not considered to be reflective of the actual interest rate sensitivity (for example, products priced at the Group's discretion), a profile based on historically observed and/or anticipated rate sensitivity is used. This treatment excludes the effect of basis risk between customer pricing and wholesale market pricing.

20: Financial Risk Management (continued)

Equity securities classified as available-for-sale

The portfolio of financial assets, classified as available-for-sale for measurement and financial reporting purposes, also contains equity investment holdings which predominantly comprise investments held for longer term strategic reasons. These equity investments are also subject to market risk which is not captured by the VaR measures for traded and non-traded market risks. Regular reviews are performed to substantiate valuation of the investments within the portfolio and the equity investments are regularly reviewed by management for impairment. The fair value of the equity securities can fluctuate.

The balance of available-for-sale equity securities for the Group amounts to $855 million (2015: $51 million) and $832 million (2015: $30 million) for the Company. Included in this is the $795 million investment in the Bank of Tianjin (BoT) that ceased equity accounting during the period.

Foreign currency risk – structural exposures

The investment of capital in foreign operations, such as branches, subsidiaries or associates with functional currencies other than the Australian Dollar, exposes the Group to the risk of changes in foreign exchange rates.

The main operating (or functional) currencies of Group entities are the Australian Dollar, the New Zealand Dollar and the US Dollar, with a number of overseas undertakings operating in various other currencies. The Group presents its consolidated financial statements in Australian Dollars, as the Australian Dollar is the dominant currency. The Group's consolidated balance sheet is therefore affected by exchange differences between the Australian Dollar and functional currencies of foreign operations. Variations in the value of these overseas operations arising as a result of exchange differences are reflected in the foreign currency translation reserve in equity.

The Group routinely monitors this risk and conducts hedging, where it is expected to add shareholder value, in accordance with approved policies. The Group's exposures to structural foreign currency risks are managed with the primary objective of ensuring, where practical, that the consolidated capital ratios are neutral to the effect of changes in exchange rates.

Selective hedges were in place during the 2016 and 2015 financial years. For details on the hedging instruments used and effectiveness of hedges of net investments in foreign operations, refer to note 13 to these financial statements. The Group's economic hedges against New Zealand Dollar and US Dollar revenue streams are included within 'Trading derivatives' at note 13.

Liquidity Risk (Excludes Insurance and Funds Management)

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

The Group's liquidity and funding risks are governed by a set of principles which are approved by the ANZ Board Risk Committee. Following the global financial crisis, the framework was reviewed and updated. The following key components underpin the overall framework:

- 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;
- Preparation of daily liquidity reports and scenario analysis, quantifying the Group's positions;
- Targeting a diversified funding base, avoiding 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.

Management of liquidity and funding risks are overseen by the Group Asset and Liability Committee (GALCO).

20: Financial Risk Management (continued)

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

Scenario Modelling of Funding Sources

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

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

A key component of this framework is the Liquidity Coverage Ratio (LCR) which was implemented in Australia on 1 January 2015. The LCR is a severe short term liquidity stress scenario, introduced as part of the Basel 3 international framework for liquidity risk measurement, standards and monitoring. As part of meeting the LCR requirements, ANZ has a Committed Liquidity Facility (CLF) with the Reserve Bank of Australia (RBA). The CLF has been established as a solution to a High Quality Liquid Asset (HQLA) shortfall in the Australian marketplace and provides an alternative form of RBA-qualifying liquid assets. The total amount of the CLF available to a qualifying ADI is set annually by APRA.

Liquid Assets

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

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

The Group monitors and manages the composition of liquid assets to ensure diversification by asset class, counterparty, currency and tenor. Minimum levels of liquid assets held are set annually based on a range of ANZ specific and general market liquidity stress scenarios such that potential cash flow obligations can be met over the short to medium term, and holdings are appropriate to existing and future business activities, regulatory requirements and in line with the approved risk appetite.

	Average For Year[1]	
	2016 $b	2015 $b[2]
Market Values Post Discount		
HQLA1[3]	118.5	97.3
HQLA2	3.7	3.2
Internal Residential Mortgage Backed Securities (Australia)[3]	35.2	38.8
Internal Residential Mortgage Backed Securities (New Zealand)[4]	1.3	2.1
Other ALA[5]	18.1	16.1
Total Liquid Assets	176.8	157.5
Cash flows modelled under stress scenario		
Cash outflows	181.9	172.1
Cash inflows	41.1	42.9
Net cash outflows	140.8	129.2
Liquidity Coverage Ratio (%)[6]	126%	122%

1 Average for year, calculated as prescribed per APRA Prudential Regulatory Standard (APS 210 Liquidity) and consistent with APS 330 requirements.
2 Calculation based on 9-month average given LCR implementation on 1 January 2015.
3 RBA open repo arrangement netted down from CLF, with a corresponding increase in HQLA.
4 New Zealand LCR surplus is excluded from NZ internal RMBS, consistent with APS 330 treatment.
5 Comprised of assets qualifying as collateral for the CLF, excluding internal RMBS, up to approved facility limit; and any liquid assets contained in the RBNZ's Liquidity Policy - Annex: Liquidity Assets - Prudential Supervision Department Document BS13A12.
6 All currency Group LCR.

20: Financial Risk Management (continued)

Liquidity Crisis Contingency Planning

The Group maintains APRA-endorsed liquidity crisis contingency plans defining an approach for analysing and responding to a liquidity threatening event at a country and Group-wide level. To align with the enhanced liquidity scenario analysis framework, crisis management strategies are assessed against the Group's crisis stress scenarios.

The framework is compliant with APRA's key liquidity contingency crisis planning requirements and guidelines and includes:

- The establishment of crisis severity/stress levels;
- Clearly assigned crisis roles and responsibilities;
- Early warning signals indicative of an approaching crisis, and mechanisms to monitor and report these signals;
- Crisis Declaration Assessment processes, and related escalation triggers set against early warning signals;
- Outlined action plans, and courses of action for altering asset and liability behaviour;
- Procedures for crisis management reporting, and making up cash-flow shortfalls;
- Guidelines determining the priority of customer relationships in the event of liquidity problems; and
- Assigned responsibilities for internal and external communications.

Regulatory Change

The Basel 3 Liquidity requirements changes include the introduction of two liquidity ratios to measure liquidity risk; (i) the Liquidity Coverage Ratio (LCR) which went live on 1st January 2015 and (ii) the Net Stable Funding Ratio (NSFR).

The Basel 3 NSFR standard was released in October 2014. APRA released their NSFR consultation papers and draft standards in March and September 2016 which confirmed that the NSFR will become a minimum requirement on 1 January 2018. In the draft standards, APRA also proposed that they may require an ADI to maintain a higher minimum than the stated 100% where APRA considers it appropriate to do so. As part of managing future liquidity requirements, ANZ monitors the NSFR ratio in its internal reporting and is well placed to meet this requirement.

Group Funding

ANZ manages its funding profile using a range of funding metrics and balance sheet disciplines. This approach is designed to ensure that an appropriate proportion of the Group's assets are funded by stable funding sources including core customer deposits, longer-dated wholesale funding (with a remaining term exceeding one year) and equity.

The Group's global wholesale funding strategy is designed to deliver a sustainable portfolio of wholesale funds that balances cost efficiency against prudent diversification and duration.

Funding plans and performance relative to those plans are reported regularly to senior management via the Group Asset and Liability Committee (GALCO). These plans address customer balance sheet growth and changes in wholesale funding including, targeted funding volumes, markets, investors, tenors and currencies for senior, secured, subordinated and hybrid transactions. Plans are supplemented with a monthly forecasting process which reviews the funding position to-date in light of market conditions and balance sheet requirements.

Funding plans are generated through the three-year strategic planning process and further refined by the annual funding plan and approved by the Board. Asset and deposit plans are submitted at the business segment level with the wholesale funding requirements then derived at the geographic level. To the extent that asset growth exceeds funding generated from customer deposits, additional wholesale funds are sourced.

Short-term wholesale funding requirements, with a contractual maturity of less than one year, are managed through Group Treasury and local Markets operations. Long-term wholesale funding is managed and executed through Group Treasury operations in Australia and New Zealand.

Funding Position 2016

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

$32.1 billion of term wholesale debt (excluding Additional Tier 1 Capital) with a remaining term greater than one year as at 30 September 2016 was issued during the financial year ending 30 September 2016 (2015: $18.8 billion). The weighted average tenor of new term debt was 5.5 years (2015: 4.9 years). In addition, $2.9 billion of Additional Tier 1 Capital Issuance took place during the year.

20: Financial Risk Management (continued)

The following tables show the Group's funding composition as at 30 September:

	2016 $m	2015 $m
Customer deposits and other liabilities[1]		
Australia	187,640	177,293
International	171,122	183,040
New Zealand	72,818	64,890
Asia Retail & Pacific	22,814	24,355
Wealth Australia	343	367
TSO and Group Centre[1]	(5,114)	(5,361)
Customer deposits	449,623	444,584
Other Funding liabilities[2]	14,531	14,346
Total customer liabilities (funding)	464,154	458,930
Wholesale funding[3]		
Debt issuances[4]	91,080	93,347
Subordinated debt	21,964	17,009
Certificates of deposit	61,429	63,446
Commercial paper	19,349	22,987
Other wholesale borrowings[5, 6]	65,442	44,558
Total wholesale funding	259,264	241,347
Shareholders' equity	57,927	57,353
Total Funding	781,345	757,630

	2016 $m	2015 $m
Funded Assets		
Other short term assets and trade finance assets[7]	65,800	78,879
Liquids[6]	161,302	135,496
Short term funded assets	227,102	214,375
Lending and fixed assets[8]	554,243	543,255
Total Funded Assets	781,345	757,630
Funding Liabilities[3,4,6]		
Other short term liabilities	48,806	27,863
Short term funding[9]	69,028	73,261
Term funding < 12 months[9]	23,668	28,138
Other customer deposits[1,10]	79,597	88,288
Total short term funding liabilities	221,099	217,550
Stable customer deposits[1,11]	402,146	387,988
Term funding > 12 months	90,708	87,316
Shareholders' equity and hybrid debt	67,392	64,776
Total Stable Funding	560,246	540,080
Total Funding	781,345	757,630

1 Includes term deposits, other deposits and an adjustment recognised in Group Centre to eliminate Wealth Australia investments in ANZ deposit products.
2 Includes interest accruals, payables and other liabilities, provisions and net tax provisions, excluding other liabilities in Wealth Australia.
3 Excludes liability for acceptances as they do not provide net funding.
4 Excludes term debt issued externally by Wealth Australia which matured during the September 2016 full year.
5 Includes borrowings from banks, net derivative balances, special purpose vehicles and other borrowing
6 RBA open-repo arrangement netted down by the exchange settlement account cash balance.
7 Includes short-dated assets such as trading securities, available-for-sale securities, trade dated assets and trade finance loans.
8 Excludes trade finance loans.
9 Prior period has been restated to reclassify items between Short term funding and Term funding less than 12 months.
10 Total customer liabilities (funding) plus Central Bank deposits less Stable customer deposits.
11 Stable customer deposits represent operational type deposits or those sourced from retail / business / corporate customers and the stable component of Other funding liabilities.

20: Financial Risk Management (continued)

Contractual maturity analysis of the Group's liabilities

The table below analyses the Group and Company's contractual liabilities, within relevant maturity groupings based on the earliest date on which the Group or Company may be required to pay. The amounts represent principal and interest cash flows and hence may differ compared to the amounts reported on the balance sheet.

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

Contractual maturity analysis of financial liabilities at 30 September:

Consolidated at 30 September 2016	Less than 3 months[1] $m	3 to 12 months $m	1 to 5 years $m	After 5 years $m	No maturity specified $m	Total $m
Collateral received	6,386	–	–	–	–	6,386
Settlement balances owed by ANZ	10,625	–	–	–	–	10,625
Deposits and other borrowings						
Deposits from banks	54,687	2,650	5	–	–	57,342
Certificates of deposit	27,422	20,650	14,120	80	–	62,272
Term deposits	137,252	49,953	7,039	384	–	194,628
Other deposits interest bearing	234,903	161	16	–	–	235,080
Deposits not bearing interest	20,895	–	–	–	–	20,895
Commercial paper	7,064	12,325	–	–	–	19,389
Borrowing corporation debt	627	703	246	–	–	1,576
Other borrowing	514	–	–	–	–	514
Liability for acceptances	569	–	–	–	–	569
Debt issuances[2]	9,330	15,188	59,923	13,958	–	98,399
Subordinated debt[2,3]	1,727	5,160	9,040	11,448	–	27,375
Policyholder liabilities	35,910	1	29	15	190	36,145
External unit holder liabilities (life insurance funds)	3,333	–	–	–	–	3,333
Derivative liabilities (trading)[4]	73,592	–	–	–	–	73,592
Derivative assets and liabilities (balance sheet management)						
– funding						
Receive leg	(35,443)	(26,506)	(85,478)	(31,163)	–	(178,590)
Pay leg	35,927	25,920	84,703	31,221	–	177,771
– other balance sheet management						
Receive leg	(13,169)	(9,529)	(14,494)	(6,610)	–	(43,802)
Pay leg	13,362	10,165	16,399	8,168	–	48,094

Consolidated at 30 September 2015	Less than 3 months[1] $m	3 to 12 months $m	1 to 5 years $m	After 5 years $m	No maturity specified $m	Total $m
Collateral received	7,829	–	–	–	–	7,829
Settlement balances owed by ANZ	11,250	–	–	–	–	11,250
Deposits and other borrowings						
Deposits from banks	35,422	3,591	36	–	–	39,049
Certificates of deposit	31,333	16,515	16,551	95	–	64,494
Term deposits	142,342	47,843	7,105	48	–	197,338
Other deposits interest bearing	227,685	404	1,246	–	–	229,335
Deposits not bearing interest	19,014	–	–	–	–	19,014
Commercial paper	13,130	9,868	–	–	–	22,998
Borrowing corporation debt	571	782	300	–	–	1,653
Other borrowing	790	–	–	–	–	790
Liability for acceptances	1,371	–	–	–	–	1,371
Debt issuances[2]	7,994	22,138	61,800	10,657	–	102,589
Subordinated debt[2,3]	517	493	11,288	9,425	–	21,723
Policyholder liabilities	34,965	3	40	21	372	35,401
External unit holder liabilities (life insurance funds)	3,291	–	–	–	–	3,291
Derivative liabilities (trading)[4]	68,309	–	–	–	–	68,309
Derivative assets and liabilities (balance sheet management)						
– funding						
Receive leg	(24,585)	(35,207)	(95,440)	(19,556)	–	(174,788)
Pay leg	22,439	31,710	85,900	18,179	–	158,228
– other balance sheet management						
Receive leg	(8,445)	(8,456)	(11,667)	(4,654)	–	(33,222)
Pay leg	8,512	8,882	12,944	5,956	–	36,294

1 Includes at call instruments.
2 Any callable wholesale debt instruments have been included at their next call date. Prior period interest cash flows revised to improve comparability.
3 Includes instruments that may be settled in cash or in equity, at the option of the Company, and perpetual investments at next call date.
4 The full mark-to-market of derivative liabilities held for trading purposes has been included in the 'less than 3 months' category.

20: Financial Risk Management (continued)

The Company at 30 September 2016	Less than 3 months[1] $m	3 to 12 months $m	1 to 5 years $m	After 5 years $m	No maturity specified $m	Total $m
Collateral received	5,882	–	–	–	–	5,882
Settlement balances owed by ANZ	9,079	–	–	–	–	9,079
Deposits and other borrowings						
Deposits from banks	53,898	2,638	5	–	–	56,541
Certificates of deposit	26,380	19,889	14,121	80	–	60,470
Term deposits	114,553	30,632	3,415	383	–	148,983
Other deposits interest bearing	190,476	155	1	–	–	190,632
Deposits not bearing interest	11,096	–	–	–	–	11,096
Commercial paper	6,057	8,203	–	–	–	14,260
Other borrowing	151	–	–	–	–	151
Liability for acceptances	321	–	–	–	–	321
Debt issuances[2]	6,895	13,350	47,033	10,798	–	78,076
Subordinated debt[2,3]	1,701	5,075	7,460	11,393	–	25,629
Derivative liabilities (trading)[4]	65,086	–	–	–	–	65,086
Derivative assets and liabilities (balance sheet management)						
– funding						
Receive leg	(26,326)	(21,615)	(70,816)	(25,136)	–	(143,893)
Pay leg	26,417	20,898	69,047	25,038	–	141,400
– other balance sheet management						
Receive leg	(5,137)	(5,336)	(9,940)	(5,833)	–	(26,246)
Pay leg	5,224	5,694	11,544	7,386	–	29,848

The Company at 30 September 2015	Less than 3 months[1] $m	3 to 12 months $m	1 to 5 years $m	After 5 years $m	No maturity specified $m	Total $m
Collateral received	6,886	–	–	–	–	6,886
Settlement balances owed by ANZ	9,901	–	–	–	–	9,901
Deposits and other borrowings						
Deposits from banks	34,981	3,506	23	–	–	38,510
Certificates of deposit	30,967	16,395	16,576	95	–	64,033
Term deposits	122,123	29,927	3,640	49	–	155,739
Other deposits interest bearing	186,387	311	644	–	–	187,342
Deposits not bearing interest	9,971	–	–	–	–	9,971
Commercial paper	10,419	8,063	–	–	–	18,482
Other borrowing	344	–	–	–	–	344
Liability for acceptances	649	–	–	–	–	649
Debt issuances[2]	5,332	19,213	49,483	9,389	–	83,417
Subordinated debt[2,3]	489	407	9,677	9,307	–	19,880
Derivative liabilities (trading)[4]	61,853	–	–	–	–	61,853
Derivative assets and liabilities (balance sheet management)						
– funding						
Receive leg	(16,618)	(25,127)	(66,311)	(15,707)	–	(123,763)
Pay leg	14,935	22,118	58,353	14,527	–	109,933
– other balance sheet management						
Receive leg	(6,820)	(4,962)	(6,673)	(3,876)	–	(22,331)
Pay leg	6,885	5,204	7,611	5,163	–	24,863

1 Includes at call instruments.
2 Any callable wholesale debt instruments have been included at their next call date. Prior period interest cash flows revised to improve comparability.
3 Includes instruments that may be settled in cash or in equity, at the option of the Company, and perpetual investments at next call date.
4 The full mark-to-market of derivative liabilities held for trading purposes has been included in the 'less than 3 months' category.

Credit related contingencies

Undrawn facilities and issued guarantees comprise the nominal principal amounts of commitments, contingencies and other undrawn facilities and represents the maximum liquidity at risk position should all facilities extended be drawn.

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 partially used, whereas others may never be required to be drawn upon. As such, the total of the nominal principal amounts is not necessarily representative of future liquidity risks or future cash requirements.

20: Financial Risk Management (continued)

The tables below analyse the Group's and Company's undrawn facilities and issued guarantees into relevant maturity groupings based on the earliest date on which ANZ may be required to pay.

	Consolidated			The Company		
30 September 2016	Less than 1 year $m	More than 1 year $m	Total $m	Less than 1 year $m	More than 1 year $m	Total $m
Undrawn facilities	207,410	–	207,410	161,178	–	161,178
Issued guarantees	37,779	–	37,779	33,343	–	33,343

	Consolidated			The Company		
30 September 2015	Less than 1 year $m	More than 1 year $m	Total $m	Less than 1 year $m	More than 1 year $m	Total $m
Undrawn facilities	230,794	–	230,794	180,847	–	180,847
Issued guarantees	40,335	–	40,335	34,693	–	34,693

Life insurance risk

Although not a significant contributor to the Group's balance sheet, the Group's insurance businesses give rise to unique risks which are managed separately from the Group's banking businesses. The nature of these risks and the manner in which they are managed is set out in note 37.

Operational risk management

Within ANZ, operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, and the risk of reputational loss or damage arising from inadequate or failed internal processes, people and systems, but excludes strategic risk.

The objective of operational risk management is to ensure that risks are identified, assessed, measured, evaluated, treated, monitored and reported in a structured environment with appropriate governance and oversight. ANZ does not expect to eliminate all risks. Rather it seeks to ensure that its residual risk exposure is managed as low as reasonably practical based on a sound risk/reward analysis in the context of an international financial institution.

The ANZ Board has delegated its powers to the Risk Committee to approve the ANZ Operational Risk Framework which is in accordance with Australian Prudential Standard APS 115 Capital Adequacy: Advanced Measurement Approaches to Operational Risk. The Operational Risk Executive Committee (OREC) is the primary senior executive management committee responsible for oversight of ANZ's Risk Profile. The purpose of OREC is to assist the Board Risk Committee in the effective discharge of its responsibilities for operational risk management and the management of the compliance obligations of ANZBGL and its controlled entities.

Divisional Risk Committees and Business Unit Risk Forums manage and maintain oversight of operational and compliance risks supported by thresholds for escalation and monitoring which is used to inform and support senior management strategic business decision making. Day to day management of operational and compliance risk is the accountability of every employee. Business Units undertake operational risk activities as part of this accountability. Divisional risk personnel provide oversight of operational risk undertaken in the Business Units.

Enterprise Operational Risk is responsible for exercising governance over operational risk through the management of the operational risk framework, policy development, framework assurance, operational risk measurement and capital allocations and reporting of operational risk issues to executive committees.

The integration of the Operational Risk Measurement and Management and Compliance Frameworks, supported by common policies, procedures and tools allows for a simple and consistent way to identify, assess, measure and monitor risks across ANZ.

In line with industry practice, ANZ obtains insurance cover from third party and captive providers to cover those operational risks where cost-effective premiums can be obtained. In conducting their business, Business Units are advised to act as if uninsured and not to use insurance as a guaranteed mitigation for operational risk. Business disruption is a critical risk to a bank's ability to operate, so ANZ has comprehensive business continuity, recovery and crisis management plans. The intention of the business continuity and recovery plans is to ensure critical business functions can be maintained, or restored in a timely fashion, in the event of material disruptions arising from internal or external events.

Enterprise Operational Risk is responsible for maintaining ANZ's Advanced Measurement Approach (AMA) for operational risk. Operational risk capital is held to protect depositors and shareholders of the bank from rare and severe unexpected losses. ANZ maintains and calculates operational risk capital (including regulatory and economic capital), on at least a six monthly basis. The capital is calculated using external loss data, internal loss data and scenarios as a direct input and risk registers as an indirect input.

21: Fair value of financial assets and financial liabilities

A significant number of financial instruments are carried on the balance sheet at fair value. The following disclosures set out the classification of financial assets and financial liabilities and in respect of the fair value either recognised or disclosed, the various levels within which fair value measurements are categorised, and the valuation methodologies and techniques used. The fair value disclosure does not cover those instruments that are not considered financial instruments from an accounting perspective, such as intangible assets.

Fair value is 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. The determination of the fair value of financial instruments is fundamental to the financial reporting framework as all financial instruments are recognised initially at fair value and, with the exception of those financial instruments carried at amortised cost, are remeasured at fair value in subsequent periods.

On initial recognition, the best evidence of a financial instrument's fair value is the transaction price. However, in certain circumstances the initial fair value may be based on other observable current market transactions in the same instrument, without modification or repackaging, or on a valuation technique whose variables include only data from observable markets. For those financial instruments where the fair value at initial recognition would be based on unobservable inputs, the difference between the transaction price and the amount which would have been determined using a valuation technique (being the day one gain or loss) is not immediately recognised in the income statement.

Subsequent to initial recognition, the fair value of financial instruments measured at fair value is based on quoted market prices, where available. In cases where quoted market prices are not available, fair value is determined using market accepted valuation techniques that employ observable data. In limited cases where observable market data is not available, the input is estimated based on other observable market data, historical trends and other factors that may be relevant.

In the tables below, financial instruments have been allocated based on their accounting classification. The significant accounting policies in note 1 describe how the categories of financial assets and financial liabilities are measured and how income and expenses, including fair value gains and losses, are recognised.

(i) CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

	At amortised cost	At fair value through profit or loss			Hedging	Available-for-sale assets	Total
Consolidated 30 September 2016	$m	Designated on initial recognition $m	Held for trading $m	Sub-total $m	$m	$m	$m
Financial assets							
Cash	48,675	–	–	–	–	–	48,675
Settlement balances owed to ANZ	21,951	–	–	–	–	–	21,951
Collateral paid	12,723	–	–	–	–	–	12,723
Trading securities	–	–	47,188	47,188	–	–	47,188
Derivative financial instruments[1]	–	–	83,787	83,787	3,709	–	87,496
Available-for-sale assets	–	–	–	–	–	63,113	63,113
Net loans and advances[2]	575,440	397	15	412	–	–	575,852
Regulatory deposits	2,296	–	–	–	–	–	2,296
Investments backing policy liabilities	–	35,656	–	35,656	–	–	35,656
Other financial assets	4,198	–	–	–	–	–	4,198
	665,283	36,053	130,990	167,043	3,709	63,113	899,148
Financial liabilities							
Settlement balances owed by ANZ	10,625	–	–	–	–	n/a	10,625
Collateral received	6,386	–	–	–	–	n/a	6,386
Deposits and other borrowings	583,002	5,193	–	5,193	–	n/a	588,195
Derivative financial instruments[1]	–	–	85,174	85,174	3,551	n/a	88,725
Policy liabilities[3]	190	35,955	–	35,955	–	n/a	36,145
External unit holder liabilities (life insurance funds)	–	3,333	–	3,333	–	n/a	3,333
Payables and other liabilities	6,485	–	2,380	2,380	–	n/a	8,865
Debt issuances	88,888	2,192	–	2,192	–	n/a	91,080
Subordinated debt	21,964	–	–	–	–	n/a	21,964
	717,540	46,673	87,554	134,227	3,551	n/a	855,318

1 Derivative financial instruments classified as 'held for trading' include derivatives entered into as economic hedges which are not designated as accounting hedges.
2 Fair value hedging is applied to financial assets within net loans and advances. The resulting fair value hedge adjustments mean that the carrying value differs from the amortised cost.
3 Includes life insurance contract liabilities of $190 million (2015: $372 million) measured in accordance with AASB 1038 Life Insurance Contracts and life investment contract liabilities of $35,955 million (2015: $35,029 million) which have been designated at fair value through profit or loss under AASB 139. None of the fair value is attributable to changes in the credit risk of the life investment contract liabilities.

21: Fair value of financial assets and financial liabilities (continued)

Consolidated 30 September 2015	At amortised cost $m	At fair value through profit or loss: Designated on initial recognition $m	At fair value through profit or loss: Held for trading $m	At fair value through profit or loss: Sub-total $m	Hedging $m	Available-for-sale assets $m	Total $m
Financial assets							
Cash	53,903	–	–	–	–	–	53,903
Settlement balances owed to ANZ	18,596	–	–	–	–	–	18,596
Collateral paid	9,967	–	–	–	–	–	9,967
Trading securities	–	–	49,000	49,000	–	–	49,000
Derivative financial instruments[1]	–	–	81,925	81,925	3,700	–	85,625
Available-for-sale assets	–	–	–	–	–	43,667	43,667
Net loans and advances[2,3]	569,539	683	16	699	–	–	570,238
Regulatory deposits	1,773	–	–	–	–	–	1,773
Investments backing policy liabilities	–	34,820	–	34,820	–	–	34,820
Other financial assets	4,993	–	–	–	–	–	4,993
	658,771	35,503	130,941	166,444	3,700	43,667	872,582
Financial liabilities							
Settlement balances owed by ANZ	11,250	–	–	–	–	n/a	11,250
Collateral received	7,829	–	–	–	–	n/a	7,829
Deposits and other borrowings	566,218	4,576	–	4,576	–	n/a	570,794
Derivative financial instruments[1]	–	–	78,497	78,497	2,773	n/a	81,270
Policy liabilities[4]	372	35,029	–	35,029	–	n/a	35,401
External unit holder liabilities (life insurance funds)	–	3,291	–	3,291	–	n/a	3,291
Payables and other liabilities	7,798	–	2,568	2,568	–	n/a	10,366
Debt issuances	90,582	3,165	–	3,165	–	n/a	93,747
Subordinated debt	17,009	–	–	–	–	n/a	17,009
	701,058	46,061	81,065	127,126	2,773	n/a	830,957

The Company 30 September 2016	At amortised cost $m	At fair value through profit or loss: Designated on initial recognition $m	At fair value through profit or loss: Held for trading $m	At fair value through profit or loss: Sub-total $m	Hedging $m	Available-for-sale assets $m	Total $m
Financial assets							
Cash	46,072	–	–	–	–	–	46,072
Settlement balances owed to ANZ	19,905	–	–	–	–	–	19,905
Collateral paid	10,878	–	–	–	–	–	10,878
Trading securities	–	–	35,059	35,059	–	–	35,059
Derivative financial instruments[1]	–	–	72,446	72,446	3,426	–	75,872
Available-for-sale assets	–	–	–	–	–	55,721	55,721
Net loans and advances[2,3]	446,479	37	15	52	–	–	446,531
Regulatory deposits	671	–	–	–	–	–	671
Due from controlled entities	106,797	–	–	–	–	–	106,797
Other financial assets	1,606	–	–	–	–	–	1,606
	632,408	37	107,520	107,557	3,426	55,721	799,112
Financial liabilities							
Settlement balances owed by ANZ	9,079	–	–	–	–	n/a	9,079
Collateral received	5,882	–	–	–	–	n/a	5,882
Deposits and other borrowings	479,885	78	–	78	–	n/a	479,963
Derivative financial instruments[1]	–	–	73,139	73,139	3,104	n/a	76,243
Due to controlled entities	103,416	–	–	–	–	n/a	103,416
Payables and other liabilities	3,498	–	2,068	2,068	–	n/a	5,566
Debt issuances	69,683	2,192	–	2,192	–	n/a	71,875
Subordinated debt	20,707	–	–	–	–	n/a	20,707
	692,150	2,270	75,207	77,477	3,104	n/a	772,731

1 Derivative financial instruments classified as 'held for trading' include derivatives entered into as economic hedges which are not designated as accounting hedges.
2 Fair value hedging is applied to financial assets within net loans and advances. The resulting fair value hedge adjustments mean that the carrying value differs from the amortised cost.
3 Net loans and advances includes Esanda Dealer Finance assets classified as held for sale as at 30 September 2015 which were sold in 2016. Refer to note 15.
4 Includes life insurance contract liabilities measured in accordance with AASB 1038 and life investment contract liabilities which have been designated at fair value through profit or loss under AASB 139. None of the fair value is attributable to changes in the credit risk of the life investment contract liabilities.

21: Fair value of financial assets and financial liabilities (continued)

The Company 30 September 2015	At amortised cost	At fair value through profit or loss			Hedging	Available-for-sale assets	Total
	$m	Designated on initial recognition $m	Held for trading $m	Sub-total $m	$m	$m	$m
Financial assets							
Cash	51,217	–	–	–	–	–	51,217
Settlement balances owed to ANZ	16,601	–	–	–	–	–	16,601
Collateral paid	8,234	–	–	–	–	–	8,234
Trading securities	–	–	37,373	37,373	–	–	37,373
Derivative financial instruments[1]	–	–	72,542	72,542	3,152	–	75,694
Available-for-sale assets	–	–	–	–	–	37,612	37,612
Net loans and advances[2,3]	448,288	144	16	160	–	–	448,448
Regulatory deposits	557	–	–	–	–	–	557
Due from controlled entities	109,920	–	–	–	–	–	109,920
Other financial assets	2,345	–	–	–	–	–	2,345
	637,162	144	109,931	110,075	3,152	37,612	788,001
Financial liabilities							
Settlement balances owed by ANZ	9,901	–	–	–	–	n/a	9,901
Collateral received	6,886	–	–	–	–	n/a	6,886
Deposits and other borrowings	471,966	65	–	65	–	n/a	472,031
Derivative financial instruments[1]	–	–	69,648	69,648	2,196	n/a	71,844
Due to controlled entities	105,079	–	–	–	–	n/a	105,079
Payables and other liabilities	4,316	–	1,978	1,978	–	n/a	6,294
Debt issuances	72,414	3,165	–	3,165	–	n/a	75,579
Subordinated debt	15,812	–	–	–	–	n/a	15,812
	686,374	3,230	71,626	74,856	2,196	n/a	763,426

1 Derivative financial instruments classified as 'held for trading' include derivatives entered into as economic hedges which are not designated as accounting hedges.
2 Fair value hedging is applied to financial assets within net loans and advances. The resulting fair value adjustments mean that the carrying value differs from the amortised cost.
3 Net loans and advances includes Esanda Dealer Finance assets classified as held for sale as at 30 September 2015 which were sold in 2016. Refer to note 15 for further details.

(ii) MEASUREMENT OF FAIR VALUE

(a) Valuation methodologies

ANZ has an established control framework that ensures fair value is either determined or validated by a function independent of the party that undertakes the transaction. The control framework ensures that all models are calibrated periodically to test that outputs reflect prices from observable current market transactions in the same instrument or other available observable market data.

Where quoted market prices are used, prices are independently verified from other sources. For fair values determined using a valuation model, the control framework may include, as applicable, independent development or validation of valuation models, any inputs to those models, any adjustments required outside of the valuation model and, where possible, independent validation of model outputs. In this way, continued appropriateness of the valuations is ensured.

In instances where the Group holds offsetting risk positions, the Group uses the portfolio exemption in AASB 13 to measure the fair value of such groups of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (that is, an asset) for a particular risk exposure or to transfer a net short position (that is, a liability) for a particular risk exposure.

The Group categorises its fair value measurements on the basis of inputs used in measuring fair value using the fair value hierarchy below:

- Level 1 – Financial instruments that have been valued by reference to unadjusted quoted prices in active markets for identical financial instruments. This category includes financial instruments valued using quoted yields where available for specific debt securities.
- Level 2 – Financial instruments that have been valued through valuation techniques incorporating inputs other than quoted prices within Level 1 that are observable for a similar financial asset or liability, either directly or indirectly.
- Level 3 – Financial instruments that have been valued using valuation techniques which incorporate significant inputs that are not based on observable market data (unobservable inputs).

21: Fair value of financial assets and financial liabilities (continued)

(b) Valuation techniques and inputs used

In the event that there is no quoted market price for the instrument, fair value is based on valuation techniques. Where applicable, the valuation models incorporate the impact of bid/ask spreads, counterparty credit spreads, funding costs and other factors that would influence the fair value determined by market participants.

The majority of valuation techniques employ only observable market data. However, for certain financial instruments the valuation technique may employ some data (valuation inputs or components) which is not readily observable in the current market. In these cases valuation inputs (or components of the overall value) are derived and extrapolated from other relevant market data and tested against historic transactions and observed market trends. To the extent that valuation is based on models or inputs that are not observable in the market, the determination of fair value can be more subjective, dependent on the significance of the unobservable input to the overall valuation.

The following valuation techniques have been applied to determine the fair values of financial instruments where there is no quoted price for the instrument:

- For instruments classified as Trading security assets and Securities short sold, Derivative financial assets and liabilities, Available-for-sale financial assets, and Investments backing policy liabilities, fair value measurements are derived by using modelled valuations techniques (including discounted cash flow models) that incorporate market prices/yields for securities with similar credit risk, maturity and yield characteristics; and/or current market yields for similar instruments.
- For Net loans and advances, Deposits and other borrowings and Debt issuances, discounted cash flow techniques are used where contractual future cash flows of the instrument are discounted using discount rates incorporating wholesale market rates or market borrowing rates of debt with similar maturities or a yield curve appropriate for the remaining term to maturity.
- The fair value of external unit holder liabilities (life insurance funds) represents the external unit holder's share of the net assets of the consolidated investment funds, which are carried at fair value. The fair value of policy liabilities being liabilities of the insurance business is directly linked to the performance and value of the assets backing the liabilities. These liabilities are measured at fair value using observable inputs.

Further details of valuation techniques and significant unobservable inputs used in measuring fair values are described in (iv)(a) below.

Apart from derivative credit valuation adjustments, there have been no substantial changes in the valuation techniques applied to different classes of financial instruments during the year. With respect to derivative CVA, the methodology was revised in 2016 to reflect leading market practice in exposure modelling and greater use of current market data (refer note 1 E (ii)).

(iii) FINANCIAL ASSETS AND FINANCIAL LIABILITIES THAT ARE MEASURED AT FAIR VALUE IN THE BALANCE SHEET

The table below provides an analysis of financial instruments carried at fair value at reporting date categorised according to the lowest level input into a valuation model or a valuation component that is significant to the reported fair value. The significance of the input is assessed against the reported fair value of the financial instrument and considers various factors specific to the financial instrument. The fair value has been allocated in full to the category in the fair value hierarchy which most appropriately reflects the determination of the fair value.

	Fair value measurements							
	Quoted market price (Level 1)		Using observable inputs (Level 2)		With significant non–observable inputs (Level 3)		Total	
Consolidated	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m
Financial assets								
Trading securities[1]	44,856	45,227	2,332	3,769	–	4	47,188	49,000
Derivative financial instruments	453	388	86,934	85,155	109	82	87,496	85,625
Available-for-sale assets[1]	55,294	37,086	7,580	6,347	239	234	63,113	43,667
Net loans and advances (measured at fair value)	–	–	397	683	15	16	412	699
Investments backing policy liabilities[1]	24,270	17,983	10,879	16,298	507	539	35,656	34,820
	124,873	100,684	108,122	112,252	870	875	233,865	213,811
Financial liabilities								
Deposits and other borrowings (designated at fair value)	–	–	5,193	4,576	–	–	5,193	4,576
Derivative financial instruments	408	782	88,215	80,387	102	101	88,725	81,270
Policy liabilities[2]	–	–	35,955	35,029	–	–	35,955	35,029
External unit holder liabilities (life insurance funds)	–	–	3,333	3,291	–	–	3,333	3,291
Payables and other liabilities (measured at fair value)[3]	2,294	2,443	86	125	–	–	2,380	2,568
Debt issuances (designated at fair value)	–	–	2,192	3,165	–	–	2,192	3,165
Total	2,702	3,225	134,974	126,573	102	101	137,778	129,899

1 During the period there were transfers from Level 1 to Level 2 of $495 million (2015: $190 million) for the Group following a reassessment of reduced trading activity in the associated securities. During the period there were also transfers from Level 2 to Level 1 of $53 million (2015: $114 million) for the Group following increased trading activity to support the quoted prices. Transfers into and out of Level 1 and Level 2 are deemed to have occurred as of the beginning of the reporting period in which the transfer occurred.

2 Policy liabilities relate to life investment contract liabilities only as these are designated at fair value through profit or loss.

3 Relates to Securities short sold classified as 'at fair value through profit or loss'.

21: Fair value of financial assets and financial liabilities (continued)

The Company	Fair value measurements: Quoted market price (Level 1) 2016 $m	2015 $m	Using observable inputs (Level 2) 2016 $m	2015 $m	With significant non–observable inputs (Level 3) 2016 $m	2015 $m	Total 2016 $m	2015 $m
Financial assets								
Trading securities[1]	32,945	33,912	2,114	3,457	–	4	35,059	37,373
Derivative financial instruments	450	378	75,324	75,243	98	73	75,872	75,694
Available-for-sale assets[1]	51,094	33,452	4,590	4,110	37	50	55,721	37,612
Net loans and advances (measured at fair value)	–	–	37	144	15	16	52	160
	84,489	67,742	82,065	82,954	150	143	166,704	150,839
Financial liabilities								
Deposits and other borrowings (designated at fair value)	–	–	78	65	–	–	78	65
Derivative financial instruments	365	766	75,780	70,987	98	91	76,243	71,844
Payables and other liabilities (measured at fair value)[2]	1,982	1,854	86	124	–	–	2,068	1,978
Debt issuances (designated at fair value)	–	–	2,192	3,165	–	–	2,192	3,165
Total	2,347	2,620	78,136	74,341	98	91	80,581	77,052

1 During the period there were transfers from Level 1 to Level 2 of $415 million (2015: $136 million) for the Company following a reassessment of reduced trading activity in the associated securities. During the period there were no transfers from Level 2 to Level 1 (2015: $104 million) for the Company. Transfers into and out of Level 1 and Level 2 are deemed to have occurred as of the beginning of the reporting period in which the transfer occurred.

2 Relates to Securities short sold classified as 'at fair value through profit or loss'.

(iv) DETAILS OF FAIR VALUE MEASUREMENTS THAT INCORPORATE UNOBSERVABLE MARKET DATA

(a) Composition of Level 3 fair value measurements

The following table presents the composition of financial instruments measured at fair value with significant unobservable inputs (Level 3 fair value measurements).

Consolidated	Financial assets: Trading securities 2016 $m	2015 $m	Derivatives 2016 $m	2015 $m	Available-for-sale 2016 $m	2015 $m	Net loans and advances 2016 $m	2015 $m	Investments backing policy liabilities 2016 $m	2015 $m	Financial liabilities: Derivatives 2016 $m	2015 $m
Asset backed securities	–	–	–	–	–	2	–	–	150	188	–	–
Illiquid corporate bonds	–	4	–	–	198	198	15	16	12	–	–	–
Structured credit products	–	–	56	52	–	–	–	–	–	–	(66)	(67)
Alternative assets	–	–	–	–	41	34	–	–	345	351	–	–
Other derivatives	–	–	53	30	–	–	–	–	–	–	(36)	(34)
Total	–	4	109	82	239	234	15	16	507	539	(102)	(101)

The Company	Financial assets: Trading securities 2016 $m	2015 $m	Derivatives 2016 $m	2015 $m	Available–for–sale 2016 $m	2015 $m	Net loans and advances 2016 $m	2015 $m	Financial liabilities: Derivatives 2016 $m	2015 $m
Asset backed securities	–	–	–	–	–	–	–	–	–	–
Illiquid corporate bonds	–	4	–	–	–	20	15	16	–	–
Structured credit products	–	–	56	52	–	–	–	–	(66)	(67)
Alternative assets	–	–	–	–	37	30	–	–	–	–
Other derivatives	–	–	42	21	–	–	–	–	(32)	(24)
Total	–	4	98	73	37	50	15	16	(98)	(91)

The Level 3 balances include Structured credit products that the Group entered into from 2004 to 2007 whereby it sold protection using credit default swaps over certain structures, and mitigated risk by purchasing protection via credit default swaps from US financial guarantors over the same structures. These trades are valued using complex models with certain inputs relating to the reference assets and derivative counterparties not being observable in the market. Such unobservable inputs include credit spreads and default probabilities.

The remaining Level 3 balances include Asset backed securities and Illiquid corporate bonds where the effect on fair value of issuer credit cannot be directly or indirectly observed in the market; Alternative assets that largely comprise investments in funds which are illiquid and are not currently redeemable, as well as various investments in unlisted equity securities for which no active market exists; and Other derivatives which predominantly include reverse mortgage swaps where the mortality rate cannot be observed and options over emissions certificates where the volatility input cannot be observed.

21: Fair value of financial assets and financial liabilities (continued)

(b) Movements in Level 3 fair value measurements

The following table sets out movements in Level 3 fair value measurements. Derivatives are categorised on a portfolio basis and classified as either financial assets or financial liabilities based on whether the closing balance is an unrealised gain or loss. This could be different to the opening balance.

	Financial assets										Financial liabilities	
	Trading securities		Derivatives		Available-for-sale		Net loans and advances		Investments backing policy liabilities		Derivatives	
Consolidated	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m
Opening balance	4	–	82	106	234	40	16	–	539	545	(101)	(105)
New purchases	1	–	1	–	7	8	–	21	130	161	(1)	–
Disposals (sales)	(5)	–	(3)	(8)	(26)	(20)	–	–	(133)	(266)	–	–
Cash settlements	–	–	–	–	–	–	–	–	–	–	8	7
Transfers:												
– Transfers into Level 3 category[1]	–	10	1	2	25	198	–	–	22	161	(1)	(2)
– Transfers out of Level 3 category[1]	–	–	–	(17)	–	–	–	–	(3)	(148)	9	9
Fair value gain/(loss) recorded in Other operating income in the Income statement[2]	–	(6)	28	(1)	(2)	5	(1)	(5)	(48)	86	(16)	(10)
Fair value gain/(loss) recognised in reserves in equity	–	–	–	–	1	3	–	–	–	–	–	–
Closing balance	–	4	109	82	239	234	15	16	507	539	(102)	(101)

	Financial assets								Financial liabilities	
	Trading securities		Derivatives		Available–for–sale		Net loans and advances		Derivatives	
The Company	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m
Opening balance	4	–	73	96	50	22	16	–	(91)	(103)
New purchases	1	–	1	–	7	8	–	21	(1)	–
Disposals (sales)	(5)	–	(2)	(8)	(19)	(14)	–	–	–	–
Cash settlements	–	–	–	–	–	–	–	–	7	7
Transfers:										
– Transfers into Level 3 category	–	10	1	–	–	30	–	–	(1)	–
– Transfers out of Level 3 category	–	–	–	(16)	–	–	–	–	–	8
Fair value gain/(loss) recorded in Other operating income in the Income statement[2]	–	(6)	25	1	–	4	(1)	(5)	(12)	(3)
Fair value gain/(loss) recognised in reserves in equity	–	–	–	–	(1)	–	–	–	–	–
Closing balance	–	4	98	73	37	50	15	16	(98)	(91)

1 Transfers into Level 3 for the Group in 2016 relate principally to illiquid corporate bonds and asset backed securities where market activity has reduced resulting in pricing to no longer be observable. Transfers out of Level 3 for the Group relate principally to derivative products where the trade characteristics are such that inputs significant to the valuation are now observable. Transfers into and out of Level 3 are deemed to have occurred as of the beginning of the reporting period in which the transfer occurred.

2 Relating to assets and liabilities held at the end of the period.

(c) Sensitivity to Level 3 data inputs

Where valuation techniques are employed and assumptions are required due to significant data inputs not being directly observed in the market place (Level 3 inputs), changing these assumptions changes the resultant estimate of fair value. The majority of transactions in this category are 'back-to-back' in nature where ANZ either acts as a financial intermediary or hedges the market risks. Similarly, the valuation of Investments backing policy liabilities directly impacts the associated life investment contracts they relate to. In these circumstances, changes in the assumptions generally have minimal impact on the income statement and net assets of ANZ. An exception to this is the 'back-to-back' structured credit intermediation trades which create significant exposure to credit risk.

Principal inputs used in the determination of fair value of financial instruments included in the structured credit portfolio include counterparty credit spreads, market-quoted CDS prices, recovery rates, default probabilities, correlation curves and other inputs, some of which may not be directly observable in the market. The potential effect of changing prevailing unobservable inputs does not result in a significant impact on net profit.

21: Fair value of financial assets and financial liabilities (continued)

(d) Deferred fair value gains and losses

Where the fair value of a financial instrument at initial recognition is determined using unobservable data that is significant to the valuation of the instrument, the difference between the transaction price and the amount determined based on the valuation technique (day one gain or loss) is not immediately recognised in the income statement. Subsequently, the day one gain or loss is recognised in the income statement over the life of the transaction on a straight line basis or over the period until all inputs become observable.

The table below summarises the aggregate amount of day one gains not yet recognised in the income statement and amounts which have been subsequently recognised.

	Consolidated		The Company	
	2016 $m	2015 $m	2016 $m	2015 $m
Opening balance	2	3	1	2
Deferral on new transactions	–	–	–	–
Amounts recognised in income during the period	(1)	(1)	–	(1)
Closing balance	1	2	1	1

The closing balance of unrecognised gains is only related to derivative financial instruments.

(v) ADDITIONAL INFORMATION FOR FINANCIAL INSTRUMENTS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

(a) Financial assets designated at fair value through profit or loss

The category Loans and advances includes certain loans designated at fair value through profit or loss in order to eliminate an accounting mismatch which would arise if the asset were otherwise carried at amortised cost. This mismatch arises as the derivative financial instruments which were acquired to mitigate interest rate risk of the loans and advances, are measured at fair value through profit or loss. By designating the economically hedged loans, the movements in the fair value attributable to changes in interest rate risk will be recognised in the income statement in the same periods.

At balance date, the credit exposure of the Group on these assets was $397 million (2015: $683 million) and for the Company was $37 million (2015: $144 million). In relation to these exposures, for the Group $237 million (2015: $509 million) and the Company $37 million (2015: $144 million) was mitigated by collateral held.

For the Group, the cumulative change in fair value attributable to change in credit risk was a reduction to the assets of $1 million (2015: reduction to the assets of $1 million). For the Company the cumulative change to the assets was nil (2015: nil). The amount recognised in the income statement attributable to changes in credit risk for the Group was $1 million (2015: $1 million) and for the Company nil (2015: nil).

The change in fair value of the designated financial assets attributable to changes in credit risk has been calculated by determining the change in credit rating and credit spread implicit in the loans and advances issued by entities with similar credit characteristics.

(b) Financial liabilities designated at fair value through profit or loss

Parts of Debt issuances and Deposits and other borrowings have been designated as financial liabilities at fair value through profit or loss in order to eliminate an accounting mismatch which would arise if the liabilities were otherwise carried at amortised cost. This mismatch arises since the derivatives acquired to mitigate interest rate risk of the financial liabilities are measured at fair value through profit or loss. In addition Policy liabilities are designated at fair value through profit or loss in accordance with AASB 1038. External unitholder liabilities which are not included in the table below, represent the external unitholder share of the 'Investments backing policy liabilities' which are designated at fair value through profit or loss.

The table below compares the carrying amount of financial liabilities carried at full fair value, to the contractual amount payable at maturity and fair value gains and losses recognised during the period on liabilities carried at full fair value that are attributable to changes in ANZ's own credit rating.

	Policy liabilities		Deposits and other borrowings		Debt issuances	
Consolidated	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m
Carrying amount	35,955	35,029	5,193	4,576	2,192	3,165
Amount by which the consideration payable at maturity is greater/(less) than the carrying value	–	–	(7)	6	(170)	(15)
Cumulative change in liability value attributable to own credit risk:						
– opening cumulative increase/(decrease)	–	–	–	–	(18)	34
– increase/(decrease) recognised during the year	–	–	–	–	10	(52)
– closing cumulative increase/(decrease)	–	–	–	–	(8)	(18)

21: Fair value of financial assets and financial liabilities (continued)

The Company	Deposits and other borrowings 2016 $m	Deposits and other borrowings 2015 $m	Debt issuances 2016 $m	Debt issuances 2015 $m
Carrying amount	78	65	2,192	3,165
Amount by which the consideration payable at maturity is greater/(less) than the carrying value	(7)	6	(170)	(15)
Cumulative change in liability value attributable to own credit risk:				
– opening cumulative increase/(decrease)	–	–	(18)	34
– increase/(decrease) recognised during the year	–	–	10	(52)
– closing cumulative increase/(decrease)	–	–	(8)	(18)

For Debt issuances and Deposits and other borrowings, the change in fair value attributable to changes in credit risk has been determined as the amount of change in fair value that is not attributable to changes in market conditions that give rise to market risks (benchmark interest rates and foreign exchange rates). This approach is deemed appropriate as the changes in fair value arising from factors other than changes in own credit risk or changes in benchmark interest rates and foreign exchange rates are considered to be insignificant.

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

The table below reflects the carrying amounts of financial instruments not measured at fair value on the Group's balance sheet and where the carrying amount is not considered a close approximation of fair value. The table also provides a comparison of the carrying amount of these financial instruments to the Group's estimate of their fair value. The categorisation of the fair value into the levels within the fair value hierarchy is determined in accordance with the methodology set out on page 130 (note 21(ii)).

	Carrying amount		Categorised into fair value hierarchy						Fair value (total)	
			Quoted market price (Level 1)		Using observable inputs (Level 2)		With significant non-observable inputs (Level 3)			
Consolidated	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m
Financial assets										
Net loans and advances[1]	575,440	569,539	–	–	551,575	545,538	24,649	25,402	576,224	570,940
	575,440	569,539	–	–	551,575	545,538	24,649	25,402	576,224	570,940
Financial liabilities										
Deposits and other borrowings	583,002	566,218	–	–	583,420	566,636	–	–	583,420	566,636
Debt issuances	88,888	90,582	32,864	37,880	56,544	52,826	–	–	89,408	90,706
Subordinated debt	21,964	17,009	14,322	13,842	7,788	3,241	–	–	22,110	17,083
Total	693,854	673,809	47,186	51,722	647,752	622,703	–	–	694,938	674,425

1 Net loans and advances includes Esanda Dealer Finance assets classified as held for sale as at 30 September 2015 which were sold in 2016. Refer to note 15.

	Carrying amount		Categorised into fair value hierarchy						Fair value (total)	
			Quoted market price (Level 1)		Using observable inputs (Level 2)		With significant non-observable inputs (Level 3)			
The Company	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m
Financial assets										
Net loans and advances[1]	446,479	448,288	–	–	427,282	428,949	19,563	20,276	446,845	449,225
	446,479	448,288	–	–	427,282	428,949	19,563	20,276	446,845	449,225
Financial liabilities										
Deposits and other borrowings	479,885	471,966	–	–	480,219	472,235	–	–	480,219	472,235
Debt issuances	69,683	72,414	20,115	24,428	49,960	48,008	–	–	70,075	72,436
Subordinated debt	20,707	15,812	13,029	11,357	7,798	3,249	–	–	20,827	14,606
Total	570,275	560,192	33,144	35,785	537,977	523,492	–	–	571,121	559,277

1 Net loans and advances includes Esanda Dealer Finance assets classified as held for sale as at 30 September 2015 which were sold in 2016. Refer to note 15.

The following sets out the Group's basis of establishing fair values of financial instruments not measured at fair value on the balance sheet. The valuation techniques employed are consistent with those used to calculate fair values of financial instruments carried at fair value. Certain Net loans and advances, Deposits and other borrowings and Debt issuances have been designated at fair value and are therefore excluded from the tables above.

21: Fair value of financial assets and financial liabilities (continued)

Net loans and advances

The fair value has been determined through discounting future cash flows as follows:

- For Net loans and advances to banks, the fair value is derived by discounting cash flows using prevailing market rates for lending with similar credit quality.
- For Net loans and advances to customers, the fair value is the present value of future cash flows, discounted using a curve which incorporates changes in wholesale market rates, the Group's cost of wholesale funding and the customer margin, as appropriate.

Deposits and other borrowings

The fair value of a deposit liability without a specified maturity or at call is deemed to be the amount payable on demand at the reporting date. The fair value is not adjusted for any value expected to be derived from retaining the deposit for a future period of time. For interest bearing fixed maturity deposits and other borrowings and acceptances with quoted market prices, 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 and Subordinated debt

The aggregate fair value of Debt issuances and Subordinated debt is calculated based on quoted market prices or observable inputs where applicable. For those debt issuances where quoted market prices were not available, a discounted cash flow model using a yield curve appropriate for the remaining term to maturity of the debt instrument used. The fair value includes the effects of the appropriate credit spreads applicable to ANZ for that instrument.

22: Maturity Analysis of Assets and Liabilities

The following is an analysis of asset and liability line items in the balance sheet that combine amounts expected to be realised or due to be settled within one year and after more than one year.[1]

	2016			2015		
Consolidated	Within one year $m	After more than one year $m	Total $m	Within one year $m	After more than one year $m	Total $m
Available-for-sale assets	10,429	52,684	63,113	10,353	33,314	43,667
Net loans and advances[2]	116,135	459,717	575,852	128,771	441,467	570,238
Investments backing policy liabilities	28,798	6,858	35,656	27,966	6,854	34,820
Deposits and other borrowings	567,567	20,628	588,195	546,626	24,168	570,794
Policy liabilities[3]	36,101	44	36,145	35,340	61	35,401
Debt issuances	22,280	68,800	91,080	29,327	64,420	93,747
Subordinated debt[4]	1,068	20,896	21,964	–	17,009	17,009

1 Excludes asset and liability line items where the entire amount is considered as 'within one year', 'after more than one year' or having no specific maturities.
2 2015 comparative amounts include $8,065 million classified separately in the balance sheet as 'Esanda Dealer Finance assets held for sale'.
3 Includes $190 million (2015: $372 million) that relates to life insurance contract liabilities classified as 'within one year'.
4 Includes $2,519 million (2015: $1,188 million) that relates to perpetual notes classified as 'after more than one year'.

23: 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 the collateral agreements are included in the standard Credit Support Annex that forms part of the International Swaps and Derivatives Association Master Agreement.

ASSETS CHARGED AS SECURITY FOR LIABILITIES

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

- Mandatory reserve deposits with local central banks in accordance with statutory requirements. These deposits are not available to finance the Group's day to day operations.
- Securities provided as collateral for repurchase transactions. These transactions are governed by standard industry agreements.
- Debenture undertakings covering the assets of UDC Finance Limited (UDC). The debenture stock of UDC is secured by a trust deed and collateral debentures, giving floating charges over the undertakings and all the tangible assets of the entity. All controlled entities of UDC have guaranteed the payment of principal, interest and other monies in relation to all debenture stock and unsecured notes issued by UDC. The only loans pledged as collateral are those in UDC and their subsidiaries.
- 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.
- Collateral provided to clearing houses.

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

	Consolidated				The Company			
	Carrying Amount		Related Liability		Carrying Amount		Related Liability	
	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m
Regulatory deposits	2,296	1,773	n/a	n/a	671	557	n/a	n/a
Securities sold under arrangements to repurchase[1]	26,637	13,975	25,049	13,731	26,234	13,476	24,646	13,255
Assets pledged as collateral under debenture undertakings	2,541	2,218	1,518	1,578	–	–	–	–
Covered bonds[2]	31,790	30,368	21,035	27,013	22,001	23,508	22,001	23,508
Other	2,948	2,135	774	222	1,390	794	713	178

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 included in the disclosure below.
2 The consolidated related liability represents covered bonds issued to external investors and the related liability for the Company represents the liability to the covered bond structured entities.

COLLATERAL ACCEPTED AS SECURITY FOR ASSETS

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

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

	Consolidated		The Company	
	2016 $m	2015 $m	2016 $m	2015 $m
Fair value of assets which can be sold or repledged	31,646	17,506	31,130	16,738
Fair value of assets sold or repledged[1]	14,428	7,410	14,133	6,869

1 Comparative amounts have changed to include the fair value of assets repledged.

24: Offsetting

The following tables identify financial assets and liabilities which have been offset in the balance sheet (in accordance with AASB 132 – Financial Instruments: Presentation (AASB 132)) and those which have not been offset in the balance sheet but are subject to enforceable master netting agreements (or similar arrangements) with our trading counterparties. The effect of over collaterisation has not been taken into account.
A description of the rights of set-off associated with financial assets and financial liabilities subject to master netting agreements or similar, including the nature of those rights, are described in note 20 – Financial Risk Management: Collateral Management.

			Amount subject to master netting agreement or similar			
				Related amounts not offset in the statement of financial position		
Consolidated 30 September 2016	Total amounts recognised in the balance sheet[1] $m	Amounts not subject to master netting agreement or similar $m	Total $m	Financial instruments $m	Financial collateral (received)/ pledged $m	Net amount $m
Derivative assets	87,496	(3,944)	83,552	(71,394)	(5,259)	6,899
Reverse repurchase, securities borrowing and similar agreements[2]	30,160	(11,320)	18,840	(707)	(18,133)	–
Total financial assets	117,656	(15,264)	102,392	(72,101)	(23,392)	6,899
Derivative liabilities	(88,725)	3,693	(85,032)	71,394	9,486	(4,152)
Repurchase, securities lending and similar agreements[3]	(25,049)	11,661	(13,388)	707	12,681	–
Total financial liabilities	(113,774)	15,354	(98,420)	72,101	22,167	(4,152)

			Amount subject to master netting agreement or similar			
				Related amounts not offset in the statement of financial position		
Consolidated 30 September 2015	Total amounts recognised in the balance sheet[1] $m	Amounts not subject to master netting agreement or similar $m	Total $m	Financial instruments $m	Financial collateral (received)/ pledged $m	Net amount $m
Derivative assets	85,625	(6,846)	78,779	(62,782)	(7,165)	8,832
Reverse repurchase, securities borrowing and similar agreements[2]	17,308	(7,470)	9,838	(265)	(9,573)	–
Total financial assets	102,933	(14,316)	88,617	(63,047)	(16,738)	8,832
Derivative liabilities	(81,270)	5,566	(75,704)	62,782	8,517	(4,405)
Repurchase, securities lending and similar agreements[3]	(13,731)	12,674	(1,057)	265	792	–
Total financial liabilities	(95,001)	18,240	(76,761)	63,047	9,309	(4,405)

1 The Group/Company does not have any arrangements that satisfy the conditions of AASB 132 to offset within the balance sheet.
2 Reverse repurchase agreements are presented in the balance sheet within cash if duration is less than 90 days. If maturity is greater than 90 days they are presented in net loans and advances.
3 Repurchase agreements are presented in the balance sheet within deposits and other borrowings.

24: Offsetting (continued)

			Amount subject to master netting agreement or similar			
				Related amounts not offset in the statement of financial position		
The Company 30 September 2016	Total amounts recognised in the balance sheet[1] $m	Amounts not subject to master netting agreement or similar $m	Total $m	Financial instruments $m	Financial collateral (received)/ pledged $m	Net amount $m
Derivative assets	75,872	(2,376)	73,496	(62,296)	(5,143)	6,057
Reverse repurchase, securities borrowing and similar agreements[2]	29,713	(10,873)	18,840	(707)	(18,133)	–
Total financial assets	105,585	(13,249)	92,336	(63,003)	(23,276)	6,057
Derivative liabilities	(76,243)	2,010	(74,233)	62,296	8,244	(3,693)
Repurchase, securities lending and similar agreements[3]	(24,646)	11,258	(13,388)	707	12,681	–
Total financial liabilities	(100,889)	13,268	(87,621)	63,003	20,925	(3,693)

			Amount subject to master netting agreement or similar			
				Related amounts not offset in the statement of financial position		
The Company 30 September 2015	Total amounts recognised in the balance sheet[1] $m	Amounts not subject to master netting agreement or similar $m	Total $m	Financial instruments $m	Financial collateral (received)/ pledged $m	Net amount $m
Derivative assets	75,694	(5,140)	70,554	(55,881)	(6,435)	8,238
Reverse repurchase, securities borrowing and similar agreements[2]	16,604	(6,766)	9,838	(265)	(9,573)	–
Total financial assets	92,298	(11,906)	80,392	(56,146)	(16,008)	8,238
Derivative liabilities	(71,844)	4,247	(67,597)	55,881	7,681	(4,035)
Repurchase, securities lending and similar agreements[3]	(13,255)	12,198	(1,057)	265	792	–
Total financial liabilities	(85,099)	16,445	(68,654)	56,146	8,473	(4,035)

1 The Group/Company does not have any arrangements that satisfy the conditions of AASB 132 to offset within the balance sheet.
2 Reverse repurchase agreements are presented in the balance sheet within cash if duration is less than 90 days. If maturity is greater than 90 days they are presented in net loans and advances.
3 Repurchase agreements are presented in the balance sheet within deposits and other borrowings.

25: Credit Related Commitments, Guarantees and Contingent Liabilities

Credit related commitments – facilities provided

	Consolidated		The Company	
	2016 $m	2015 $m	2016 $m	2015 $m
Contract amount of:				
Undrawn facilities	207,410	230,794	161,178	180,947
Australia	96,933	101,898	95,096	99,880
New Zealand	24,768	22,960	–	20
Overseas markets	85,709	105,936	66,082	80,947
Total	207,410	230,794	161,178	180,847

Guarantees and contingent liabilities

These guarantees and contingent liabilities 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 issue of letters of credit guaranteeing payment in favour of an exporter 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 should the customer fail to fulfil the non-monetary terms of the contract.

To reflect the risk associated with these transactions, they are subjected to the same credit origination, portfolio management and collateral requirements as customers that apply for loans. The contract amount represents the maximum potential amount that could be lost 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.

	Consolidated		The Company	
	2016 $m	2015 $m	2016 $m	2015 $m
Contract amount of:				
Guarantees and letters of credit	18,056	18,809	15,633	16,101
Performance related contingencies	19,723	21,526	17,710	18,592
Total	37,779	40,335	33,343	34,693
Australia	19,712	17,638	19,712	17,637
New Zealand	2,037	1,961	–	–
Overseas markets	16,030	20,736	13,631	17,056
Total	37,779	40,335	33,343	34,693

26: Goodwill and Other Intangible Assets

	Consolidated 2016 $m	Consolidated 2015 $m	The Company 2016 $m	The Company 2015 $m
Goodwill[1]				
Gross carrying amount				
Balances at start of the year	4,597	4,511	109	90
Impairment expense/write-offs	–	(1)	–	–
Foreign currency exchange differences	132	87	(7)	19
Balance at end of year	4,729	4,597	102	109
Software				
Balances at start of the year	2,893	2,533	2,711	2,336
Software capitalisation during the period	431	807	400	782
Amortisation expense[2]	(1,056)	(542)	(937)	(500)
Impairment expense/write-offs	(27)	(17)	(23)	(12)
Foreign currency exchange differences	(39)	112	(41)	105
Balance at end of year	2,202	2,893	2,110	2,711
Cost	6,022	5,860	5,806	5,620
Accumulated amortisation	(3,599)	(2,763)	(3,475)	(2,710)
Accumulated impairment	(221)	(204)	(221)	(199)
Carrying amount	2,202	2,893	2,110	2,711
Acquired Portfolio of Insurance and Investment Business				
Balances at start of the year	715	784	–	–
Amortisation expense	(69)	(70)	–	–
Foreign currency exchange differences	2	1	–	–
Balance at end of year	648	715	–	–
Cost	1,191	1,188	–	–
Accumulated amortisation	(543)	(473)	–	–
Carrying amount	648	715	–	–
Other intangible assets[3]				
Balances at start of the year	107	122	10	25
Other additions	1	(1)	–	–
Reclassification	–	–	–	(7)
Amortisation expense	(14)	(18)	(8)	(9)
Derecognised on disposal	(3)	–	–	–
Foreign currency exchange differences	2	4	–	1
Balance at end of year	93	107	2	10
Cost	205	207	66	68
Accumulated amortisation/impairment	(112)	(100)	(64)	(58)
Carrying amount	93	107	2	10
Goodwill and other intangible assets				
Net book value				
Balances at start of the year	8,312	7,950	2,830	2,451
Balance at end of year	7,672	8,312	2,214	2,830

1 Excludes notional goodwill in equity accounted entities.
2 In 2016 the Group recorded a $556 million charge for accelerated amortisation associated with software capitalisation changes. Refer to note 1 E (ix).
3 The Consolidated Other intangible assets comprises aligned advisor relationships, distribution agreements and management fee rights, credit card relationships and other intangibles. The Company Other intangible assets comprises distribution agreements and management fee rights, credit card relationships and other intangibles.

GOODWILL ALLOCATED TO CASH–GENERATING UNITS

The goodwill balance above largely comprises the goodwill purchased on acquisition of NBNZ Holdings Limited in December 2003 and ANZ Wealth Australia Limited (formerly OnePath Australia Limited) on 30 November 2009. Refer to note 9 for Divisional allocation.

The recoverable amount of the CGU to which each goodwill component is allocated is estimated using a market multiple approach as representative of the fair value less costs of disposal of each CGU. The price earnings multiples are based on observable multiples reflecting the businesses and markets in which each CGU operates. The earnings are based on the current forecast earnings of the divisions. The aggregate fair value less costs of disposal across the Group is compared to the Group's market capitalisation to validate the conclusion that goodwill is not impaired.

26: Goodwill and Other Intangible Assets (continued)

Key assumptions on which management has based its determination of fair value less costs of disposal include assumptions as to the costs of disposal estimates, the ability to achieve forecast earnings, and market multiples adopted being reflective of the segment's business. For each of ANZ's divisions with goodwill, the range of multiples observed were as follows:

Division	2016	2015
Australia	10.9 – 17.2	10.8 – 14.7
Institutional	4.2 – 13.8	Not comparable due to change in structure.
New Zealand	10.9 – 14.0	10.8 – 13.9
Wealth Australia	13.9 – 18.6	13.8 – 21.9
Asia Retail & Pacific	5.2 – 14.8	Not comparable due to change in structure.

Changes in assumptions upon which the valuation is based could materially impact the assessment of the recoverable amount of each CGU.

As at 30 September 2016, the impairment testing performed did not result in any material impairment being identified.

27: Premises and Equipment

	Consolidated		The Company	
	2016 $m	2015 $m	2016 $m	2015 $m
At cost	4,913	4,769	2,806	2,694
Depreciation	(2,708)	(2,548)	(1,839)	(1,704)
Total premises and equipment	2,205	2,221	967	990
Carrying amount at beginning of year	2,221	2,181	990	1,001
Additions[1]	393	361	237	232
Disposals	(67)	(43)	(20)	(38)
Depreciation and Amortisation[2]	(336)	(325)	(232)	(227)
Foreign currency exchange difference	(6)	47	(8)	22
Carrying amount at end of year	2,205	2,221	967	990
Net book value				
Freehold and leasehold land and buildings	926	901	98	59
Integrals and equipment	1,170	1,183	816	856
Capital works in progress	109	137	53	75
	2,205	2,221	967	990

1 Includes Transfers.
2 Includes Freehold and leasehold land and buildings, Leasehold improvements, Furniture and equipment and Technology equipment.

COMMITMENTS

	Consolidated		The Company	
	2016 $m	2015 $m	2016 $m	2015 $m
Property capital expenditure				
Contracts for outstanding capital expenditure	111	109	103	92
Total capital expenditure commitments for property	111	109	103	92
Lease rentals				
Land and buildings	2,001	2,251	2,044	2,283
Furniture and equipment	218	276	144	190
Total lease rental commitments[1]	2,219	2,527	2,188	2,473
Due within one year	486	485	403	438
Due later than one year but not later than five years	1,114	1,273	982	1,083
Due later than five years	619	769	803	952
Total lease rental commitments[1]	2,219	2,527	2,188	2,473

1 Total future minimum sublease payments expected to be received under non-cancellable subleases at 30 September is $114 million (2015: $90 million) for the Group and $114 million (2015: $80 million) for the Company. During the year, sublease payments received amounted to $25 million (2015: $22 million) for the Group and $22 million (2015: $19 million) for the Company and were netted against rent expense.

28: Other Assets

	Consolidated		The Company	
	2016 $m	2015 $m	2016 $m	2015 $m
Accrued interest/prepaid discounts	1,371	1,405	922	944
Accrued commissions	101	137	58	76
Prepaid expenses	435	427	199	178
Insurance contract liabilities ceded	737	699	–	–
Outstanding premiums	98	228	–	–
Defined benefit superannuation plan surplus	109	144	109	144
Operating leases residual value	279	282	266	282
Other	1,891	2,524	627	1,325
Total other assets	5,021	5,846	2,181	2,949

29: Provisions

	Consolidated		The Company	
	2016 $m	2015 $m	2016 $m	2015 $m
Employee entitlements[1]	543	554	397	411
Restructuring costs and surplus leased space[2]	123	23	101	15
Non-lending losses, frauds and forgeries	193	169	150	141
Other[3]	350	328	184	164
Total provisions	1,209	1,074	832	731
Provisions, excluding employee entitlements				
Carrying amount at beginning of the year	520	574	320	291
Provisions made during the year	538	307	370	164
Payments made during the year	(309)	(206)	(193)	(72)
Transfer/release of provision	(83)	(155)	(62)	(63)
Carrying amount at the end of the year	666	520	435	320

1 The aggregate liability for employee entitlements largely comprises provisions for annual leave and long service leave.

2 Restructuring costs and surplus leased space provisions 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 includes termination benefits. Costs relating to on-going activities are not provided for. Provision is made when the Group is demonstrably committed, it is probable that the costs will be incurred, though their timing is uncertain, and the costs can be reliably estimated.

3 Other provisions comprise various other provisions including loyalty programs, workers' compensation, make-good provisions on leased premises and contingent liabilities recognised as part of a business combination.

30: Payables and Other Liabilities

	Consolidated		The Company	
	2016 $m	2015 $m	2016 $m	2015 $m
Creditors	1,623	1,661	743	871
Accrued interest and unearned discounts	1,796	1,938	1,366	1,448
Defined benefits plan obligations	51	59	15	14
Accrued expenses	1,199	1,368	825	889
Securities sold short (classified as held for trading)	2,380	2,568	2,068	1,978
Liability for acceptances	569	1,371	321	649
Other liabilities	1,247	1,401	228	445
Total payables and other liabilities	8,865	10,366	5,566	6,294

31: Shareholders' Equity

ORDINARY SHARES

Ordinary shares have no par value and entitle holders to receive dividends payable to ordinary shareholders and to participate in the proceeds available to ordinary shareholders on winding up of the Company in proportion to the number of fully paid ordinary shares held.

On a show of hands every holder of fully paid ordinary shares present at a meeting in person or by proxy is entitled to one vote, and upon a poll one vote for each share held.

	The Company	
Numbers of issued shares	**2016**	**2015**
Balance at start of the year	2,902,714,361	2,756,627,771
Bonus option plan[1,2]	3,516,214	2,899,350
Dividend reinvestment plan[1,2]	15,916,983	35,105,134
Group share option scheme[3]	18,062	32,192
Group employee share acquisition scheme[3,4]	5,311,040	–
Share placement and Share purchase plan[5]	–	108,049,914
Balance at end of year	2,927,476,660	2,902,714,361

	Consolidated		The Company	
	2016 $m	2015 $m	2016 $m	2015 $m
Ordinary share capital				
Balance at start of the year	28,367	24,031	28,611	24,280
Dividend reinvestment plan[1,2]	413	1,122	413	1,122
Group share option scheme[3]	–	2	–	2
Group employee share acquisition scheme[4,5]	138	1	138	1
Share placement and Share purchase plan[5]	–	3,206	–	3,206
Treasury shares in Wealth Australia[6]	(153)	5	–	–
Balance at end of year	28,765	28,367	29,162	28,611

1 Refer to note 7 for details of plan.
2 The Company issued 9.7 million shares under the Dividend Reinvestment Plan and Bonus Option Plan for the 2016 interim dividend and 9.7 million shares for the 2015 final dividend (Sep15: 28.7 million shares for the interim dividend and 9.3 million shares final dividend).
3 Refer to note 39 for details of plan.
4 The Company issued 5.3 million shares to satisfy obligations under the Group's Employee share acquisition plans; it also includes on-market purchase of shares for settlement of amounts due under share-based compensation plans. As at 30 September 2016, there were 10,806,633 Treasury Shares outstanding (2015; 11,378,648).
5 The Company issued 80.8 million ordinary shares under the Institutional Share Placement and 27.3 million ordinary shares under the Retail Share Purchase Plan in the September 2015 full year.
6 Treasury shares in ANZ Wealth Australia (AWA) are shares held in statutory funds as assets backing policy holder liabilities. AWA Treasury shares outstanding as at 30 September 2016 were 17,705,880 (2015: 11,623,304).

PREFERENCE SHARES

Euro Trust Securities

On 13 December 2004, ANZ issued 500,000 Euro Floating Rate Non-cumulative Trust Securities ('Euro Trust Securities') at €1,000 each, raising $871 million net of issue costs. All 500,000 Euro Trust Securities on issue were bought back by ANZ for cash at face value (€1,000 per security) and cancelled on 15 December 2014.

	Consolidated		The Company	
	2016 $m	2015 $m	2016 $m	2015 $m
Preference share balance at start of year	–	871	–	871
– Euro Trust Securities bought back	–	(871)	–	(871)
Preference share balance at end of the year	–	–	–	–

NON-CONTROLLING INTERESTS

	Consolidated	
	2016 $m	2015 $m
Share capital	51	55
Retained earnings	58	51
Total non-controlling interests	109	106

31: Shareholders' Equity (continued)

RESERVES AND RETAINED EARNINGS

	Consolidated		The Company	
	2016 $m	2015 $m	2016 $m	2015 $m
a) Foreign currency translation reserve				
Balance at beginning of the year	1,119	(605)	584	(290)
Transferred to income statement	(126)	(4)	(126)	(4)
Currency translation adjustments net of hedges	(449)	1,728	(476)	878
Total foreign currency translation reserve	544	1,119	(18)	584
b) Share option reserve[1]				
Balance at beginning of the year	68	60	68	60
Share-based payments/(exercises)	19	16	19	16
Transfer of options/rights lapsed to retained earnings[2]	(8)	(8)	(8)	(8)
Total share option reserve	79	68	79	68
c) Available-for-sale revaluation reserve				
Balance at beginning of the year	138	160	10	50
Gain/(loss) recognised	43	27	4	(6)
Transferred to income statement	(32)	(49)	(1)	(34)
Total available-for-sale revaluation reserve	149	138	13	10
d) Cash flow hedge reserve				
Balance at beginning of the year	269	169	277	174
Gain/(loss) recognised	48	111	(14)	103
Transferred to income statement	12	(11)	7	–
Total cash flow hedging reserve	329	269	270	277
e) Transactions with non-controlling interests reserve				
Balance at beginning of the year	(23)	(23)	–	–
Total transactions with non-controlling interests reserve	(23)	(23)	–	–
Total reserves	1,078	1,571	344	939
Retained earnings				
Balance at beginning of the year	27,309	24,544	20,138	17,557
Profit attributable to shareholders of the Company	5,709	7,493	5,687	7,306
Transfer of options/rights lapsed from share option reserve[1,2]	8	8	8	8
Remeasurement gain/(loss) on defined benefit plans after tax	(67)	(4)	(72)	20
Fair value gain/loss attributable to changes in own credit risk of financial liabilities designated at fair value	(7)	37	(7)	37
Dividend income on Treasury shares	24	22	–	–
Ordinary share dividends paid	(5,001)	(4,906)	(5,001)	(4,906)
Preference share dividends paid	–	(1)	–	–
Foreign exchange gains on preference shares bought back[3]	–	116	–	116
Retained earnings at end of year	27,975	27,309	20,753	20,138
Total reserves and retained earnings	29,053	28,880	21,097	21,077

1 Further information about share-based payments to employees is disclosed in note 39.
2 The transfer of balances from the share option reserve to retained earnings represents items of a distributable nature.
3 The Euro Trust Securities were bought back by ANZ for cash at face value and cancelled on 15 December 2014. The foreign exchange gain between the issue date and 15 December 2014 was recognised directly in retained earnings.

32: Capital Management

ANZ pursues an active approach to capital management, which is designed to protect the interests of depositors, creditors and shareholders. This involves the on-going review and Board approval of the level and composition of ANZ's capital base, assessed against the following key policy objectives:

- regulatory compliance such that capital levels exceed APRA's, ANZ's primary prudential supervisor, minimum Prudential Capital Ratios (PCRs) both at Level 1 (the Company and specified subsidiaries) and Level 2 (ANZ consolidated under Australian prudential standards), along with US Federal Reserve's minimum Level 2 requirements under ANZ's Foreign Holding Company Licence in the United States of America;
- capital levels are aligned with the risks in the business and to meet strategic and business development plans through ensuring that available capital exceeds the level of Economic Capital. Economic Capital is an internal estimate of capital levels required to support risk and unexpected losses above a desired target solvency level; and
- an appropriate balance between maximising shareholder returns and prudent capital management principles.

ANZ achieves these objectives through an Internal Capital Adequacy Assessment Process (ICAAP) whereby ANZ conducts detailed strategic and capital planning over a medium term time horizon.

Annually, ANZ conducts a detailed strategic planning process over a three year time horizon, the outcomes of which are embodied in the Strategic Plan. This process involves forecasting key economic variables which ANZ divisions use to determine key financial data for their existing business. New strategic initiatives to be undertaken over the planning period and their financial impact are then determined. These processes are used for the following:

- review capital ratios, targets, and levels of different classes of capital against ANZ's risk profile and risk appetite outlined in the Strategic Plan. ANZ's capital targets reflect the key policy objectives above, and the desire to ensure that under specific stressed economic scenarios capital levels are sufficient to remain above both Economic Capital and PCR requirements;
- stress tests are performed under different economic scenarios to ensure a comprehensive review of ANZ's capital position both before and after mitigating actions. The stress tests determine the level of additional capital (the 'stress capital buffer') needed to absorb losses that may be experienced during an economic downturn; and
- stress testing is integral to strengthening the predictive approach to risk management and is a key component in managing risks, asset writing strategies and business strategies. It creates greater understanding of the impacts on financial performance through modelling relationships and sensitivities between geographic, industry and divisional exposures under a range of macroeconomic scenarios. ANZ has a dedicated stress testing team within Risk Management that models and reports to management and the Board's Risk Committee on a range of scenarios and stress tests.

Results are subsequently used to:

- recalibrate ANZ's management targets for minimum and operating ranges for its respective classes of capital such that ANZ will have sufficient capital to remain above both economic and regulatory capital requirements; and
- identify the level of organic capital generation and hence determine current and future capital issuance requirements for Level 1 and Level 2.

From these processes, a capital plan is developed and approved by the Board which identifies the capital issuance requirements, capital securities maturity profile, and options around capital products, timing and markets to execute the capital plan under differing market and economic conditions.

The capital plan is maintained and updated through a monthly review of forecast financial performance, economic conditions and development of business initiatives and strategies. The Board and senior management are provided with monthly updates of ANZ's capital position. Any actions required to ensure ongoing prudent capital management are submitted to the Board for approval.

REGULATORY ENVIRONMENT

ANZ's regulatory capital calculation is governed by APRA's Prudential Standards which adopt a risk-based capital assessment framework based on the Basel 3 capital measurement standards. This risk based approach requires eligible capital to be divided by total risk weighted assets (RWAs), with the resultant ratio being used as a measure of an ADI's capital adequacy. APRA determines PCRs for Common Equity Tier 1 (CET1), Tier 1 and Total Capital, with capital as the numerator and RWAs as the denominator.

To ensure that ADIs are adequately capitalised on both a stand-alone and group basis, APRA adopts a tiered approach to the measurement of an ADI's capital adequacy by assessing the ADIs financial strength at three levels:

- Level 1 – the ADI on a stand-alone basis (that is, the Company and approved subsidiaries which are consolidated to form the ADI's Extended Licensed Entity);
- Level 2 – the consolidated banking group (that is the consolidated financial group less certain subsidiaries and associates excluded under prudential standards); and
- Level 3 – the conglomerate group at the widest level.

ANZ is a Level 1 and Level 2 reporter, and measures capital adequacy monthly on a Level 1 and Level 2 basis, and is not yet required to report on a Level 3 basis.

Regulatory capital is divided into Tier 1, carrying the highest capital elements, and Tier 2, which has lower capital elements, but still adds to the overall strength of the ADI.

Tier 1 capital is comprised of Common Equity Tier 1 capital less deductions and Additional Tier 1 capital instruments. Common Equity Tier 1 capital comprises shareholders' equity adjusted for items which APRA does not allow as regulatory capital or classifies as lower forms of regulatory capital. Common Equity Tier 1 capital includes the following significant adjustments:

- Reserves, excluding the hedging reserve and reserves of insurance and funds management subsidiaries excluded for Level 2 purposes;
- Retained earnings excludes retained earnings of insurance and funds management subsidiaries excluded for Level 2 purposes, but includes capitalised deferred fees forming part of loan yields that meet the criteria set out in the prudential standard;
- Inclusion of qualifying treasury shares; and
- Current year net of tax earnings less profits of insurance and funds management subsidiaries excluded for Level 2 purposes.

32: Capital Management (continued)

Additional Tier 1 capital instruments are high quality components of capital that provide a permanent and unrestricted commitment of funds, are available to absorb losses, are subordinated to the claims of depositors and senior creditors in the event of the winding up of the issuer and provide for fully discretionary capital distributions.

Deductions from the capital base comprise mainly deductions to the Common Equity Tier 1 component. These deductions are largely intangible assets, investments in insurance and funds management entities and associates, capitalised expenses (including loan and origination fees) and the amount of regulatory expected losses (EL) in excess of eligible provisions.

Tier 2 capital mainly comprises perpetual subordinated debt instruments and dated subordinated debt instruments which have a minimum term of five years at issue date.

Total Capital is the sum of Tier 1 capital and Tier 2 capital.

In addition to the prudential capital oversight that APRA conducts over the Company and the Group, the Company's branch operations and major banking subsidiary operations are 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 Regulatory Commission who may impose minimum capitalisation rates on those operations.

Throughout the financial year, the Company and the Group maintained compliance with the minimum Common Equity Tier 1, Tier 1 and Total Capital ratios set by APRA and the US Federal Reserve (as applicable) as well as applicable capitalisation rates set by regulators in countries where the Company operates branches and subsidiaries.

OTHER REGULATORY DEVELOPMENTS

Financial System Inquiry (FSI)

The FSI final report into Australia's financial system was released in December 2014. Key recommendations included:

- Setting capital standards such that Australian Authorised Deposit-taking Institutions' (ADI) capital ratios are unquestionably strong;
- Raising the average internal ratings-based (IRB) mortgage risk weight to narrow the difference between average mortgage risk-weight for ADIs using IRB models and those using standardised risk weights;
- Implementing a framework for minimum loss absorbing and recapitalisation capacity in line with emerging international practice;
- Developing a common reporting template that improves the transparency and comparability of capital ratios of Australian ADIs; and
- Introducing a leverage ratio that acts as a backstop to ADI's risk-based capital requirements, in line with the Basel framework.

APRA responded to parts of the FSI inquiry with the following announcements made in connection to the key recommendations:

- In July 2015, APRA released an information paper entitled 'International capital comparison study' (APRA Study) which supports the FSI's recommendation that the capital ratios of Australian ADIs should be unquestionably strong. In an update to the APRA study published in July 2016, APRA acknowledged that the relative capital positions of major Australian ADIs have improved since and are now broadly in line with the benchmark suggested by the FSI. The results of the APRA Study will only inform but will not determine APRA's approach for setting capital adequacy requirements.
- Effective 1 July 2016, APRA requires increased capital holdings for Australian residential mortgage exposures by ADIs accredited to use the internal ratings-based (IRB) approach to credit risk which increases the average credit risk weight to be applied to Australian mortgage portfolios to at least 25%. For ANZ, the impact of this requirement as at 30 September 2016 was -60 bps to the CET1 ratio. Additionally, APRA also requires refinements to ANZ's residential mortgages risk models which will take effect in the financial year 2017. The exact impact of the model refinements has not been confirmed, pending review and approval from APRA. However, any change is expected to increase the average credit risk weight applied to ANZ's residential mortgages exposures to be within the 25% to 30% range. Ahead of the increased capital requirements for Australian residential mortgages ANZ raised $3.2 billion of ordinary share capital during 2015.
- Reporting of the Leverage Ratio commenced from 1 July 2015 however APRA have not yet announced details of the minimum requirement which will apply to impacted Australian ADIs.

The Australian Government agreed with the FSI recommendations and endorsed APRA to implement the recommendations. However, apart from the above, APRA has not made any announcements on the other key recommendations to date. Therefore, the final outcomes from the FSI, including any impacts and the timing of these impacts on ANZ remain uncertain.

Level 3 Conglomerates (Level 3)

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

In August 2016, APRA confirmed the deferral of capital requirements for Conglomerate Groups until 2019 at the earliest, to allow for the final requirements arising from FSI recommendations and international initiatives that are already in progress to be determined.

The non-capital components of the Level 3 framework covering group governance, risk exposures, intragroup transactions and other risk management and compliance requirements will become effective on 1 July 2017. ANZ is not expecting any material impact on its operations based upon the current version of these standards.

Current Proposals from the Basel Committee on Banking Supervision (BCBS) on RWA

As part of the BCBS agenda to simplify RWA measurement and reduce their variability between banks, the BCBS has issued a number of consultation documents in relation to:

- Standardised approach to RWA for credit risk;
- Revisions to Standardised Measurement Approach to Operational Risk;
- Fundamental Review of the Trading Book;
- Interest Rate Risk in the Banking Book;
- Framework on imposition of capital floors based on standardised RWA approaches; and
- Additional constraints on the use of internal models for credit RWA.

32: Capital Management (continued)

Apart from the finalisation of standards on the review of the Trading Book, BCBS is still currently consulting with the industry on the other proposals. The impacts of these changes on ANZ are subject to the final form of these BCBS proposals that APRA will implement for Australian ADIs.

CAPITAL ADEQUACY

The table below provides the composition of capital used for regulatory purposes and capital adequacy ratios.

	2016 $m	2015 $m
Qualifying capital		
Tier 1		
Shareholders' equity and non-controlling interests	57,927	57,353
Prudential adjustments to shareholders equity	(481)	(387)
Gross Common Equity Tier 1 Capital	57,446	56,966
Deductions	(18,179)	(18,440)
Common Equity Tier 1 Capital	39,267	38,526
Additional Tier 1 capital	9,018	6,958
Tier 1 capital	48,285	45,484
Tier 2 capital	10,328	7,951
Total qualifying capital	58,613	53,435
Capital adequacy ratios		
Common Equity Tier 1	9.6%	9.6%
Tier 1	11.8%	11.3%
Tier 2	2.5%	2.0%
Total	14.3%	13.3%
Risk Weighted Assets	408,582	401,937

REGULATORY ENVIRONMENT – INSURANCE AND FUNDS MANAGEMENT BUSINESS

Under APRA's Prudential Standards, life insurance and funds management activities are de-consolidated for the purposes of calculating capital adequacy and excluded from the risk based capital adequacy framework for the ANZ Level 2 Group.

ANZ's insurance companies in Australia are regulated by APRA on a stand-alone basis. Prudential Standards issued under the Life Insurance Act 1995 and Insurance Act 1973 determine the minimum capital requirements these companies are required to meet. Life insurance companies in New Zealand are required to meet minimum capital requirements as determined by the Insurance (Prudential Supervision) Act 2010.

Fund managers in Australia are subject to 'Responsible Entity' regulation by the Australian Securities and Investment Commission (ASIC). The regulatory capital requirements vary depending on the type of Australian Financial Services Licence or Authorised Representatives' Licence held.

APRA supervises approved trustees of superannuation funds and it introduced new financial requirements which became effective from 1 July 2013.

ANZ's insurance and funds management companies held assets in excess of regulatory capital requirements at 30 September 2016.

33: Controlled Entities

	Consolidated		The Company	
	2016 $m	2015 $m	2016 $m	2015 $m
Total shares in controlled entities	–	–	18,117	17,823

ACQUISITION AND DISPOSAL OF CONTROLLED ENTITIES

There were no material entities acquired or disposed of during the year ended 30 September 2016 or the year ended 30 September 2015.

	Incorporated in	Nature of business
Ultimate parent of the Group		
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 (Lao) Limited[1]	Laos	Banking
ANZ Bank (Taiwan) Limited[1]	Taiwan	Banking
ANZ Bank (Vietnam) Limited[1]	Vietnam	Banking
ANZ Capel Court Limited	Australia	Securitisation Manager
ANZ Capital Hedging Pty Ltd	Australia	Hedging
ANZ Commodity Trading Pty Ltd	Australia	Finance
ANZ Funds Pty Ltd	Australia	Holding Company
ANZ Bank (Europe) Limited[1]	United Kingdom	Banking
ANZ Bank (Kiribati) Limited[1,2]	Kiribati	Banking
ANZ Bank (Samoa) Limited[1]	Samoa	Banking
ANZ Bank (Thai) Public Company Limited[1]	Thailand	Banking
ANZcover Insurance Private Ltd[1]	Singapore	Captive-Insurance
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
ANZNZ Covered Bond Trust[1]	New Zealand	Finance
ANZ Wealth New Zealand Limited[1]	New Zealand	Holding Company
ANZ New Zealand Investments Ltd[1]	New Zealand	Funds Management
OnePath Life (NZ) Limited[1]	New Zealand	Insurance
UDC Finance Limited[1]	New Zealand	Finance
ANZ International (Hong Kong) Limited[1]	Hong Kong	Holding Company
ANZ Asia Limited[1]	Hong Kong	Banking
ANZ Bank (Vanuatu) Limited[3]	Vanuatu	Banking
ANZ International Private Limited[1]	Singapore	Holding Company
ANZ Singapore Limited[1]	Singapore	Merchant Banking
ANZ Royal Bank (Cambodia) Limited[1,2]	Cambodia	Banking
Votraint No. 1103 Pty Ltd	Australia	Investment
ANZ Lenders Mortgage Insurance Pty Ltd	Australia	Mortgage Insurance
ANZ Residential Covered Bond Trust	Australia	Finance
ANZ Wealth Australia Limited	Australia	Holding Company
OnePath Custodians Pty Limited	Australia	Trustee
OnePath Funds Management Limited	Australia	Funds Management
OnePath General Insurance Pty Limited	Australia	Insurance
OnePath Life Australia Holdings Pty Limited	Australia	Holding Company
OnePath Life Limited	Australia	Insurance
Australia and New Zealand Banking Group (PNG) Limited[1]	Papua New Guinea	Banking
Australia and New Zealand Bank (China) Company Limited[1]	China	Banking
Chongqing Liangping ANZ Rural Bank Company Limited[1]	China	Banking
Citizens Bancorp[4]	Guam	Holding Company
ANZ Guam Inc.[4]	Guam	Banking
ANZ Finance Guam, Inc.[4]	Guam	Finance
ACN 003 042 082 Limited	Australia	Holding Company
Share Investing Limited	Australia	Online Stockbroking
PT Bank ANZ Indonesia[1,2]	Indonesia	Banking

1 Audited by overseas KPMG firms (either for standalone financial statements if required or as part of the Group audit).

2 Non-controlling interests hold ordinary shares or units in the controlled entities listed above as follows: ANZ Bank (Kiribati) Limited – 150,000 $1 ordinary shares (25%) (2015: 150,000 $1 ordinary shares (25%)); PT Bank ANZ Indonesia – 16,500 IDR 1 million shares (1%) (2015: 16,500 IDR 1 million shares (1%)); ANZ Royal Bank (Cambodia) Limited – 319,500 USD100 ordinary shares (45%) (2015: 319,500 USD100 ordinary shares (45%)).

3 Audited by Law Partners.

4 Audited by Deloitte Guam.

34: Investments in Associates

Significant associates of the Group are as follows:

	Consolidated		The Company	
	2016 $m	2015 $m	2016 $m	2015 $m
AMMB Holdings Berhad[1]	1,198	1,424	–	–
PT Bank Pan Indonesia[2]	997	904	–	–
Shanghai Rural Commercial Bank[3]	1,955	1,981	1,955	1,981
Bank of Tianjin[4]	–	1,021	–	1,021
Other individually immaterial associates (in aggregate)	122	110	19	16
Total carrying value of associates	4,272	5,440	1,974	3,018

1 AMMB Holdings Berhad (AmBank Group) provides a full suite of banking and insurance products and services in Malaysia and is listed on the Bursa Malaysia. This investment relates to the Group's Asia Pacific strategy.
2 PT Bank Pan Indonesia is a consumer and business bank in Indonesia and is listed on the Jakarta stock exchange. This investment relates to the Group's Asia Pacific strategy.
3 Shanghai Rural Commercial Bank is a rural commercial bank in China. This investment relates to the Group's Asia Pacific strategy.
4 On 30 March 2016, the Bank of Tianjin (BoT) completed a capital raising and initial public offering (IPO) on the Hong Kong Stock Exchange. As a result, the Group's equity interest reduced from 14% to 12% and the Group ceased equity accounting the investment due to losing the ability to appoint directors to the Board of BoT at this date. From 31 March 2016, the investment is classified as an available-for-sale asset.

a) Financial information on material associates

Set out below is the summarised financial information of each associate that is material to the Group. The summarised financial information is based on the associates' IFRS financial information.

	AMMB Holdings Berhad		PT Bank Pan Indonesia		Shanghai Rural Commercial Bank		Bank of Tianjin	
Principal place of business and country of incorporation	Malaysia		Indonesia		Peoples' Republic of China		Peoples' Republic of China	
Method of measurement in the Group's balance sheet	Equity method		Equity method		Equity method		Equity method	
	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m
Summarised results								
Revenue	2,698	2,840	960	822	3,390	3,058	–	2,168
Profit/(loss)	414	583	160	225	1,338	1,117	–	1,094
Other comprehensive income/(loss)	(8)	54	2	2	59	175	–	85
Total comprehensive income	406	637	162	227	1,397	1,292	–	1,179
Less: Total comprehensive income attributable to non–controlling interests	26	30	11	16	36	33	–	2
Total comprehensive income attributable to owners of associate	380	607	151	211	1,361	1,259	–	1,177
Summarised financial position								
Total assets[1]	41,442	43,668	19,692	17,244	129,081	128,511	–	117,073
Total liabilities[1]	36,092	37,374	16,873	14,684	119,027	118,324	–	109,803
Total Net assets[1]	5,350	6,294	2,819	2,560	10,054	10,187	–	7,270
Less: Non–controlling interests of associate	312	307	252	233	281	283	–	50
Net assets attributable to owners of associate	5,038	5,987	2,567	2,327	9,773	9,904	–	7,220
Reconciliation to carrying amount of Group's interest in associate[2]								
Proportion of ownership interest held by the Group	24%	24%	39%	39%	20%	20%	–	14%
Carrying amount at the beginning of the year	1,424	1,465	904	795	1,981	1,443	1,021	710
Group's share of total comprehensive income	90	152	59	82	273	251	86	167
Dividends received from associate	(35)	(66)	–	–	(41)	(38)	–	(21)
Group's share of other reserve movements of associate and FCTR adjustments	(21)	(127)	34	27	(258)	325	(106)	165
Impairment charge	(260)	–	–	–	–	–	–	–
Less: carrying value at loss of significant influence	–	–	–	–	–	–	(1,001)	–
Carrying amount at the end of the year	1,198	1,424	997	904	1,955	1,981	–	1,021
Market Value of Group's investment in associate[3]	929	1,048	779	805	n/a	n/a	n/a	n/a

1 Includes market value adjustments (including goodwill) made by the Group at the time of acquisition and adjustments for any differences in accounting policies.
2 For BoT this includes movements up to cessation of equity accounting.
3 Applicable to those investments in associates where there are published price quotations. Market Value is based on a price per share and does not include any adjustments for holding size.

During the year the impairment assessment of non-lending assets identified that two of the Group's associate investments (AMMB Holdings Berhad (Ambank) and PT Bank Pan Indonesia (PT Panin)) had indicators of impairment; specifically their market value (based on share price) was below their carrying value. The Group performed value in use (VIU) calculations to assess if the carrying value of the investments were impaired.

34: Investments in Associates (continued)

The VIU calculation continued to support the carrying value of the investment in PT Panin, however the VIU did not support the carrying value of the Group's investment in Ambank. As a consequence the Group recorded an impairment charge of $260 million in 2016 to reduce the carrying value to its VIU. The associate investment in Ambank forms part of the TSO and Group Centre operating segment. Refer to note 9 for further details.

The value in use calculation is sensitive to a number of key assumptions, including future profitability levels, capital levels, long term growth rates and discount rates. The key assumptions used in the value in use calculation are outlined below:

	As at 30 Sep 2016	
	AMMB	PT Panin
Pre-tax discount rate	10.1%	12.8%
Terminal growth rate	5.0%	6.0%
Expected NPAT growth (compound annual growth rate - 5 years)	4.0%	8.5%
Core Equity tier 1 rate	10.0% –12.1%	11.3%

b) Other associates

The following table summarises, in aggregate, the Group's interest in associates that are considered individually immaterial for separate disclosure.

	2016 $m	2015 $m
Group's share of profit/(loss)	38	36
Group's share of other comprehensive income	(11)	(4)
Group's share of total comprehensive income	27	32
Carrying amount	122	110

35: Structured Entities

A structured entity ('SE') is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. A structured entity often has some or all of the following features or attributes:

- restricted activities;
- a narrow and well-defined objective;
- insufficient equity to permit the SE to finance its activities without subordinated financial support; and/or
- financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks (tranches).

SEs are consolidated when control exists in accordance with the accounting policy disclosed in note 1(A)(vi). In other cases the Group may have an interest in or sponsor a SE but not consolidate it. This note provides information on both consolidated and unconsolidated SEs.

The Group's involvement with SEs is mainly through securitisation, covered bond issuances, structured finance arrangements and funds management activities. SEs may be established either by the Group or by a third party.

Securitisation

The Group uses SEs to securitise customer loans and advances that it has originated in order to diversify its sources of funding for liquidity management. Such securitisation transactions involve transfers to an internal securitisation (bankruptcy remote) vehicle created for the purpose of structuring assets that are eligible for repurchase under agreements with the applicable central bank (that is, Repo eligible). The internal securitisation SEs are consolidated. Refer to note 36 for further details.

The Group also establishes SEs on behalf of its customers to securitise their loans or receivables. The Group may manage these securitisation vehicles and/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. While the majority are unconsolidated, in limited circumstances the Group consolidates SEs used in securitisation when control exists.

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 of the SEs and accordingly they are consolidated. Refer to note 36 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 assets. The Group is also involved with SEs established to own assets that are leased to customers in structured leasing transactions. Sometimes, the Group may also manage the SE, hold minor amounts of capital or provide risk management products (derivatives). The ability of the Group to participate in decisions about the relevant activities of these SEs varies. In most instances the Group does not control these SEs. Further, the Group's involvement typically does not establish more than a passive interest in decisions about the relevant activities and accordingly is not considered disclosable as discussed in (b) below.

Funds management activities

The Group's Wealth Australia and New Zealand divisions conduct investment management and other fiduciary activities as a responsible entity, trustee, custodian or manager for investment funds and trusts, including superannuation funds and wholesale and retail trusts (collectively 'Investment Funds'). The Investment Funds are financed through the issue of puttable units to investors and are considered by the Group to be SEs. The Group's exposure to Investment Funds includes holding units and receiving fees for services. Where the Group invests in Investment Funds on behalf of policyholders they are consolidated when control is deemed to exist.

(a) Financial or other support provided to consolidated structured entities

Pursuant to contractual arrangements, the Group provides financial support to consolidated SEs as outlined below (these represent intra-group transactions which are eliminated on consolidation):

- Securitisation and covered bond issuances:
  The Group provides lending facilities, derivatives and commitments to these SEs and/or holds debt instruments that they have issued. Refer to note 36 for further details in relation to the Group's internal securitisation programmes and covered bond issuances.
- Structured finance arrangements:
  The assets held by these SEs are normally pledged as collateral for finance 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.

35: Structured Entities (continued)

The Group did not provide any non-contractual support to consolidated SEs during the year (2015: nil).

Other than as disclosed above the Group does not have any current intention of providing financial or other support to consolidated SEs.

(b) Group's interest in unconsolidated structured entities

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

For the purpose of disclosing interests in unconsolidated SEs:

- no disclosure has been made where the Group's involvement does not establish 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 the activities that significantly affect returns).
- 'interests' do not include derivatives intended to expose the Group to market-risk (rather than performance risk specific to the SE) or derivatives where the Group creates rather than absorbs variability of the unconsolidated SE (such as purchase of credit protection under a credit default swap).

The following table sets out the Group's interests in unconsolidated SEs together with the maximum exposure to loss that could arise from such interests.

Interest in unconsolidated structured entities

	Securitisation		Structured finance		Investment funds		Total	
Consolidated at 30 September 2016	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m
Available-for-sale assets	3,591	3,849	–	–	–	–	3,591	3,849
Investment backing policy liabilities	–	–	–	–	156	165	156	165
Loans and advances	7,181	6,825	88	37	–	–	7,269	6,862
Total on-balance sheet	10,772	10,674	88	37	156	165	11,016	10,876
Off-balance sheet interests								
Commitments (facilities undrawn)	2,588	2,610	–	–	–	–	2,588	2,610
Total off-balance sheet	2,588	2,610	–	–	–	–	2,588	2,610
Maximum exposure to loss	13,360	13,284	88	37	156	165	13,604	13,486

In addition to the interests above, the Group earned funds management fees from unconsolidated SEs of $524 million (2015: $542 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, regardless of the probability of occurrence, if loss events were to take place. This does not in any way represent the actual losses expected to be incurred. Instead, the maximum exposure to loss is contingent in nature and may arise for instance upon the bankruptcy of an issuer of securities or debtor or if liquidity facilities or guarantees were to be called upon. 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.

For each type of interest, maximum exposure to loss has been determined as follows:

- available-for-sale assets and investments backing policy liabilities – carrying amount; and
- loans and advances – carrying amount plus undrawn amount of any commitments.

Information about the size of the unconsolidated SEs that the Group is involved with is as follows:

- Securitisation and structured finance: Size is indicated by total assets which vary by SE with a maximum value of approximately $1.7 billion (2015: $1.7 billion); and
- Investment funds: Size is indicated by Funds Under Management which vary by SE with a maximum value of approximately $35.0 billion (2015: $33.8 billion).

The Group did not provide any non-contractual support to unconsolidated SEs during the year (2015: nil).

The Group does not have any current intention of providing financial or other support to unconsolidated SEs.

(c) 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 where it is the primary party involved in the design and establishment of that SE and:

- where the Group is the major user of that SE;
- 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.

36: Transfers of Financial Assets

The Group enters into transactions in the normal course of business by which it transfers financial assets directly to third parties or to SEs. These transfers may give rise to the full or partial derecognition of those financial assets depending on the Group's continuing involvement and exposure to risks and rewards.

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. This includes mortgages that are held for potential repurchase agreements (Repos) with central banks. The holders of the issued notes have full recourse to the pool of residential mortgages which have been securitised and the Company cannot otherwise pledge or dispose of the transferred assets.

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

The 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 SE's activities. The SEs are therefore consolidated by the Group.

COVERED BONDS

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

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

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

The 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 SE's activities. The SEs are therefore consolidated by the Group. The covered bonds issued externally are included within debt issuances.

REPURCHASE AGREEMENTS

Securities sold subject to repurchase agreements are considered to be transferred assets that do not qualify for derecognition when substantially all the risks and rewards of ownership remain with the Group. An associated liability is recognised for the consideration received from the counterparty.

STRUCTURED FINANCE ARRANGEMENTS

The Company arranges funding for certain customer transactions through structured leasing and commodity prepayment arrangements. At times, other financial institutions participate in the funding of these arrangements. This participation involves a proportionate transfer of the rights to the lease receivable or financing arrangement. The participating banks have limited recourse to the leased assets or financed commodity and related proceeds. Circumstances may arise whereby the Company continues to be exposed to some of the risks of the transferred lease receivable or financing arrangement through a derivative or other continuing involvement. When this occurs, the lease receivable or loan is not derecognised and the Company will instead recognise an associated liability representing its obligations to the participating financial institutions.

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

	Consolidated		The Company	
	2016 $m	2015 $m	2016 $m	2015 $m
Securitisations[1,2]				
Current carrying amount of assets transferred	–	–	73,546	73,559
Carrying amount of associated liabilities	–	–	73,546	73,559
Covered bonds[1,3]				
Current carrying amount of assets transferred	–	–	22,001	23,508
Carrying amount of associated liabilities[3]	–	–	22,001	23,508
Repurchase agreements				
Current carrying amount of assets transferred	26,637	13,975	26,234	13,476
Carrying amount of associated liabilities	25,049	13,731	24,646	13,255
Structured Finance Arrangements				
Current carrying amount of assets transferred	275	766	164	627
Carrying amount of associated liabilities	266	759	164	627

1 The consolidated balances are nil as the Company balances relate to transfers to internal structured entities.

2 The securitisation noteholders have recourse only to the pool of residential mortgages which have been securitised. The carrying value of securitised assets and the associated liabilities approximates their fair value.

3 The total covered bonds issued by the Group to external investors at 30 September 2016 was $21,035 million (2015: $27,013 million), secured by $31,790 million (2015: $30,368 million) of specified residential mortgages. The associated liability represents the Company's liability to the covered bond SE. Covered bonds issued by the Company to external investors at 30 September 2016 were $15,105 million (2015: $22,164 million).

37: Life Insurance Business

The Group conducts its life insurance business through OnePath Life Limited and OnePath Life (NZ) Limited. This note is intended to provide disclosures in relation to the life insurance businesses conducted through these controlled entities.

CAPITAL ADEQUACY OF LIFE INSURER

Australian life insurers are required to hold reserves in excess of policy liabilities to support capital requirements under the Life Insurance Act (Life Act).

The life insurance business in New Zealand is not governed by the Life Act as this is a foreign domiciled life insurance company. The company is however required to meet similar capital requirements.

The summarised capital information below, in respect of capital requirements under the Life Act, has been extracted from the financial statements prepared by OnePath Life Limited. For detailed capital adequacy information on a statutory fund basis, users of this annual financial report should refer to the separate financial statements prepared by OnePath Life Limited.

	OnePath Life Limited	
	2016 $m	2015 $m
Capital Base	551	538
Prescribed Capital Amount (PCA)	315	316
Capital Adequacy Multiple (times)	1.75	1.70

LIFE INSURANCE BUSINESS PROFIT ANALYSIS

	Life insurance contracts		Life investment contracts		Consolidated	
	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m
Net shareholder profit after income tax	335	386	81	143	416	529
Net shareholder profit after income tax is represented by:						
Emergence of planned profit margins	208	198	65	93	273	291
Difference between actual and assumed experience	45	7	5	29	50	36
(Loss recognition)/reversal of previous losses on groups of related products	1	–	–	–	1	–
Investment earnings on retained profits and capital	81	181	11	21	92	202
Changes in assumptions	–	–	–	–	–	–
Net policyholder profit in statutory funds after income tax	14	18	–	–	14	18
Net policyholder profit in statutory funds after income tax is represented by:						
Emergence of planned profits	14	14	–	–	14	14
Investment earnings on retained profits and experience profits	–	4	–	–	–	4

INVESTMENTS RELATING TO LIFE INSURANCE BUSINESS

	Consolidated	
	2016 $m	2015 $m
Equity securities	14,780	10,898
Debt securities	9,376	6,460
Investments in managed investment schemes	10,614	16,781
Derivative financial assets/(liabilities)	82	(81)
Cash and cash equivalents	804	762
Total investments backing policy liabilities designated at fair value through profit or loss[1]	35,656	34,820

1 This includes $3,333 million (2015: $3,291 million) in respect of investments relating to external unit holders. In addition, the investment balance has been reduced by $4,670 million (2015: $4,636 million) in respect of the elimination of intercompany balances, treasury shares and the re-allocation of policyholder tax balances.

Investments held in statutory funds can only be used to meet the liabilities and expenses of that fund, or to make profit distributions when solvency and capital adequacy requirements of the Life Act and Insurance (Prudential Supervision) Act 2010 are met. Accordingly, with the exception of permitted profit distributions, the investments held in the statutory funds are not available for use by other parties of the Group.

37: Life Insurance Business (continued)

INSURANCE POLICY LIABILITIES

a) Policy liabilities

	Consolidated	
	2016 $m	2015 $m
Life insurance contract liabilities		
Best estimate liabilities		
Value of future policy benefits	10,811	9,290
Value of future expenses	2,483	2,204
Value of future premium	(16,544)	(14,086)
Value of declared bonuses	11	15
Value of future profits		
Policyholder bonus	17	23
Shareholder profit margin	2,631	2,232
Business valued by non-projection method	4	4
Total net insurance contract liabilities	(587)	(318)
Unvested policyholder benefits	40	41
Liabilities ceded under reinsurance contracts	737	649
Total life insurance contract liabilities	190	372
Life investment contract liabilities[1,2]	35,955	35,029
Total policy liabilities	36,145	35,401

1 Designated at fair value through profit or loss.
2 Life investment contract liabilities that relate to a capital guaranteed element is $1,230 million (2015: $1,354 million). Life investment contract liabilities subject to investment performance guarantees is $668 million (2015: $842 million).

b) Reconciliation of movements in policy liabilities

	Life investment contracts		Life insurance contracts		Consolidated	
	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m
Policy liabilities						
Gross liability brought forward	35,029	34,038	372	516	35,401	34,554
Movements in policy liabilities reflected in the income statement	1,937	1,520	(182)	(144)	1,755	1,376
Deposit premium recognised as a change in life investment contract liabilities	4,299	5,165	–	–	4,299	5,165
Fees recognised as a change in life investment contract liabilities	(423)	(463)	–	–	(423)	(463)
Withdrawal recognised as a change in other life investment contract liabilities	(4,887)	(5,231)	–	–	(4,887)	(5,231)
Gross policy liabilities closing balance	35,955	35,029	190	372	36,145	35,401
Liabilities ceded under reinsurance[1]						
Balance brought forward	–	–	649	591	649	591
Movements in reinsurance assets reflected in the income statement	–	–	88	58	88	58
Closing balance	–	–	737	649	737	649
Total policy liabilities net of reinsurance asset	35,955	35,029	(547)	(277)	35,408	34,752

1 Liabilities ceded under reinsurance contracts are shown as 'other assets'.

c) Sensitivity analysis – Life investment contract liabilities

Market risk arises on the Group's life insurance business in respect of life investment contracts where an element of the liability to the policyholder is guaranteed by the Group. The value of the guarantee is impacted by changes in underlying asset values and interest rates. As at 30 September 2016, a 10% decline in equity markets would have decreased profit by $10 million (2015: $12 million) and a 10% increase would have increased profit by $2 million (2015: $5 million). A 1% increase in interest rates at 30 September 2016 would have decreased profit by $13 million (2015: $4 million) and a 1% decrease would have increased profit by $2 million (2015: $6 million).

METHODS AND ASSUMPTIONS – LIFE INSURANCE CONTRACTS

Significant actuarial methods

The effective date of the actuarial report on policy liabilities (which includes insurance contract liabilities and life investment contract liabilities) and solvency requirements is 30 September 2016.

In Australia, the actuarial report was prepared by Mr Jaimie Sach FIAA Appointed Actuary, a fellow of the Institute of Actuaries of Australia. The actuarial reports indicate Mr Sach is satisfied as to the accuracy of the data upon which policy liabilities have been determined.

The amount of policy liabilities has been determined in accordance with methods and assumptions disclosed in this financial report and the requirements of the Life Act, which includes applicable standards of APRA.

37: Life Insurance Business (continued)

In New Zealand, the actuarial report was prepared by Mr Michael Bartram FIAA FNZSA, a fellow of the Institute of Actuaries of Australia and a fellow of the New Zealand Society of Actuaries. The actuarial reports indicate that Mr Bartram is satisfied as to the accuracy of the data upon which policy liabilities have been determined.

Policy liabilities have been calculated in accordance with Prudential Standard LPS 340 Valuation of Policy Liabilities issued by APRA in accordance with the requirements of the Life Act. For life insurance contracts the Standard requires the policy liabilities to be calculated in a way which allows for the systematic release of planned margins as services are provided to policyholders.

The profit carriers used to achieve the systematic release of planned margins are based on the product groups.

Critical assumptions

The valuation of the policy liabilities is dependent on a number of variables including interest rates, equity prices, future expenses, mortality, morbidity and inflation. The critical estimates and judgements used in determining the policy liabilities is set out in note 2 (vi) on page 78.

Sensitivity analysis – life insurance contracts

The Group conducts sensitivity analysis to quantify the exposure of the life insurance contracts to risk of changes in the key underlying variables such as interest rates, equity prices, mortality, morbidity and inflation. The valuations included in the reported results and the Group's best estimate of future performance is calculated using certain assumptions about these variables. The movement in any key variable will impact the performance and net assets of the Group and as such represents a risk. The table below illustrates how changes in key assumptions would impact the reported profit, insurance contract policy liabilities and equity at 30 September 2016.

Variable	Impact of movement in underlying variable	Change in variable	Profit/(loss) net of reinsurance	Insurance contract liabilities net of reinsurance	Equity
		% change	$m	$m	$m
Market interest rates	A change in market interest rates affects the value placed on future cash flows. This changes profit and shareholder equity.	-1%	69	(96)	69
		+1%	(55)	77	(55)
Expense risk	An increase in the level or inflationary growth of expenses over assumed levels will decrease profit and shareholder equity.	-10%	–	–	–
		+10%	–	–	–
Mortality risk	Greater mortality rates would lead to higher levels of claims occurring, increasing associated claims cost and therefore reducing profit and shareholder equity.	-10%	(10)	15	(10)
		+10%	–	–	–
Morbidity risk	The cost of health-related claims depends on both the incidence of policyholders becoming ill and the duration which they remain ill. Higher than expected incidence and duration would increase claim costs, reducing profit and shareholder equity.	-10%	–	–	–
		+10%	(99)	141	(99)
Discontinuance risk	An increase in discontinuance rates at earlier durations has a negative effect as it affects the ability to recover acquisition expenses and commissions.	-10%	–	–	–
		+10%	(12)	18	(12)

LIFE INSURANCE RISK

Insurance risk is the risk of loss due to unexpected changes in current and future insurance claims rates. Insurance risk exposure arises in the life insurance business as the risk that claims payments are greater than expected. In the life insurance business this arises primarily through mortality (death) or morbidity (illness or injury) risks being greater than expected.

Insurance risks are controlled through the use of underwriting procedures and reinsurance arrangements. Controls are also maintained over claims management practices to assist in the correct and timely payment of insurance claims. Regular monitoring of experience is conducted at a sufficiently detailed level in order to identify any deviation from expected claim levels.

Financial risks relating to the Group's life insurance business are generally monitored and controlled by selecting appropriate assets to back insurance and life investment contract liabilities. Wherever possible within regulatory constraints, the Group segregates policyholders funds from shareholders funds and sets investment mandates that are appropriate for each. The assets are regularly monitored by the Wealth Asset Liability Committee and Wealth Product Committee to ensure that there are no material asset and liability mismatch issues and other risks, such as liquidity risk and credit risk, are maintained within acceptable limits.

All financial assets within the life insurance statutory funds directly support either the Group's life insurance contracts, life investment contracts or capital requirements. Market risk arises for the Group on contracts where the liabilities to policyholders are guaranteed. The Group manages this risk by the monthly monitoring and rebalancing of assets to policy liabilities. However, for some contracts the ability to match asset characteristics with policy obligations is constrained by a number of factors including regulatory constraints, the lack of suitable investments as well as by the nature of the policy liabilities themselves.

Market risk also arises from those life investment contracts where the asset management fees earned are directly impacted by the value of the underlying assets. The Group is exposed to the risk of future decreased asset management fees as a result of a decline in assets under management and operational risk associated with the possible failure to administer life investment contracts in accordance with the product terms and conditions.

37: Life Insurance Business (continued)

Risk strategy

In compliance with contractual and regulatory requirements, a strategy is in place to monitor that the risks underwritten satisfy policyholders' risk and reward objectives whilst not adversely affecting the Group's ability to pay benefits and claims when due. The strategy involves the identification of risks by type, impact and likelihood, the implementation of processes and controls to mitigate the risks, and continuous monitoring and improvement of the procedures in place to minimise the chance of an adverse compliance or operational risk event occurring. Included in this strategy are the processes and controls over underwriting, claims management and product pricing. Capital management is also a key aspect of the Group's risk management strategy.

Allocation of capital

The Group's life insurance businesses are subject to regulatory capital requirements which prescribe the amount of capital to be held depending on the contract liability.

Solvency margin requirements established by APRA are in place to reinforce safeguards for policyholders' interest, which are primarily the ability to meet future claims payments in respect of existing policies.

Methods to limit or transfer insurance risk exposures

Reinsurance – Reinsurance treaties are analysed using a number of analytical modelling tools to assess the impact on the Group's exposure to risk with the objective of achieving the desired choice of the type of reinsurance and retention levels.

Underwriting procedures – Strategic underwriting decisions are put into effect using the underwriting procedures detailed in the Group's underwriting manual. Such procedures include limits to delegated authorities and signing powers.

Claims management – Strict claims management procedures are in place to assist in the timely and correct payment of claims in accordance with policy conditions.

38: Superannuation and Post Employment Benefit Obligations

The Group participates in a number of pension, superannuation and post-retirement medical benefit schemes throughout the world. The Group may be obliged to contribute to the schemes as a consequence of legislation and/or provisions of the trust deeds. Set out below is a summary of amounts recognised in these financial statements in respect of the defined benefit sections of these schemes:

	Consolidated		The Company	
	2016 $m	2015 $m	2016 $m	2015 $m
Amount recognised in the income statement				
Current service cost	6	7	2	3
Administration costs	1	1	1	1
Net interest cost	(4)	(2)	(5)	(2)
Adjustment for contributions tax	1	1	–	–
Total included in personnel expenses	4	7	(2)	2
Amounts recognised in other comprehensive income (pre-tax)[1]				
Actuarial (gains)/losses incurred during the year and recognised directly in retained earnings	57	6	73	(24)
Cumulative actuarial (gains)/losses recognised directly in retained earnings	275	218	262	193
Defined benefit obligation and scheme assets				
Present value of funded defined benefit obligation[2]	(1,509)	(1,538)	(1,297)	(1,322)
Fair value of scheme assets	1,567	1,623	1,391	1,452
Total	58	85	94	130
As represented in the balance sheet				
Net liabilities arising from defined benefit obligations included in Payables and other liabilities	(51)	(59)	(15)	(14)
Net assets arising from defined benefit obligations included in Other assets	109	144	109	144
Total	58	85	94	130

1 Excludes a foreign exchange loss on GBP denominated defined benefit plans of $15 million (2015: nil) for the Group and $15 million (2015: nil) for the Company.

2 The Group's defined benefit obligation relates solely to funded arrangements. The liability relates predominantly to pension payments to retired members or their dependants. The basis of calculation is set out in note 1F(vi).

38: Superannuation and Post Employment Benefit Obligations (continued)

	Consolidated 2016 $m	Consolidated 2015 $m	The Company 2016 $m	The Company 2015 $m
Movements in the present value of the defined benefit obligation				
Opening defined benefit obligation	1,538	1,327	1,322	1,151
Current service cost	6	7	2	3
Interest cost	49	54	43	48
Contributions from scheme participants	–	–	–	–
Remeasurements:				
Actuarial (gains)/losses – experience	(23)	(22)	(19)	(20)
Actuarial (gains)/losses – change in demographic assumptions	11	9	11	–
Actuarial (gains)/losses – change in financial assumptions	309	36	311	18
Actuarial (gains)/losses – change in ESCT	(5)	10	–	–
Curtailments	–	–	–	–
Settlements	–	–	–	–
Exchange difference on foreign schemes	(303)	187	(312)	182
Benefits paid	(73)	(70)	(61)	(60)
Closing defined benefit obligation	1,509	1,538	1,297	1,322
Movements in the fair value of the scheme assets				
Opening fair value of scheme assets	1,623	1,335	1,452	1,183
Interest income	53	56	48	50
Return on scheme assets excluding amounts included in interest income	235	27	230	22
Contributions from the employer	55	79	52	68
Contributions from scheme participants	–	–	–	–
Benefits paid	(73)	(70)	(61)	(60)
Administrative costs paid	(1)	(1)	(1)	(1)
Settlements	–	–	–	–
Exchange difference on foreign schemes	(325)	197	(329)	190
Closing fair value of scheme assets[1]	1,567	1,623	1,391	1,452

1 Scheme assets include the following financial instruments issued by the Group: cash and short-term instruments $2.4 million (September 2015: $1.7 million), fixed interest securities $0.6 million (September 2015: $0.5 million) and equities nil (September 2015: nil).

	Consolidated Quoted $m	Consolidated Unquoted $m	Consolidated Total $m	The Company Quoted $m	The Company Unquoted $m	The Company Total $m
Composition of scheme assets						
2016						
Equities	157	–	157	153	–	153
Debt securities	–	41	41	–	40	40
Pooled investment funds	383	1,018	1,401	283	946	1,229
Property	–	1	1	–	1	1
Cash and equivalents	16	(49)	(33)	16	(48)	(32)
Other	–	–	–	–	–	–
Total at the end of the year	556	1,011	1,567	452	939	1,391
2015						
Equities	198	–	198	193	–	193
Debt securities	–	35	35	–	34	34
Pooled investment funds	249	1,133	1,382	157	1,060	1,217
Property	–	1	1	–	1	1
Cash and equivalents	6	–	6	6	–	6
Other	1	–	1	1	–	1
Total at the end of the year	454	1,169	1,623	357	1,095	1,452

38: Superannuation and Post Employment Benefit Obligations (continued)

	Consolidated 2016	Consolidated 2015	The Company 2016	The Company 2015
Actuarial assumptions used to determine the present value of the defined benefit obligation for the main defined benefit schemes				
Discount rate (% p.a.)	2.2 - 3.0	3.2 – 3.7	2.2 - 3.0	3.7
Future salary increases (% p.a.)	1.5 - 3.6	2.5 – 3.5	3.6	3.5
Future pension indexation				
– In payment (% p.a.)	1.5 - 2.9	2.2 – 3.0	2.0 - 2.9	2.5 – 3.0
– In deferment (% p.a.)	2.1	2.0	2.1	2.0
Life expectancy at age 60 for current pensioners				
– Males (years)	22.6 - 28.8	22.6 – 28.4	22.6 - 28.8	22.6 – 28.4
– Females (years)	26.3 - 30.8	26.3 – 30.7	26.3 - 30.8	26.3 – 30.5

The weighted average duration of the benefit payments reflected in the defined benefit obligation is 16.8 years (2015: 16.5 years) for Consolidated and 16.8 years (2015: 16.3 years) for the Company.

	Consolidated				The Company			
	Impact on defined benefit obligation for 2016		Impact on defined benefit obligation for 2015		Impact on defined benefit obligation for 2016		Impact on defined benefit obligation for 2015	
	Increase/(decrease)		Increase/(decrease)		Increase/(decrease)		Increase/(decrease)	
Sensitivity analysis	%	$m	%	$m	%	$m	%	$m
Changes in actuarial assumptions								
0.5% increase in discount rate	(9.3)	(140)	(7.7)	(119)	(10.1)	(131)	(8.3)	(109)
0.5% increase in pension indexation	7.8	118	7.7	118	8.4	109	8.3	109
1 year increase to life expectancy	4.2	63	2.7	41	4.4	57	2.7	35

The sensitivity analysis shows the effect of reasonably possible changes in significant assumptions on the value of scheme liabilities. The sensitivities provided assume that all other assumptions remain unchanged and are not intended to represent changes that are the extremes of possibility. The figure shown is the difference between the recalculated liability figure and that stated in the balance sheet as detailed above.

GOVERNANCE OF THE SCHEMES AND FUNDING OF THE DEFINED BENEFIT SECTIONS

The main 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. The trustees are solely responsible for setting investment policy and for agreeing funding requirements with the employer through the triennial actuarial valuation process.

Employer contributions to the defined benefit schemes are based on recommendations by the schemes' actuaries. Funding recommendations are made by the actuaries based on assumptions of various matters such as future investment performance, interest rates, salary increases, mortality rates and turnover levels. The funding methods adopted by the actuaries are intended to ensure that the benefit entitlements of employees are fully funded by the time they become payable.

As at the most recent reporting dates of the schemes, the aggregate deficit of net market value of assets over the value of accrued benefits on the funding bases was $52 million (2015: $129 million).

In 2016 the Group made contributions totalling $55 million (2015: $79 million) to the defined benefit sections of the schemes, and expects to make around $2 million of contributions in the next financial year.

The employer contributions to the defined contribution sections of the schemes are included as superannuation costs in personnel expenses.

The Group has a legal liability to fund deficits in the schemes, but no legal right to use any surplus in the schemes to further its own interests. The Group has no present liability to settle deficits with an immediate contribution.

Further details about the funding and contributions for the main defined benefit sections of the schemes are described below.

ANZ Australian Staff Superannuation Scheme

The Pension Section of the ANZ Australian Staff Superannuation Scheme provides pension benefits to retired members and their dependants. This section of the Scheme was closed to new members in 1987.

An interim actuarial valuation, conducted by consulting actuaries Russell Employee Benefits as at 31 December 2015, showed a deficit of $0.6 million and the actuary recommended that the Group make no contribution to the Pension Section for the year to 31 December 2016 and the funding position be reviewed as part of the full actuarial valuation as at 31 December 2016.

The Group has no present liability under the Scheme's Trust Deed to commence contributions or fund any deficit.

ANZ UK Staff Pension Scheme

This Scheme provides pension benefits. From 1 October 2003, members contribute 5% of their salary. The Scheme was closed to new members on 1 October 2004.

A full actuarial valuation, conducted by consulting actuaries Willis Towers Watson as at 31 December 2015, showed a deficit of GBP 21 million ($36 million at 30 September 2016 exchange rates) measured on a funding basis.

38: Superannuation and Post Employment Benefit Obligations (continued)

Following the full actuarial valuation as at 31 December 2015, the Group agreed to make regular contributions at the rate of 26% of pensionable salaries. These contributions are sufficient to cover the cost of accruing benefits. To address the deficit, the Group agreed to continue to pay additional quarterly contributions of 7.5 million until September 2016. These contributions will be reviewed following the next actuarial valuation which is scheduled to be undertaken as at 31 December 2018.

The Group has no present liability under the Scheme's Trust Deed to fund the deficit measured on a funding basis. A contingent liability may arise in the event that the Scheme was wound up. If this were to happen, the Trustee would be able to pursue the Group for additional contributions under the UK Employer Debt Regulations. The Group intends to continue the Scheme on an on-going basis.

- **National Bank Staff Superannuation Fund**

The defined benefit section of the Fund provides pension benefits and was closed to new members on 1 October 1991. Members contribute 5% of salary.

An actuarial valuation of the National Bank Staff Superannuation Fund, conducted by consulting actuaries AON Consulting NZ, as at 31 March 2015 showed a surplus of NZD 3 million ($3 million at 30 September 2016 exchange rates). The actuary recommended that the Group make contributions of 24.8% of salaries including employer superannuation contribution tax) in respect of members of the defined benefit section.

The Group has no present liability under the Fund's Trust Deed to fund the deficit measured on a funding basis. A contingent liability may arise in the event that the Fund was wound up. Under the Fund's Trust Deed, if the Fund were wound up, the Group is required to pay the Trustees of the Fund an amount sufficient to ensure members do not suffer a reduction in benefits to which they would otherwise be entitled. The Group intends to continue the defined benefit section of the Fund on an on-going basis.

Amounts were also recognised in the financial statements in respect of other defined benefit arrangements in Taiwan, Japan, Philippines and the UK.

39: 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 2015 and 2016 years were the Employee Share Offer and the Deferred Share Plan.

Employee Share Offer

Most permanent employees who have had continuous service for three years are eligible to participate in the Employee Share Offer enabling the grant of up to AUD1,000 of ANZ shares in each financial year, subject to approval of the Board. At a date approved by the Board, the shares will be granted to all eligible employees using the 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.

In Australia, ANZ ordinary shares were granted to eligible employees for nil consideration and vested on grant, as there is no forfeiture provision. It is a requirement, however, that shares are held in trust for three years from the date of grant, after which time they may remain in trust, be transferred to the employee's name or sold. Dividends received on the shares are automatically reinvested into the Dividend Reinvestment Plan.

In New Zealand shares were granted to eligible employees upon payment of NZD one cent per share.

Shares granted in New Zealand under this plan vest subject to the satisfaction of a three year service period, after which time they may remain in trust, be transferred into the employee's name or sold. Unvested shares are forfeited in the event of resignation or dismissal for serious misconduct. Dividends are either paid as cash or reinvested into the Dividend Reinvestment Plan.

During the 2016 year, 626,121 shares with an issue price of $27.60 were granted under the Employee Share Offer to employees on 3 December 2015 (2015 year: 643,568 shares with an issue price of $31.84 were granted on 4 December 2014).

Deferred Share Plan

Under ANZ's standard Short Term Incentive (STI)[1] arrangements equity deferral into shares applies to half of all incentive amounts above a specified threshold. Half the deferred portion is deferred for one year and half deferred for two years.

Under the Institutional Total Incentives Performance Plan (TIPP) mandatory deferral into shares also applies to 60% of incentive amounts above a specified threshold, deferred evenly over three years.

Selected employees may be granted Long Term Incentive (LTI)[2] deferred shares which vest to the employee three years from the date of grant.

In exceptional circumstances, deferred shares may be granted to certain employees upon commencement with ANZ to compensate for remuneration forgone from their previous employer. The vesting period generally aligns with the remaining vesting period of remuneration forgone, and therefore varies between grants. Retention deferred shares may also be granted occasionally to high performing employees who are regarded as a significant retention risk to ANZ.

Unless the Board decides otherwise, unvested deferred shares are forfeited on resignation, termination on notice or dismissal for serious misconduct. Deferred shares remain at risk and can be adjusted downwards at any time prior to the vesting date. The deferred shares may be held in trust beyond the deferral period.

The employee receives dividends on deferred shares while those shares are held in trust (cash or Dividend Reinvestment Plan).

Deferred share rights may be granted instead of deferred shares in some countries as locally appropriate (refer to Deferred Share Rights section).

1 Also referred to as Annual Variable Remuneration (AVR).
2 Also referred to as Long Term Variable Remuneration (LTVR).

39: Employee Share and Option Plans (continued)

The issue price for deferred shares is based on the VWAP of the shares traded on the ASX in the week leading up to and including the date of grant.

During the 2016 year, 5,797,450 deferred shares with a weighted average grant price of $26.15 were granted under the deferred share plan (2015 year: 5,129,479 shares with a weighted average grant price of $31.96 were granted).

In accordance with the downward adjustment provisions detailed in Section 6.2 of the 2016 Remuneration Report, Board discretion was exercised to adjust downward 9,397 deferred shares in 2016 and 135,592 deferred shares in 2015.

Share Valuations

The fair value of shares granted in the 2016 year under the Employee Share Offer and the Deferred Share Plan, measured as at the date of grant of the shares, is $171.3 million based on 6,423,571 shares at a volume weighted average price of $26.67 (2015 year: fair value of shares granted was $184.4 million based on 5,773,047 shares at a weighted average price of $31.93). The VWAP of all ANZ shares sold on the ASX on the date of grant is used to calculate the fair value of shares. No dividends are incorporated into the measurement of the fair value of shares.

ANZ SHARE OPTION PLAN

Selected employees may be granted options/rights, which entitle them to acquire ordinary fully paid shares in ANZ at a price fixed at the time the options/rights are granted. 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. The exercise price of the 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.

The option plan rules set out the entitlements a holder of options/rights has prior to exercise in the event of a bonus issue, pro rata new issue or reorganisation of ANZ's share capital. In summary:

- if ANZ has issued bonus shares during the life of an option and prior to the exercise of the option, then when the option is exercised the option holder is also entitled to be issued such number of bonus shares as the holder would have been entitled to if the option holder had held the underlying shares at the time of the bonus issue;
- if ANZ makes a pro rata offer of securities during the life of an option and prior to the exercise of the option, the exercise price of the option will be adjusted in the manner set out in the ASX Listing Rules; and
- in respect of rights, if there is a bonus issue or reorganisation of ANZ's share capital, the number of rights or the number of underlying shares may be adjusted 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 prior to exercise of their options/rights. Holders also have no right to participate in a share issue of a body corporate other than ANZ (such as a subsidiary).

For equity grants made after 1 November 2012, any portion of the award which vests may be satisfied by a cash equivalent payment rather than shares at the Board's discretion.

ANZ Share Option Plan schemes expensed in the 2015 and 2016 years are as follows:

Option Plans that operated during 2015 and 2016

Performance Rights Plan (excluding CEO Performance Rights)

Performance rights are granted to selected employees as part of ANZ's incentive plans. Performance rights provide the right to acquire ANZ shares at nil cost, subject to a three year vesting period and Total Shareholder Return (TSR) performance hurdles.

The provisions that apply in the case of cessation of employment are detailed in Section 6.3 of the 2016 Remuneration Report.

During the 2016 year, 1,411,054 performance rights (excluding CEO performance rights) were granted (2015: 1,389,890).

In accordance with the downward adjustment provisions detailed in Section 6.2 of the 2016 Remuneration Report, Board discretion was exercised to adjust downward zero performance rights in 2016 and 1,552 performance rights in 2015.

CEO Performance Rights

At the 2015 Annual General Meeting shareholders approved a LTI grant of performance rights to the incoming CEO with a face value of $4.2 million (at 100% vesting), divided into three equal tranches. This equated to 53,191 performance rights being allocated for each tranche (a total of 159,573 performance rights). Each tranche will be subject to testing against a separate TSR hurdle after three years from the start of the performance period, 18 November 2018.

The provisions that apply in the case of cessation of employment are detailed in Section 6.3 of the 2016 Remuneration Report.

Former CEO Performance Rights

At the 2012, 2013 and 2014 Annual General Meetings shareholders approved LTI grants to the Former CEO with a fair value of $3.15 million in 2012 and 2013, and with a fair a value of $3.4 million in 2014. This equated to a total of 328,810 (2012), 201,086 (2013) and 229,272 (2014) performance rights being allocated, which are subject to testing against a TSR hurdle after three years, being December 2015, 2016 and 2017 respectively. The 2012 grant of performance rights was tested in December 2015. ANZ achieved a TSR of 31.31% over the three year performance period. ANZ's TSR did not reach the median of the comparator group and accordingly, the performance rights did not vest and lapsed in full at this time. The Former CEO received no value. There is no retesting of this grant.

39: Employee Share and Option Plans (continued)

Deferred Share Rights (no performance hurdles)

Deferred share rights provide the right to acquire ANZ shares at nil cost after a specified vesting period. The fair value of rights is adjusted for the absence of dividends during the restriction period. Treatment of rights in respect of cessation relates to the purpose of the grant (refer to Deferred Share Plan section above).

All share rights were satisfied through a share allocation other than 5,297 deferred share rights (2015 year: 21,737 deferred share rights) where Board discretion was exercised.

In accordance with the downward adjustment provisions detailed in Section 6.2 of the 2016 Remuneration Report, Board discretion was exercised to adjust downward 4,583 deferred share rights in 2016 and none in 2015.

During the 2016 year 1,211,021 deferred share rights (no performance hurdles) were granted (2015: 1,104,107).

Legacy Option Plans

There were no legacy option plans expensed in the 2015 and 2016 years.

Options, deferred share rights and performance rights on issue

As at 2 November 2016, there were 1,129 holders of 2,281,508 deferred share rights on issue and 175 holders of 4,044,599 performance rights on issue.

Options/Rights Movements

Details of options/rights over unissued ANZ shares and their related weighted average exercise prices as at the beginning and end of 2016 and movements during 2016 are as follows:

	Opening balance 1 Oct 2015	Options/rights granted	Options/rights forfeited	Options/rights expired	Options/rights exercised	Closing balance 30 Sep 2016
Number of options/rights	6,241,157	2,781,648	(1,440,051)	–	(1,158,637)	6,424,117
Weighted average exercise price	$0.07	$0.00	$0.00		$0.37	$0.00

The weighted average closing share price during the year ended 30 September 2016 was $25.31 (2015: $31.94).

The weighted average remaining contractual life of options/rights outstanding at 30 September 2016 was 3 years (2015: 3.1 years).

The weighted average exercise price of all exercisable options/rights outstanding at 30 September 2016 was $0.00 (2015: $1.51).

A total of 163,244 exercisable options/rights were outstanding at 30 September 2016 (2015: 283,283).

Details of options/rights over unissued ANZ shares and their related weighted average exercise prices as at the beginning and end of 2015 and movements during 2015 are set out below:

	Opening balance 1 Oct 2014	Options/rights granted	Options/rights forfeited	Options/rights expired	Options/rights exercised	Closing balance 30 Sep 2015
Number of options/rights	5,431,903	2,723,269	(961,871)	(4,871)	(947,273)	6,241,157
Weighted average exercise price	$0.24	$0.00	$0.00	$18.63	$0.81	$0.07

No options/rights over ordinary shares have been granted since the end of 2016 up to the signing of the Directors' Report on 2 November 2016.

39: Employee Share and Option Plans (continued)

Details of shares issued as a result of the exercise of options/rights during 2016 are as follows:

Exercise price $	No. of shares issued	Proceeds received $	Exercise price $	No. of shares issued	Proceeds received $
0.00	89,959	–	0.00	156	–
0.00	33,660	–	0.00	838	–
0.00	6,272	–	0.00	2,587	–
0.00	3,812	–	0.00	884	–
0.00	2,585	–	0.00	1,353	–
0.00	9,213	–	0.00	7,585	–
0.00	11,018	–	0.00	73,579	–
0.00	31,940	–	0.00	8,777	–
0.00	240,506	–	0.00	1,227	–
0.00	27,570	–	0.00	5,069	–
0.00	39,015	–	0.00	3,486	–
0.00	27,997	–	0.00	28,547	–
0.00	672	–	0.00	7,073	–
0.00	713	–	0.00	6,372	–
0.00	4,925	–	0.00	7,807	–
0.00	1,830	–	0.00	3,496	–
0.00	194	–	0.00	983	–
0.00	1,966	–	0.00	827	–
0.00	470	–	0.00	217	–
0.00	32,095	–	0.00	4,317	–
0.00	2,117	–	0.00	1,121	–
0.00	7,095	–	0.00	43,252	–
0.00	885	–	0.00	3,654	–
0.00	14,154	–	0.00	4,092	–
0.00	1,169	–	0.00	5,544	–
0.00	3,019	–	0.00	41,137	–
0.00	1,646	–	0.00	396	–
0.00	2,759	–	0.00	987	–
0.00	2,910	–	0.00	330	–
0.00	202,398	–	0.00	862	–
0.00	92	–	23.71	9,032	214,149
0.00	97	–	23.71	9,030	214,101
0.00	530	–	0.00	57,161	–
0.00	825	–	0.00	7,720	–
0.00	514	–	0.00	477	–
0.00	757	–	0.00	1,283	–

Details of shares issued as a result of the exercise of options/rights since the end of 2016 up to the signing of the Directors' Report on 2 November 2016 are as follows:

Exercise price $	No. of shares issued	Proceeds received $	Exercise price $	No. of shares issued	Proceeds received $
0.00	440	–	0.00	126	–
0.00	723	–	0.00	128	–
0.00	905	–			

39: Employee Share and Option Plans (continued)

Details of shares issued as a result of the exercise of options/rights during 2015 are as follows:

Exercise price $	No. of shares issued	Proceeds received $	Exercise price $	No. of shares issued	Proceeds received $
0.00	2,892	–	0.00	556	–
0.00	19,694	–	0.00	4,388	–
0.00	4,859	–	0.00	585	–
23.71	16,096	381,636	0.00	1,652	–
23.71	16,096	381,636	0.00	1,739	–
0.00	1,712	–	0.00	184	–
0.00	1,030	–	0.00	1,868	–
0.00	39	–	0.00	30,025	–
0.00	1,098	–	0.00	4,624	–
0.00	4,597	–	0.00	3,545	–
0.00	340,479	–	0.00	12,562	–
0.00	55,604	–	0.00	2,459	–
0.00	15,055	–	0.00	67,514	–
0.00	21,968	–	0.00	27,655	–
0.00	6,371	–	0.00	4,816	–
0.00	2,650	–	0.00	918	–
0.00	2,882	–	0.00	1,061	–
0.00	10,587	–	0.00	606	–
0.00	5,928	–	0.00	3,262	–
0.00	4,885	–	0.00	2,978	–
0.00	123,317	–	0.00	558	–
0.00	38,297	–	0.00	194	–
0.00	1,404	–	0.00	1,108	–
0.00	2,167	–	0.00	610	–
0.00	21,774	–	0.00	994	–
0.00	26,414	–	0.00	724	–
0.00	2,295	–	0.00	432	–
0.00	804	–	0.00	1,000	–
0.00	600	–	0.00	421	–
0.00	1,713	–	0.00	387	–
0.00	2,139	–	0.00	396	–
0.00	9,658	–	0.00	125	–
0.00	2,223	–			

39: Employee Share and Option Plans (continued)

In determining the fair value below, the standard market techniques for valuation, including Monte Carlo and/or Black Scholes pricing models, were applied in accordance with the requirements of AASB 2 Share-based payments. The models take into account early exercise of vested equity, non-transferability and market based performance hurdles (if any). The significant assumptions used to measure the fair value of instruments granted during 2016 are contained in the table below:

Type	Grant date	Number of options/rights	Exercise price $	Equity fair value $	Share closing price at grant $	ANZ expected volatility[1] %	Equity term (years)	Vesting period (years)	Expected life (years)	Expected dividend yield %	Risk free interest rate %
Deferred share rights	18-Nov-15	63,403	0.00	25.95	26.75	20.0	2	0	0	6.25	1.98
	18-Nov-15	7,720	0.00	26.66	26.75	20.0	2	0	0	6.25	1.98
	18-Nov-15	331,088	0.00	25.17	26.75	20.0	3	1	1	6.25	2.02
	18-Nov-15	14,963	0.00	24.43	26.75	20.0	3	1	1	6.25	2.02
	18-Nov-15	1,794	0.00	25.17	26.75	20.0	3	1	1	6.25	2.02
	18-Nov-15	351,788	0.00	23.69	26.75	20.0	4	2	2	6.25	2.11
	18-Nov-15	15,896	0.00	22.99	26.75	20.0	4	2	2	6.25	2.11
	18-Nov-15	1,906	0.00	23.69	26.75	20.0	4	2	2	6.25	2.11
	18-Nov-15	366,687	0.00	22.30	26.75	20.0	5	3	3	6.25	2.20
	18-Nov-15	16,892	0.00	21.64	26.75	20.0	5	3	3	6.25	2.20
	18-Nov-15	2,024	0.00	22.30	26.75	20.0	5	3	3	6.25	2.20
	27-Feb-16	1,760	0.00	21.82	22.56	25.0	2.5	0.5	0.5	7.25	1.92
	27-Feb-16	9,526	0.00	21.03	22.56	25.0	3	1	1	7.25	1.92
	27-Feb-16	5,685	0.00	20.34	22.56	25.0	3.5	1.5	1.5	7.25	1.76
	27-Feb-16	10,216	0.00	19.61	22.56	25.0	4	2	2	7.25	1.76
	27-Feb-16	5,511	0.00	18.97	22.56	25.0	4.5	2.5	2.5	7.25	1.72
	27-Feb-16	4,162	0.00	18.28	22.56	25.0	5	3	3	7.25	1.72
Performance rights	18-Nov-15	609,242	0.00	9.94	26.75	20.0	5	3	3	6.25	2.02
	18-Nov-15	658,087	0.00	9.02	26.75	20.0	5	3	3	6.25	2.11
	18-Nov-15	130,422	0.00	4.80	26.75	20.0	5	3	3	6.25	2.20
	18-Nov-15	6,317	0.00	9.74	26.75	20.0	5	3	3	6.25	2.20
	18-Nov-15	6,986	0.00	8.81	26.75	20.0	5	3	3	6.25	2.20
	17-Dec-15	53,191	0.00	11.28	26.53	25.0	5	3	3	6.50	2.10
	17-Dec-15	53,191	0.00	11.16	26.53	25.0	5	3	3	6.50	2.10
	17-Dec-15	53,191	0.00	7.36	26.53	25.0	5	3	3	6.50	2.10

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

39: Employee Share and Option Plans (continued)

The significant assumptions used to measure the fair value of instruments granted during 2015 are contained in the table below:

Type	Grant date	Number of options/rights	Exercise price $	Equity fair value $	Share closing price at grant $	ANZ expected volatility[1] %	Equity term (years)	Vesting period (years)	Expected life (years)	Expected dividend yield %	Risk free interest rate %
Deferred share rights	21-Nov-14	9,777	0.00	30.58	31.82	17.5	2.7	0.7	0.7	5.50	2.53
	21-Nov-14	90,883	0.00	30.39	31.82	17.5	2.9	0.9	0.9	5.50	2.53
	21-Nov-14	238,059	0.00	30.16	31.82	17.5	3	1	1	5.50	2.53
	21-Nov-14	3,486	0.00	29.60	31.82	17.5	3.4	1.4	1.4	5.50	2.53
	21-Nov-14	34,768	0.00	29.37	31.82	17.5	3.5	1.5	1.5	5.50	2.53
	21-Nov-14	7,073	0.00	28.98	31.82	17.5	3.8	1.8	1.8	5.50	2.53
	21-Nov-14	251,071	0.00	28.58	31.82	17.5	4	2	2	5.50	2.53
	21-Nov-14	3,690	0.00	27.96	31.82	17.5	4.4	2.4	2.4	5.50	2.53
	21-Nov-14	36,681	0.00	27.84	31.82	17.5	4.5	2.5	2.5	5.50	2.53
	21-Nov-14	3,276	0.00	27.47	31.82	17.5	4.8	2.8	2.8	5.50	2.53
	21-Nov-14	339,888	0.00	27.09	31.82	17.5	5	3	3	5.50	2.53
	21-Nov-14	3,894	0.00	26.50	31.82	17.5	5.4	3.4	3.4	5.50	2.66
	21-Nov-14	37,662	0.00	26.38	31.82	17.5	5.5	3.5	3.5	5.50	2.66
	4-Dec-14	20,302	0.00	27.43	32.22	17.5	3	3	3	5.50	2.36
	27-Feb-15	1,185	0.00	33.58	35.34	17.5	3	1	1	5.25	1.91
	27-Feb-15	1,247	0.00	31.90	35.34	17.5	4	2	2	5.25	1.79
	1-Jun-15	4,021	0.00	31.50	32.72	17.5	2.7	0.7	0.7	5.25	1.89
	1-Jun-15	1,271	0.00	31.08	32.72	17.5	3	1	1	5.25	1.89
	1-Jun-15	7,664	0.00	29.92	32.72	17.5	3.7	1.7	1.7	5.25	1.94
	1-Jun-15	1,067	0.00	29.53	32.72	17.5	4	2	2	5.25	1.94
	1-Jun-15	2,334	0.00	28.43	32.72	17.5	4.7	2.7	2.7	5.25	1.94
	20-Aug-15	2,342	0.00	27.54	29.13	17.5	3	1	1	5.75	1.97
	20-Aug-15	2,477	0.00	26.04	29.13	17.5	4	2	2	5.75	1.89
Performance rights	21-Nov-14	695,358	0.00	14.24	31.82	17.5	5	3	3	5.50	2.53
	21-Nov-14	640,076	0.00	15.47	31.82	17.5	5	3	3	5.50	2.53
	21-Nov-14	21,382	0.00	13.97	31.82	17.5	5.5	3.5	3.5	5.50	2.66
	21-Nov-14	19,588	0.00	15.25	31.82	17.5	5.5	3.5	3.5	5.50	2.66
	18-Dec-14	119,382	0.00	13.67	30.98	17.5	5	3	3	5.50	2.20
	18-Dec-14	109,890	0.00	14.69	30.98	17.5	5	3	3	5.50	2.20
	25-Feb-15	7,022	0.00	15.24	35.31	17.5	5	3	3	5.25	1.86
	25-Feb-15	6,464	0.00	16.46	35.31	17.5	5	3	3	5.25	1.86

1 Expected volatility represents a measure of the amount by which ANZ's share price is expected to fluctuate over the life of the rights. The measure of volatility used in the model is the annualised standard deviation of the continuously compounded rates of return on the historical share price over a 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, or be newly issued shares or a combination of both.

In relation to equity purchased on market during the 2016 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 1,344,200 shares were purchased at an average price of $26.14 per share (2015 year: 6,164,925 shares at an average price of $32.11).

40: Related Party Disclosures

A: KEY MANAGEMENT PERSONNEL COMPENSATION

Key Management Personnel (KMP) are defined as directors and those executives that report directly to the CEO with responsibility for the strategic direction and management of a major revenue generating division or who control material revenue and expenses. KMP compensation included in the personnel expenses is as follows:

	Consolidated	
	2016[1] $000	2015[2] $000
Short-term benefits	21,362	27,099
Post-employment benefits	1,216	1,047
Other long-term benefits	314	291
Termination benefits	2,418	104
Share-based payments	19,382	17,805
	44,692	46,346

1 Current period includes the former Group CEO and former disclosed executives until cessation of employment.
2 Prior period includes former CEO Australia notice period from 3 April 2014 until cessation of employment.

B: KEY MANAGEMENT PERSONNEL LOAN TRANSACTIONS

Loans made to KMP of the Group are made in the ordinary course of business on normal commercial terms and conditions no more favourable than those given to other employees or customers, including the term of the loan, security required and the interest rate. The aggregate of loans made, guaranteed or secured by any entity in the Group to KMP, including their related parties, were as follows:

	Consolidated	
	2016 $000	2015 $000
Loans advanced[1]	50,892	50,400
Interest charged[2]	2,091	2,106

1 Balances are at the balance sheet date (for KMP in office at balance sheet date) and at termination date (for KMP no longer in office at balance sheet date).
2 Interest is for all KMP during the period.

C: KEY MANAGEMENT PERSONNEL HOLDINGS OF ANZ SECURITIES

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

	Consolidated	
	2016 Number[1]	2015 Number[1]
Shares, options and rights	4,174,363	4,137,367
Subordinated debt	15,850	17,227

1 Balances are at the balance sheet date (for KMP in office at balance sheet date) and at termination date (for KMP no longer in office at balance sheet date).

D: OTHER TRANSACTIONS OF KEY MANAGEMENT PERSONNEL AND THEIR RELATED PARTIES

All other transactions with KMP and their related parties are made on terms equivalent to those that prevail in arm's length transactions. These transactions generally involve the provision of financial and investment services including services to eligible international assignees ensuring they are neither financially advantaged nor disadvantaged by their relocation. All such transactions that have occurred with KMP and their related parties have been trivial or domestic in nature. In this context, transactions are only disclosed when they are considered of interest to the users of the financial report in making and evaluating decisions about the allocation of scarce resources.

E: ASSOCIATES

Significant associates are disclosed in note 34. During the course of the financial year the Company and its subsidiaries conducted transactions with all associates on terms equivalent to those on an arm's length basis as shown below:

	Consolidated		The Company	
	2016 $000	2015 $000	2016 $000	2015 $000
Amounts receivable from associates	59,111	7,436	57,903	5,283
Amounts payable to associates	8,409	6,614	6,133	5,703
Interest revenue from associates	1,677	322	1,564	244
Interest expense to associates	77	2,443	34	40
Other costs paid to associates	25,880	17,494	11,632	12,393
Dividend revenue from associates	94,400	232,289	40,609	59,220
Costs recovered from associates	3,105	2,394	3,105	1,279

There have been no material guarantees given or received. No outstanding amounts have been written down or recorded as allowances, as they are considered fully collectible.

40: Related Party Disclosures (continued)

F: SUBSIDIARIES

Significant controlled entities are disclosed in note 33. During the course of the financial year subsidiaries conducted transactions with each other and associates on terms equivalent to those on an arm's length basis. As of 30 September 2016, all outstanding amounts are considered fully collectible.

Transactions between the Company and its subsidiaries include the provision of 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 3 and note 4.

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

41: Other Contingent Liabilities and Contingent Assets

In addition to the credit related contingent liabilities included at note 25, the Group also had contingent liabilities as at 30 September 2016 in respect of the matters outlined below. Where relevant, expert legal advice has been obtained and, in the light of such advice, provisions and/or disclosures as deemed appropriate have been made. 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.

i) Bank fees litigation

Litigation funder IMF Bentham Limited commenced a class action against ANZ in 2010, followed by a second similar class action in March 2013. The applicants contended that certain exception fees (honour, dishonour and non-payment fees on transaction accounts and late payment and overlimit fees on credit cards) were unenforceable penalties (at law and in equity) and that various of the fees were also unenforceable under statutory provisions governing unconscionable conduct, unfair contract terms and unjust transactions. In August 2014, IMF Bentham Limited commenced a separate class action against ANZ challenging late payment fees charged to ANZ customers in respect of commercial credit cards and other ANZ products (at this stage not specified). This action is expressed to apply to all relevant customers, rather than being limited to those who have signed up with IMF Bentham Limited.

In the second class action, all the applicants' claims have failed. The claims in relation to all fees were dismissed by the Full Federal Court. That decision was appealed to the High Court only in relation to credit card late payment fees (the other claims were not appealed). On 27 July 2016 the High Court dismissed the appeal and upheld the judgment in favour of ANZ in respect of credit card late payment fees.

The applicants are presently considering the implications of the High Court's decision for the remaining class actions, which have been on hold pending the outcome of the second class action. ANZ believes that the remaining class actions are likely to be discontinued or dismissed.

ii) Proceedings in relation to Bank Bill Swap Rate (BBSW)

On 4 March 2016, ASIC commenced court proceedings against ANZ. ASIC is seeking declarations and civil penalties for alleged market manipulation, unconscionable conduct, misleading or deceptive conduct, and alleged breaches by ANZ of certain statutory obligations as a financial services licensee. ASIC has subsequently initiated similar proceedings against two other Australian banks. ASIC's case against ANZ concerns transactions in the Australian interbank BBSW market in the period from March 2010 to May 2012. ANZ is defending the proceedings. The potential civil penalty or other financial impact is uncertain.

In August 2016, a class action complaint was brought in the United States District Court against two international broking houses and 17 banks, including ANZ. The class action is brought by two US-based investment funds and an individual derivatives trader. The action is 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, from 1 January 2003 onwards. The claimants seek damages or compensation in amounts not specified, and allege that the defendant banks, including ANZ, violated US anti-trust laws, anti-racketeering laws, the Commodity Exchange Act, and unjust enrichment principles. ANZ is defending the proceedings. The action is at an early stage.

iii) Regulator investigations into foreign exchange trading

Since 2014, each of ASIC and the Australian Competition and Consumer Commission (ACCC) have been investigating foreign exchange trading conduct of various banks including ANZ. ASIC's and the ACCC's investigations are ongoing and the range of potential outcomes include civil penalties and other actions under the relevant legislation.

iv) Other regulatory reviews

In recent years there have been significant increases in the nature and scale of regulatory investigations and reviews, enforcement actions (whether by court action or otherwise) and the quantum of fines issued by regulators, particularly against financial institutions both in Australia and globally. The nature of these investigations and reviews can be wide ranging and, for example, currently include a range of matters including responsible lending practices, wealth advice and product suitability, conduct in financial markets and capital market transactions. During the year, ANZ has received various notices and requests for information from its regulators as part of both industry-wide and ANZ-specific reviews. The outcomes and total costs associated with such reviews remain uncertain.

41: Other Contingent Liabilities and Contingent Assets (continued)

v) Security recovery actions

Various claims have been made or are anticipated, arising from security recovery actions taken to resolve impaired assets over recent years. ANZ will defend these claims.

vi) Clearing and settlement obligations

In accordance with the clearing and settlement arrangements set out:

- in the Australian Payments Clearing Association Limited's Regulations for the Australian Paper Clearing System, the Bulk Electronic Clearing System, the Issuers and Acquirers Community and the High Value Clearing System (HVCS), the Company has a commitment to comply with rules which could result in a bilateral exposure and loss in the event of a failure to settle by a member institution. The exposure arising from these arrangements is unquantifiable in advance; and
- in the Austraclear System Regulations (Austraclear) and the CLS Bank International Rules, the Company has a commitment to participate in loss-sharing arrangements in the event of a failure to settle by a member institution. The exposure arising from these arrangements is unquantifiable in advance.

For HVCS and Austraclear, the obligation arises only in limited circumstances.

vii) 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.

viii) Sale of Grindlays businesses

On 31 July 2000, ANZ completed the sale to Standard Chartered Bank (SCB) of ANZ Grindlays Bank Limited and the private banking business of ANZ in the United Kingdom and Jersey, together with ANZ Grindlays (Jersey) Holdings Limited and its subsidiaries, for USD1.3 billion in cash. ANZ provided warranties and certain indemnities relating to those businesses and, where it was anticipated that payments would be likely under the warranties or indemnities, made provisions to cover the anticipated liability. The issue below has not impacted adversely the reported results. All settlements, penalties and costs to date have been covered within existing provisions.

Foreign Exchange Regulation Act (India)

In 1991 certain amounts were transferred from non-convertible Indian Rupee accounts maintained with Grindlays in India. These transactions may not have complied with the provisions of the Foreign Exchange Regulation Act, 1973. Grindlays, on its own initiative, brought these transactions to the attention of the Reserve Bank of India. The Indian authorities served notices on Grindlays and certain of its officers in India and civil penalties have been imposed which are the subject of appeals. Criminal prosecutions are pending and will be defended. The amounts in issue are not material.

ix) Deed of Cross Guarantee in respect of certain controlled entities

Pursuant to ASIC class order 98/1418 (as amended) dated 13 August 1998, relief was granted to a number of wholly owned controlled entities from the Corporations Act 2001 requirements for preparation, audit, and lodgement of individual financial statements in Australia. The results of these companies are included in the consolidated Group results.

The entities to which relief was granted are:

- ANZ Properties (Australia) Pty Ltd[1]
- ANZ Capital Hedging Pty Ltd[1]
- ANZ Funds Pty Ltd[1]
- Votraint No. 1103 Pty Ltd[2]
- ANZ Securities (Holdings) Limited[3]
- ANZ Commodity Trading Pty Ltd[4]
- ANZ Nominees Limited[5]

It is a condition of the class order that the Company and each of the above controlled entities enter into a Deed of Cross Guarantee. A Deed of Cross Guarantee or subsequent Assumption Deeds under the class order were executed by them and lodged with the Australian Securities and Investments Commission. The Deed of Cross Guarantee is dated 1 March 2006. The effect of the Deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding up any of the controlled entities under certain provisions of the Corporations Act 2001. If a winding up occurs in any other case, the Company will only be liable in the event that after six months any creditor has not been paid in full. The controlled entities have also given similar guarantees in the event that the Company is wound up.

1 Relief originally granted on 21 August 2001.
2 Relief originally granted on 13 August 2002.
3 Relief originally granted on 9 September 2003.
4 Relief originally granted on 2 September 2008.
5 Relief originally granted on 11 February 2009.

41: Other Contingent Liabilities and Contingent Assets (continued)

The consolidated statement of comprehensive income and consolidated balance sheet of the Company and its wholly owned controlled entities which have entered into the Deed of Cross Guarantee in the relevant financial years are:

	Consolidated 2016 $m	Consolidated 2015 $m
Profit before tax	6,755	9,263
Income tax expense	(1,425)	(1,925)
Profit after income tax	5,330	7,338
Foreign exchange differences taken to equity, net of tax	(502)	807
Change in fair value of available-for-sale financial assets, net of tax	–	(31)
Change in fair value of cash flow hedges, net of tax	(8)	103
Actuarial gains/(loss) on defined benefit plans, net of tax	(78)	19
Other comprehensive income, net of tax	(588)	898
Total comprehensive income	4,742	8,236
Retained profits at start of year	21,449	18,990
Profit after income tax	5,330	7,338
Ordinary share dividends provided for or paid	(5,001)	(4,905)
Actuarial gains/(loss) on defined benefit plans after tax	(78)	19
Other movements	1	7
Retained profits at end of year	21,701	21,449
Assets		
Cash	46,072	51,217
Settlement balances owed to ANZ	19,905	16,601
Collateral paid	10,878	8,234
Available-for-sale assets/investment securities	55,721	37,612
Net loans and advances	446,211	447,799
Other assets	262,067	267,579
Premises and equipment	1,044	1,047
Total assets	841,898	830,089
Liabilities		
Settlement balances owed by ANZ	9,079	9,901
Collateral received	5,882	6,886
Deposits and other borrowings	479,963	472,031
Income tax liability	201	249
Payables and other liabilities	310,644	307,390
Provisions	832	731
Total liabilities	806,601	797,188
Net assets	35,297	32,901
Shareholders' equity	35,297	32,901

CONTINGENT ASSETS

National Housing Bank

ANZ 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 ANZ and NHB.

42: Compensation of Auditors

	Consolidated		The Company	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
KPMG Australia[1]				
Audit or review of financial reports of the Company or Group entities	8,983	8,824	5,617	5,377
Audit-related services[2]	4,246	4,093	2,975	3,026
Non-audit services[3]	536	126	172	126
	13,765	13,043	8,764	8,529
Overseas related practices of KPMG Australia				
Audit or review of financial reports of the Company or Group entities	6,332	6,022	1,662	1,537
Audit-related services[2]	1,432	1,394	507	682
Non-audit services[3]	21	256	–	–
	7,785	7,672	2,169	2,219
Total compensation of auditors	21,550	20,715	10,933	10,748

1 Inclusive of goods and services tax.

2 For the Group, comprises prudential and regulatory services of $4.134 million (2015: $4 million), comfort letters $0.937 million (2015: $0.745 million) and other $0.607 million (2015: $0.742 million). For the Company, comprises prudential and regulatory services of $2.338 million (2015: $2.556 million), comfort letters of $0.797 million (2015: $0.565 million) and other $0.347 million (2015: $0.587 million).

3 The nature of the non-audit services includes reviews of compliance with legal and regulatory requirements, benchmarking reviews and a branch optimisation analysis performed during the year. Further details are provided in the Directors' Report.

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

43: Changes to Comparatives

Certain amounts reported as comparative information have changed as a result of being reclassified to conform with current period financial statement presentation.

Organisational restructure

During 2016, the Group announced changes to the organisation's structure to better meet the needs of our retail, commercial and institutional customers. As a result of these organisational changes there are six reported divisions: Australia, New Zealand, Institutional, Asia Retail & Pacific, Wealth Australia and Technology, Services & Operations ('TSO') and Group Centre.

These divisions were created by removing the Asia Retail & Pacific business from the former International and Institutional Banking (IIB) division, and repositioning minority investments in Asia from IIB to the Group Centre with the residual IIB business re-named Institutional. The New Zealand funds management and insurance businesses were repositioned to the New Zealand division, and the Private Bank business was reorganised along geographic lines under the Australia, New Zealand and Asia Retail & Pacific divisions with the residual Global Wealth business re-named Wealth Australia. Comparative information has been restated.

Card related fees

Certain card related fees that are integral to the generation of income were reclassified within total income and from operating expenses to total income to better reflect the nature of the items. Comparatives in notes 4, 5 and 9 have changed.

Insurance and other wealth related income

Income from certain insurance and other wealth related products have been reclassified within total income to better reflect the nature of the items. Comparatives in note 4 have changed.

43: Changes to Comparatives (continued)

Consolidated	2015 Previously reported $m	Card related fees $m	Wealth related income $m	Currently reported $m
Net interest income	14,616	–	–	14,616
Other operating income	4,094	19	(79)	4,034
Net funds management and insurance income	1,736	–	79	1,815
Share of associate's profit	625	–	–	625
Operating income	21,071	19	–	21,090
Operating expenses	(9,359)	(19)	–	(9,378)
Profit before credit impairment and income tax	11,712	–	–	11,712
Provision for credit impairment	(1,179)	–	–	(1,179)
Profit before income tax	10,533	–	–	10,533
Income tax expense/(benefit)	(3,026)	–	–	(3,026)
Profit attributable to shareholders of the Company	7,507	–	–	7,507
Other comprehensive income net of tax attributable to shareholders of the Company	(14)	–	–	(14)
Total comprehensive income attributable to shareholders of the Company	7,493	–	–	7,493

The Company	2015 Previously reported $m	Card related fees $m	Wealth related income $m	Currently reported $m
Net interest income	10,416	–	–	10,416
Other operating income	6,575	19	(7)	6,587
Net funds management and insurance income	203	–	7	210
Share of associate's profit	376	–	–	376
Operating income	17,570	19	–	17,589
Operating expenses	(7,350)	(19)	–	(7,369)
Profit before credit impairment and income tax	10,220	–	–	10,220
Provision for credit impairment	(969)	–	–	(969)
Profit before income tax	9,251	–	–	9,251
Income tax expense/(benefit)	(1,945)	–	–	(1,945)
Profit attributable to shareholders of the Company	7,306	–	–	7,306
Other comprehensive income net of tax attributable to shareholders of the Company	–	–	–	–
Total comprehensive income attributable to shareholders of the Company	7,306	–	–	7,306

43: Changes to Comparatives (continued)

	Consolidated 2015				The Company 2015			
	Previously reported Inflows (Outflows) $m	Card related fees $m	Wealth related income $m	Restated Sep 15 Inflows (Outflows) $m	Previously reported Inflows (Outflows) $m	Card related fees $m	Wealth related income $m	Restated Sep 15 Inflows (Outflows) $m
Cash flows from operating activities								
Interest received	30,667	–	–	30,667	26,754	–	–	26,754
Interest paid	(15,458)	–	–	(15,458)	(15,809)	–	–	(15,809)
Dividends received	231	–	–	231	2,630	–	–	2,630
Other operating income received	18,297	19	(79)	18,237	15,818	19	(7)	15,830
Other operating expenses paid	(8,573)	(19)	–	(8,592)	(6,806)	(19)	–	(6,825)
Income taxes paid	(3,082)	–	–	(3,082)	(2,388)	–	–	(2,388)
Net cash flows from funds management and insurance business								
Premiums, other income and life investment deposits received	7,577	–	104	7,681	154	–	7	161
Investment income and policy deposits received	286	–	–	286	–	–	–	–
Claims and policyholder liability payments	(5,930)	–	(25)	(5,955)	–	–	–	–
Commission expense (paid)/received	(648)	–	–	(648)	49	–	–	49
Cash flows from operating activities before changes in operating assets and liabilities	23,367	–	–	23,367	20,402	–	–	20,402
Change in operating assets and liabilities arising from cash flow movements	(1,891)	–	–	(1,891)	(22)	–	–	(22)
Net cash provided by/(used in) operating activities	21,476	–	–	21,476	20,380	–	–	20,380
Net cash provided by/(used in) investing activities	(9,776)	–	–	(9,776)	(9,479)	–	–	(9,479)
Net cash provided by/(used in) financing activities	2,043	–	–	2,043	1,904	–	–	1,904
Net increase/(decrease) in cash and cash equivalents	13,743	–	–	13,743	12,805	–	–	12,805

44: Events Since the End of the Financial Year

On 31 October 2016 the Group announced it had entered into an agreement to sell its Retail and Wealth businesses in Singapore, China, Hong Kong, Taiwan, and Indonesia to DBS Bank Limited for a premium of approximately $110 million over the book value of net assets, which principally comprised approximately $11 billion of gross lending assets and $17 billion of deposits as at 30 September 2016. The final purchase price will be based on the net assets at completion.

The transaction is subject to regulatory approval in each country, with completion occurring on a rolling country by country basis from mid financial year 2017 with all countries expected to be completed with 18 months.

The Group anticipates the transaction will generate a net loss of approximately $265 million (post-tax) including write-downs of software, goodwill and fixed assets, as well as separation and transaction costs.

The assets associated with the Retail Asia and Wealth businesses were assessed for impairment as at 30 September 2016 on the basis of the businesses being a continuing operation and no impairment was identified. Additionally, the assets did not meet the conditions for 'held for sale' classification under AASB 5 – Non-Current Assets Held for Sale and Discontinued Operations.

Other than this matter, no other material events have occurred between the end of the reporting period (30 September 2016) and the date of this report.

DIRECTORS' DECLARATION AND RESPONSIBILITY STATEMENT

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 of the consolidated entity as at 30 September 2016 and of their performance for the year ended on that date;

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;

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

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; and

e) the Company and certain of its wholly owned controlled entities (listed in note 41) have executed a Deed of Cross Guarantee enabling them to take advantage of the accounting and audit relief offered by class order 98/1418 (as amended), issued by the Australian Securities and Investments Commission. The nature of the Deed of Cross Guarantee is to guarantee to each creditor payment in full of any debt in accordance with the terms of the Deed of Cross Guarantee. At the date of this declaration, there are reasonable grounds to believe that the Company and its controlled entities which executed the Deed of Cross Guarantee are able, as an economic entity, to meet any obligations or liabilities to which they are, or may become, subject by virtue of the Deed of Cross Guarantee.

Signed in accordance with a resolution of the Directors.

David M Gonski, AC
Chairman

2 November 2016

Shayne C Elliott
Director

Responsibility statement of the Directors in accordance with Rule 4.1.12 (3)(b) of the Disclosure Rules and Transparency Rules of the United Kingdom Financial Conduct Authority.

The Directors of Australia and New Zealand Banking Group Limited confirm to the best of their knowledge that:

The Group's Annual Report includes:

i) a fair review of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole; together with

ii) a description of the principal risks and uncertainties faced by the Group.

Signed in accordance with a resolution of the Directors.

David M Gonski, AC
Chairman

2 November 2016

Shayne C Elliott
Director

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED

REPORT ON THE FINANCIAL REPORT

We have audited the accompanying financial report of Australia and New Zealand Banking Group Limited (the Company), which comprises the balance sheets as at 30 September 2016, and income statements, statements of comprehensive income, statements of changes in equity and statements of cash flow for the year ended on that date, notes 1 to 44 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Company and the Group comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL REPORT

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 1(A)(i), the directors also state, in accordance with Australian Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001 and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Company's and the Group's financial position and of their performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENCE

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

AUDITOR'S OPINION

In our opinion:

(a) the financial report of Australia and New Zealand Banking Group Limited is in accordance with the Corporations Act 2001, including:

  (i) giving a true and fair view of the Company's and the Group's financial position as at 30 September 2016 and of their performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1(A)(i).

REPORT ON THE REMUNERATION REPORT

We have audited the remuneration report included in pages 32 to 59 of the directors' report for the year ended 30 September 2016. 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 responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

AUDITOR'S OPINION

In our opinion, the remuneration report of Australia and New Zealand Banking Group Limited for the year ended 30 September 2016, complies with Section 300A of the Corporations Act 2001.

KPMG
Melbourne

2 November 2016

Andrew Yates
Partner

2015

ANNUAL REPORT

ANZ 180 YEARS

DIRECTORS' REPORT (continued)

REMUNERATION REPORT

Contents

Introduction from the Chair of the Human Resources Committee

Dear Shareholder,

I am pleased to present our Remuneration Report for the year ending 30 September 2015.

Our remuneration framework is designed to create value for all stakeholders, to differentiate rewards based on performance and in line with our risk management framework, and to provide competitive rewards that attract, motivate and retain talented people.

In 2015 ANZ delivered solid results in a challenging environment and the ANZ Board has assessed the 2015 performance for each category within the balanced scorecard of measures against annual objectives and progress towards broader long term strategic goals.

The results achieved have been reflected in the variable remuneration outcomes received by the Chief Executive Officer (CEO) and Disclosed Executives.

The Long Term Variable Remuneration (LTVR)[1] awarded in 2011 was tested in late 2014. Although ANZ achieved Total Shareholder Return (TSR) of 89.65% and 87.83% over the three year performance periods for the Disclosed Executives and CEO awards respectively, ANZ's TSR did not reach the median of the comparator group. Accordingly, the performance rights did not vest and the CEO and Disclosed Executives received no value from these awards. These awards have now lapsed.

The Human Resources (HR) Committee continues to have a strong focus on the relationship between business performance, risk management and remuneration, and regularly reviews the executive remuneration structure to ensure it remains appropriate.

During 2015 the HR Committee conducted a comprehensive review of ANZ's variable remuneration framework, which resulted in the following changes to LTVR for the CEO and Disclosed Executives, effective for LTVR grants made from 1 October 2015:

- To enhance the relevance of the select financial services comparator group, it has been modified to comprise core local and global competitors. Based on their strategic focus, two regional banks are being incorporated into the comparator group along with two international banks who have similar operations to ANZ. ASX Limited and insurance companies will be removed from the comparator group as their operations are largely different to that of ANZ's and they are not direct competitors.
- To strengthen the focus of executives on growing positive returns to shareholders, Absolute Compound Annual Growth Rate (CAGR) TSR is being introduced as a third performance hurdle (in addition to relative TSR). One third of the LTVR will now be contingent on ANZ achieving or exceeding a threshold level of growth (as determined by the Board). The remaining two thirds will be split between the existing relative TSR measures. This combination provides balance to the plan, rewarding executives for performance that exceeds that of peer companies, while still ensuring there is a continued focus on providing positive growth (even when the market is declining). Absolute CAGR TSR provides executives with a more direct line of sight to the performance required to achieve shareholder value creation and provides a tighter correlation between the executives' rewards and the shareholders' financial outcomes.
- To increase transparency and reduce volatility in the number of instruments allocated each year a face value allocation methodology is being used to determine the number of LTVR performance rights allocated to the incoming CEO and Disclosed Executives. This replaces the fair value methodology. To ensure that a similar number of instruments are granted, a one-off conversion is being undertaken. The number of instruments allocated to the incoming CEO and Disclosed Executives will be calculated based on the five trading day Volume Weighted Average Price (VWAP) of the Company's shares traded on the ASX in the week up to and including the start of the performance period (18 November 2015).

On 1 October 2015 the Board announced that Mr Shayne Elliott will become CEO and join the Board on 1 January 2016 succeeding Mr Michael Smith. Mr Elliott's at target remuneration will be $6.3 million (which is 39% less than Mr Smith's at target remuneration of $10.2 million) and will comprise of three components:

- Fixed remuneration of $2.1 million.
- Annual Variable Remuneration (AVR)[2] target of $2.1 million (100% of fixed remuneration). This will be prorated for the period from the commencement date (1 January 2016) to 30 September 2016. Mr Elliott's AVR target for his current role as Chief Financial Officer (CFO) will apply from 1 October 2015 to 31 December 2015.
- Long Term Variable Remuneration target of $2.1 million. The initial award has a current face value of $2.1 million at 50% vesting and $4.2 million at 100% vesting. Subject to shareholder approval at the 2015 Annual General Meeting this award will be delivered as three equal tranches of performance rights allocated on a face value basis, not at fair value as used previously. Each tranche will be measured over a three year performance period against the performance hurdle relevant to each tranche, as specified by the Board.

Termination arrangements for Mr Smith are in line with his contract (as previously disclosed to shareholders).

Further detail is provided within the Remuneration Report which we hope you will find informative.

Graeme R Liebelt
Chair – Human Resources Committee

1 LTVR - Also referred to as Long Term Incentive (LTI).
2 AVR - Also referred to as Short Term Incentive (STI).

1. Basis of Preparation

The Remuneration Report is designed to provide shareholders with an understanding of ANZ's remuneration policies and the link between our remuneration approach and ANZ's performance, in particular regarding Key Management Personnel (KMP) as defined under the Corporations Act 2001. Individual outcomes are provided for ANZ's Non-Executive Directors (NEDs), the CEO and Disclosed Executives (current and former).

The Disclosed Executives are defined as those direct reports to the CEO with responsibility for the strategic direction and management of a major revenue generating Division or who control material revenue and expenses that fall within the definition of KMP.

The Remuneration Report for the Company and the Group for 2015 has been prepared in accordance with section 300A of the Corporations Act 2001. Information in Table 5: Non Statutory Remuneration Disclosure has been prepared in accordance with the presentation basis set out in Section 8.5. The information provided in this Remuneration Report has been audited as required by section 308(3C) of the Corporations Act 2001, unless indicated otherwise, and forms part of the Directors' Report.

2. Key Management Personnel (KMP)

The KMP disclosed in this year's report are detailed in Table 1.

TABLE 1: KEY MANAGEMENT PERSONNEL

Name	Position	Term as KMP in 2015
Non-Executive Directors (NEDs)		
D Gonski	Chairman – Appointed Chairman 1 May 2014 (Appointed Director 27 February 2014)	Full Year
I Atlas	Director – Appointed 24 September 2014	Full Year
P Dwyer	Director – Appointed April 2012	Full Year
H Lee	Director – Appointed February 2009	Full Year
G Liebelt	Director – Appointed July 2013	Full Year
I Macfarlane	Director – Appointed February 2007	Full Year
J T Macfarlane	Director – Appointed 22 May 2014	Full Year
Non-Executive Directors (NEDs) – Former		
J Morschel	Chairman – Appointed Chairman March 2010 (Appointed Director October 2004), retired 30 April 2014	--
G Clark	Director – Appointed February 2004, retired 18 December 2013	--
P Hay	Director – Appointed November 2008, retired 30 April 2014	--
D Meiklejohn	Director – Appointed October 2004, retired 18 December 2013	--
A Watkins	Director – Appointed November 2008, retired 30 April 2014	--
Chief Executive Officer (CEO)		
M Smith	Chief Executive Officer and Executive Director – Concluding in role 31 December 2015	Full Year
Disclosed Executives – Current		
A Currie	Chief Operating Officer	Full Year
S Elliott	Chief Financial Officer (Chief Executive Officer and Executive Director from 1 January 2016)	Full Year
A Géczy	Chief Executive Officer, International & Institutional Banking	Full Year
D Hisco	Chief Executive Officer, New Zealand	Full Year
G Hodges	Deputy Chief Executive Officer	Full Year
J Phillips	Chief Executive Officer, Global Wealth and Group Managing Director, Marketing, Innovation and Digital	Full Year
M Whelan	Chief Executive Officer, Australia – Appointed 3 April 2015	Part Year
N Williams	Chief Risk Officer	Full Year
Disclosed Executives – Former		
P Chronican	Former Chief Executive Officer, Australia – Concluded in role 2 April 2015, ceasing employment 31 December 2015	Full Year

3. Role of the Board in Remuneration

The HR Committee is a Committee of the Board. The HR Committee is responsible for:

- reviewing and making recommendations to the Board in relation to remuneration governance, director and senior executive remuneration and senior executive succession;
- specifically making recommendations to the Board on remuneration and succession matters related to the CEO, and individual remuneration arrangements for other key executives covered by the Group's Remuneration Policy;
- the design of significant variable remuneration (such as the ANZ Employee Reward Scheme (ANZERS) and the Institutional Total Incentives Performance Plan (TIPP)); and
- remuneration structures for senior executives and others specifically covered by the Remuneration Policy.

More details about the role of the HR Committee can be found on the ANZ website.[1]

The link between remuneration and risk is considered a key requirement by the Board. Committee membership is structured to ensure overlap of representation across the HR Committee and Risk Committee, with three NEDs currently on both committees. The HR Committee has free and unfettered access to risk and financial control personnel, and can also engage independent external advisors as needed.

Throughout the year the HR Committee and management received information from external providers including Aon Hewitt, Ashurst, Ernst and Young, Hay Group, Herbert Smith Freehills, McLagan, Mercer Consulting (Australia) Pty Ltd and PricewaterhouseCoopers. This information related to market data and market practice information, legislative requirements and interpretation of governance and regulatory requirements.

The HR Committee did not receive any recommendations from remuneration consultants during the year in relation to the remuneration arrangements of KMP. ANZ employs in-house remuneration professionals who provide recommendations to the HR Committee/Board, taking into consideration market information provided by external providers. The Board's decisions were made independently using the information provided and having careful regard to ANZ's strategic objectives, risk appetite and Remuneration Policy and principles.

4. HR Committee Activities

During 2015, the HR Committee met on six occasions, with remuneration matters an agenda item on each occasion. The HR Committee has a strong focus on the relationship between business performance, risk management and remuneration, with the following activities occurring during the year:

- annual review of the effectiveness of the Remuneration Policy;
- review of key senior executive appointments and terminations;
- involvement of the Risk function in remuneration regulatory and compliance related activities;
- monitoring of regulatory and compliance matters relating to remuneration governance;
- review of variable remuneration arrangements including changes to LTVR;
- review of reward outcomes for key senior executives;
- review of ANZ's risk culture and employee engagement;
- review of health and safety;
- review of diversity and inclusion; and
- review of succession plans for key senior executives.

1 Go to anz.com > about us > our company > corporate governance > HR Committee Charter.

5. Remuneration Strategy and Objectives

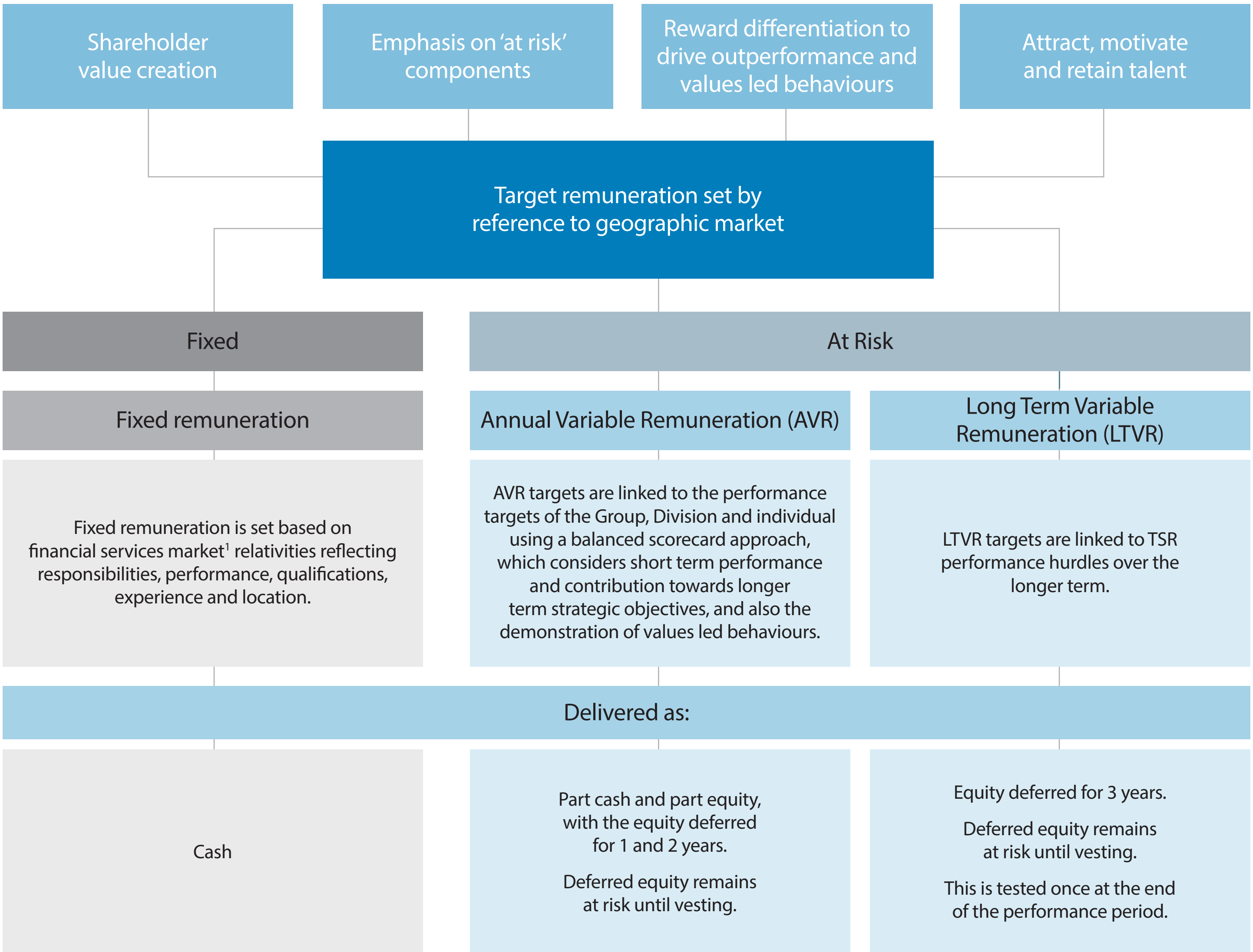
ANZ's remuneration strategy, the Group's Remuneration Policy and reward frameworks all reflect the importance of sound risk management. The following principles underpin ANZ's Remuneration Policy, which is approved by the Board and applied globally across ANZ:

- creating and enhancing value for all ANZ stakeholders;
- emphasising the 'at risk' components of total rewards to increase alignment with shareholders and encourage behaviour that supports the long term financial soundness and the risk management framework of ANZ, and the delivery of superior long term total shareholder returns;
- differentiating rewards in line with ANZ's culture of rewarding for outperformance and demonstration of behaviours aligned with ANZ's values (Integrity, Collaboration, Accountability, Respect and Excellence); and
- providing a competitive reward proposition to attract, motivate and retain the highest quality individuals in order to deliver ANZ's business and growth strategies.

Appropriate risk management is fundamental to the way ANZ operates and is therefore a key element of the way performance is measured and assessed at a Group, Division and individual level. Variable remuneration outcomes reflect performance against a balanced scorecard of financial and non-financial (including risk) measures.

The core elements of ANZ's remuneration strategy for the CEO and Disclosed Executives are set out below:

FIGURE 1: REMUNERATION OBJECTIVES



1 Considered the most relevant comparator as this is the main pool for sourcing talent and where key talent may be lost.

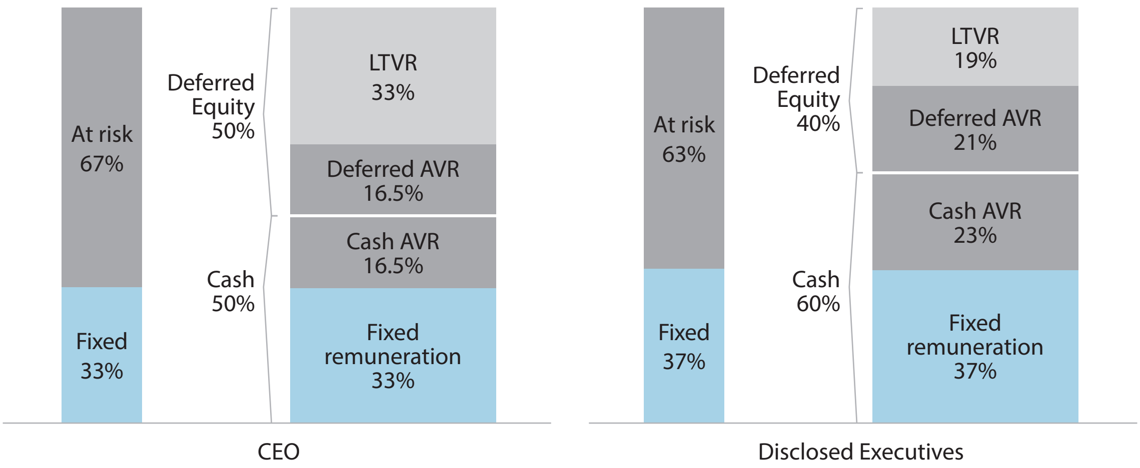
6. The Composition of Remuneration at ANZ

The Board aims to find a balance between:

- fixed and at-risk remuneration;
- annual and long term variable remuneration; and
- cash and deferred equity.

Figure 2 provides an overview of the target remuneration mix for the CEO and Disclosed Executives.

FIGURE 2: TARGET REMUNERATION MIX



The remuneration mix in Figure 2 is based on LTVR face value at 50% vesting assuming an 'on target' award (was based on fair value in previous reports).

The CEO's target remuneration mix is equally weighted between fixed remuneration, AVR and LTVR, with approximately half of total target remuneration payable in cash in the current year and half allocated as equity and deferred over one, two or three years.

The target remuneration mix for Disclosed Executives is weighted between fixed remuneration (37%), AVR (44%) and LTVR (19%), with approximately 60% of total target remuneration payable in cash in the current year and 40% allocated as equity and deferred over one, two or three years.

The deferred remuneration for the CEO and Disclosed Executives remains at risk (Board has discretion to reduce downward to zero) until vesting date.

The Board has adopted this mix as an effective reward mechanism to drive strong performance and value for the shareholder in both the short and longer term.

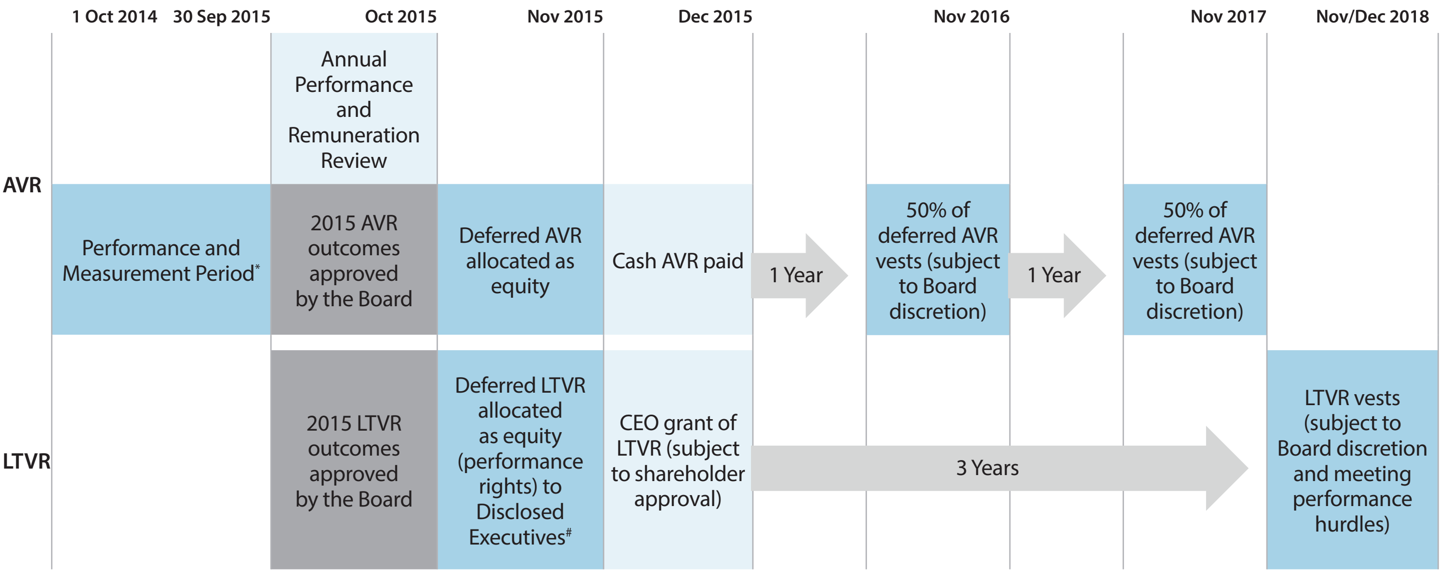
The CEO and Disclosed Executives may be awarded amounts above or below the target for both AVR and LTVR.

ANZ's AVR and LTVR deferral arrangements are designed to ensure that the CEO and Disclosed Executives are acting in the best long term interests of ANZ and its shareholders. Deferring part of their AVR over one and two years, and all of their LTVR over three years every year results in a substantial amount of their variable remuneration being directly linked to long term shareholder value. For example as at 30 September 2015 Mr Smith held 91,855 unvested AVR deferred shares and 759,168 unvested LTVR performance rights, the combined value[1] of which was around six times his fixed remuneration. Similarly as at 30 September 2015 Disclosed Executives held unvested equity, the value[1] of which was around four times their average fixed remuneration.

1 Value is based on the number of unvested deferred shares and unvested rights held at 30 September 2015 multiplied by the ANZ closing share price as at 30 September 2015.

The following diagram demonstrates the time horizon associated with AVR and LTVR awards.

FIGURE 3: AVR AND LTVR TIME HORIZON RELATING TO 2015



* 2014 deferred AVR and deferred LTVR granted in November/December 2014
\# CRO allocated deferred shared rights

The reward structure for the CEO and Disclosed Executives is detailed below. The only exception is the Chief Risk Officer (CRO) whose remuneration arrangements have been structured differently to preserve the independence of this role and to minimise any conflicts of interest in carrying out the risk control function across the organisation. The CRO's role has more limited AVR leverage for individual performance and none (either positive or negative) for Group performance. LTVR is delivered as unhurdled deferred share rights, with a three year time based hurdle, and is therefore not subject to meeting TSR performance hurdles.

6.1 FIXED REMUNERATION

The fixed remuneration amount is expressed as a total dollar amount which can be taken as cash salary, superannuation contributions and other nominated benefits.

6.2 VARIABLE REMUNERATION

Variable remuneration forms a significant part of the CEO's and Disclosed Executives' potential remuneration, providing at risk components that are designed to drive performance in the short, medium and long term. The term variable remuneration within ANZ covers both the annual variable remuneration and long term variable remuneration arrangements.

Downward adjustment

The Board has on-going and absolute discretion to:

- adjust deferred variable remuneration downwards, or to zero at any time, including after the grant of such remuneration, where the Board considers such an adjustment is necessary to protect the financial soundness of ANZ or to meet unexpected or unknown regulatory requirements, or if the Board subsequently considers that having regard to information which has come to light after the grant of deferred equity/cash, the deferred equity/cash was not justified;
- withhold vesting until the Board has considered any information that may impact the vesting.

Prior to any scheduled release of deferred equity/deferred cash, the Board considers whether any downward adjustment should be made. No downward adjustment was applied to the remuneration of the CEO and Disclosed Executives during 2015.

6.2.1 Annual Variable Remuneration (AVR)

AVR provides an annual opportunity for a variable remuneration award. It is assessed against Group, Divisional and individual objectives based on a balanced scorecard of measures and positive demonstration of values led behaviours. Many of the measures relate to contribution towards medium to longer term performance outcomes aligned to ANZ's strategic objectives as well as annual goals.

AVR ARRANGEMENTS

ANZ's Employee Reward Scheme (ANZERS) structure and pool is reviewed by the HR Committee and approved by the Board. The size of the overall pool is based on an assessment of the balanced scorecard of measures of the Group.

Performance targets	In order to focus on achieving individual, Divisional and Group performance objectives a mix of quantitative and qualitative short, medium and long term measures are assessed. Targets are set considering prior year performance, industry standards and ANZ's strategic objectives. Many of the measures also focus on targets which are set for the current year in the context of progress towards longer term goals. The specific targets and features relating to all these measures have not been provided in detail due to their commercial sensitivity. For the CEO and Disclosed Executives, the weighting of measures in each individual's balanced scorecard will vary to reflect the responsibilities of their role. For example the CEOs of the Australia, New Zealand, Global Wealth and International and Institutional Banking divisions and also the CFO have a heavier weighting on financial measures (typically 40%) compared to other Disclosed Executives. The validation of performance and achievements against these objectives at the end of the year, for: ▸ the CEO involves input from the CRO, CFO and Group General Manager Global Internal Audit on risk management, financial performance and internal audit matters respectively, followed by review and endorsement by the HR Committee, with final outcomes approved by the Board; and ▸ Disclosed Executives involves a review by the CEO, input on each individual's risk management from the CRO, input on each area's internal controls from the Group General Manager Global Internal Audit and input on the financial performance of all key Divisions from the CFO. Preliminary and final review is completed by the HR Committee and final outcomes are approved by the Board. The Board reviews performance outcomes against target for each metric, combined with a judgmental assessment of the prioritisation and impact of each outcome relative to overall business performance for both the short and longer term.
Rewarding performance	The 2015 target AVR award level for the CEO represents one third of target remuneration and for Disclosed Executives 44% of their target remuneration. The maximum AVR opportunity for the CEO and Disclosed Executives is up to 200%. Where a weak performance is assessed for the CEO or Disclosed Executives AVR opportunity is adjusted down accordingly (and potentially to a nil payment).
Mandatory deferral	Mandatory deferral of a portion of the AVR places an increased emphasis on having a variable structure that is flexible, continues to be performance linked, has significant retention elements and aligns the interests of the CEO and Disclosed Executives to shareholders to deliver against strategic objectives. The mandatory deferral threshold for AVR payments is currently $100,000 (subject to a minimum deferral amount of $25,000) with: ▸ the first $100,000 of amount paid in cash; ▸ 50% of amount above $100,000 paid in cash; ▸ 25% of amount above $100,000 deferred in ANZ equity for one year; and ▸ 25% of amount above $100,000 deferred in ANZ equity for two years. The deferred component of AVR paid in relation to the 2015 year is delivered as ANZ deferred shares or deferred share rights. At the end of the deferral period, each deferred share right entitles the holder to one ordinary share. Deferred shares are ordinary shares.

6.2.2 Long Term Variable Remuneration (LTVR)

LTVR provides an annual opportunity for an equity award deferred for three years that aligns a significant portion of overall remuneration to shareholder value over the longer term.

The HR Committee determines appropriate LTVR awards for the financial year by referencing performance achieved in that year. A grant is then made after the end of the financial year.

LTVR ARRANGEMENTS (granted prior to 1 October 2015[1]) – EXCLUDING THE CRO

Type of equity awarded	LTVR was delivered to the CEO and Disclosed Executives as performance rights. A performance right is a right to acquire a share at nil cost, subject to meeting time and performance hurdles. Upon exercise, each performance right entitles the CEO and Disclosed Executives to one ordinary share.
Time restrictions	Performance rights awarded to the CEO and Disclosed Executives will be tested against the relevant performance hurdle at the end of the three year performance period. A three year performance period provides a reasonable period to align reward with shareholder return and also acts as a vehicle to retain the CEO and Disclosed Executives. If the performance rights do not achieve the required performance hurdle they are forfeited at that time.
Performance hurdle	The performance rights have been designed to reward the CEO and Disclosed Executives if the Group's TSR is at or above the median TSR of the relevant comparator group over a three year period. TSR represents the change in the value of a share plus the value of reinvested dividends paid. TSR was chosen as the most appropriate comparative measure as it focuses on the delivery of shareholder value and is a well understood and tested mechanism to measure performance. The performance rights granted to the Disclosed Executives and CEO in November/December 2014 were split into two equal tranches with vesting dependent upon the Company's relative TSR performance against two different comparator groups (as detailed below). Note that grants prior to 1 October 2013 are subject to one performance hurdle only (TSR against the select financial services comparator group).
Vesting schedule	The proportion of performance rights that become exercisable in each tranche will depend upon the TSR achieved by ANZ relative to the companies in the relevant comparator group at the end of the three year performance period. An averaging calculation is used for TSR over a 90 day period for start and end values in order to reduce the impact of share price volatility. To ensure an independent TSR measurement, ANZ engages the services of an external organisation (Mercer Consulting (Australia) Pty Ltd) to calculate ANZ's performance against the TSR hurdles. The level of performance required for each level of vesting, and the percentage of vesting associated with each level of performance, are set out below. The performance rights lapse if the performance condition is not met. There is no re-testing.

If the TSR of the Company compared to the TSR of the relevant comparator group:	The percentage of performance rights which will vest is:
Does not reach the 50th percentile	0%
Reaches or exceeds the 50th percentile but does not reach the 75th percentile	50%, plus 2% for every one percentile increase above the 50th percentile
Reaches or exceeds the 75th percentile	100%

Comparator groups	For the LTVR granted in November/December 2014: ▸ The first tranche will be measured against a select financial services comparator group, which consists of the following nine companies: – AMP Limited – ASX Limited – Commonwealth Bank of Australia Limited – Insurance Australia Group Limited – Macquarie Group Limited – National Australia Bank Limited – QBE Insurance Group Limited – Suncorp Group Limited – Westpac Banking Corporation ▸ The second tranche will be measured against a comparator group comprising the companies within the S&P/ASX 50 Index as at the start of the performance period (21 November 2014). Each tranche will be measured independently from the other so one tranche may vest fully or partially but another tranche may not.
Size of LTVR grants	For the LTVR granted in November/December 2014, the size of individual LTVR grants was determined by reference to the performance and assessed potential of the individual. Individuals were advised of their LTVR award value, which was then split into two equal tranches and each tranche was compared to a different comparator group as explained above. The total number of performance rights in each tranche was based on an independent fair value calculation (as at the start of the performance period[2]) of a performance right in that tranche as independently valued. The future value of the grant may range from zero to an undefined amount depending on performance against the hurdle and the share price at the time of exercise.

1 And granted after 1 October 2013.
2 As at the allocation date for grants prior to 1 October 2014.

LTVR ARRANGEMENTS FOR THE CRO

Deferred share rights	The CRO is the only Disclosed Executive to receive LTVR deferred share rights, rather than performance rights. Deferred share rights are subject to a time-based vesting hurdle of three years, during which time they are held in trust. The value used to determine the number of LTVR deferred share rights to be allocated is based on an independent fair value calculation.

6.3 OTHER REMUNERATION ELEMENTS

Hedging and Margin Lending Prohibition

As specified in the Trading in ANZ Securities Policy and in accordance with the Corporations Act 2001, equity allocated under ANZ variable remuneration plans must remain at risk until fully vested (in the case of deferred shares) or exercisable (in the case of deferred share rights or performance rights). As such, it is a condition of grant that no schemes are entered into, by an individual or their associated persons, that specifically protects the unvested value of shares, deferred share rights or performance rights allocated. Doing so would constitute a breach of the grant conditions and would result in the forfeiture of the relevant shares, deferred share rights or performance rights.

ANZ also prohibits the CEO and Disclosed Executives from providing ANZ securities in connection with a margin loan or similar financing arrangements which may be subject to a margin call or loan to value ratio breach.

To monitor adherence to this policy, ANZ's CEO and Disclosed Executives are required to sign an annual declaration stating that they and their associated persons have not entered into (and are not currently involved in) any schemes to protect the value of their interests in any ANZ securities. Based on the 2015 declarations, ANZ can advise that the CEO and Disclosed Executives are fully compliant with this policy.

CEO and Disclosed Executives Shareholding Guidelines

The CEO and Disclosed Executives are expected to accumulate ANZ shares over a five year period, to the value of 200% of their fixed remuneration and to maintain this shareholding while an executive of ANZ. Shareholdings for this purpose include all vested and allocated (but unvested) equity which is not subject to performance hurdles. Based on equity holdings as at 30 September 2015 and the equity to be granted on 18 November 2015 as a result of 2015 Performance and Remuneration Review outcomes, the CEO and all Disclosed Executives meet or, if less than five years tenure, are on track to meet their minimum shareholding guidelines requirement.

Conditions of Grant

The conditions under which deferred shares, deferred share rights and performance rights are granted are approved by the Board in accordance with the rules of the ANZ Employee Share Acquisition Plan and/or the ANZ Share Option Plan.

Where deferred share rights or performance rights are granted, any portion of the award which vests may be satisfied by a cash equivalent payment rather than shares at the Board's discretion.

CEO Contract Terms

The following sets out details of the contract terms relating to the CEO. The contract terms are in line with industry practice (based on external advice on Australian and international peer company benchmarks) and ASX Corporate Governance Principles.

Length of contract	Mr Smith commenced as CEO and Executive Director of ANZ on 1 October 2007 and is on a permanent contract. On 1 October 2015 the Board announced that Mr Smith will be succeeded as CEO by Mr Elliott effective 1 January 2016.
Key terms of leaving arrangement	Under his existing employment contract Mr Smith is entitled to 12 months' notice and ANZ has the right to require him to work all or part of this notice period. Accordingly, ANZ has determined as follows: 1. Mr Smith will work in the role as CEO for the first 3 months (to 31 December 2015); 2. Mr Smith will be on leave for a period of approximately 6 months (gardening leave) (to 7 July 2016); 3. Mr Smith will then receive a payment for the remaining approximately 3 months in lieu of notice (to 30 September 2016). As a result of the above, Mr Smith will continue to be paid his fixed remuneration on a monthly basis to 7 July 2016 (items 1 and 2 above). On Mr Smith's departure from ANZ on 7 July 2016, in accordance with the terms of his existing employment contract, he will therefore be entitled to: ▸ A payment in lieu of notice for the approximately 3 month period (item 3 above) based on his above mentioned fixed remuneration; and ▸ A payment for pro rata long service leave and other statutory entitlements; and ▸ A payment to relocate Mr Smith and his family from Australia if he decides to relocate. ANZ will also continue to provide life insurance coverage for Mr Smith for the period through to 7 July 2016. No ex gratia payments will be made. Equity granted in prior years under ANZ's AVR and LTVR plans will, in accordance with the terms of their issue and Mr Smith's existing employment contract, remain on foot and will vest at the originally intended vesting dates to the extent to which the performance conditions (where applicable) are satisfied in accordance with the Conditions of Grant (and the terms approved by Shareholders for the performance rights). Where the rights have vested the Board may determine to settle in equity or a cash equivalent payment. There will be no accelerated or automatic vesting upon ceasing employment. Mr Smith will also be entitled to the value of the superannuation funds that he has accumulated over his 8 years with ANZ.

Incoming CEO and Disclosed Executives' Contract Terms

The following sets out details of the contract terms relating to the incoming CEO and Disclosed Executives. The contract terms for the incoming CEO and all Disclosed Executives are similar, but do, on occasion, vary to suit different needs.

Length of contract	The incoming CEO and Disclosed Executives are all on a permanent contract, which is an ongoing employment contract until notice is given by either party.
Resignation	In order to terminate the employment arrangements: ▸ the incoming CEO is required to provide the Company with 12 months' written notice; ▸ Disclosed Executives are required to provide the Company with 6 months' written notice. On resignation, unless the Board determines otherwise, all unvested deferred shares, all unvested or vested but unexercised performance rights and all deferred share rights are forfeited.
Termination on notice by ANZ	ANZ may terminate employment by providing 12 months' written notice or payment in lieu of the notice period based on fixed remuneration. On termination on notice by ANZ, unless the Board determines otherwise: ▸ all unvested deferred shares, performance rights and deferred share rights are forfeited; and ▸ only performance rights and deferred share rights that are vested may be exercised. Where the Disclosed Executive's termination is classified as a 'good leaver', then, unless the Board decides otherwise, any unvested AVR deferred equity will be retained and released at the original vesting date. Any unvested LTVR performance rights (subject to performance hurdles being met) and LTVR deferred equity will be prorated for the period from the date of grant to the full notice termination date and released at the original vesting date.
Redundancy (not applicable for the CEO)	If ANZ terminates Disclosed Executive's employment for reasons of redundancy, a severance payment will be made that is equal to 12 months' fixed remuneration. All unvested AVR deferred equity remains subject to downward adjustment and are released at the original vesting date. All unvested LTVR performance rights (subject to performance hurdles being met), LTVR deferred equity will be prorated for the period from the date of grant to the full notice termination date and released at the original vesting date.
Death or total and permanent disablement	On death or total and permanent disablement all unvested AVR deferred shares, all deferred share rights and all performance rights will vest.
Termination for serious misconduct	ANZ may immediately terminate employment at any time in the case of serious misconduct, and the executive will only be entitled to payment of fixed remuneration up to the date of termination. On termination without notice by ANZ in the event of serious misconduct all deferred shares held in trust will be forfeited and all performance rights and deferred share rights will be forfeited.
Change of control (applicable for the CEO only)	Where a change of control occurs, which includes a person acquiring a relevant interest in at least 50% of the Company's ordinary shares as a result of a takeover bid, or other similar event, the applicable performance conditions applying to the performance rights will be tested and the performance rights will vest based on the extent the performance conditions are satisfied. No pro rata reduction in vesting will occur based on the period of time from the date of grant to the date of the change of control event occurring, and vesting will only be determined by the extent to which the performance conditions are satisfied. Any performance rights which vest based on satisfaction of the performance conditions will vest at a time (being no later than the final date on which the change of control event will occur) determined by the Board. Any performance rights which do not vest will lapse with effect from the date of the change of control event occurring, unless the Board determines otherwise. Any unvested AVR deferred shares will vest at a time (being no later than the final date on which the change of control event will occur) determined by the Board.
Statutory Entitlements	Payment of statutory entitlements of long service leave and annual leave applies in all events of separation.

7. Linking Remuneration to Balanced Scorecard Performance

7.1 ANZ PERFORMANCE

TABLE 2: ANZ'S FINANCIAL PERFORMANCE 2011 – 2015

	2011	2012	2013	2014	2015
Statutory profit ($m)	5,355	5,661	6,310	7,271	7,493
Cash/Underlying profit[1] (unaudited)	5,652	5,830	6,492	7,117	7,216
Cash/Underlying return on equity (ROE) (%) (unaudited)	16.2%	15.1%	15.3%	15.4%	14.0%
Cash/Underlying earnings per share (EPS) (unaudited)	218.4	218.5	238.3	260.3	260.3
Share price at 30 September ($)[2]	19.52	24.75	30.78	30.92	27.08
Total dividend (cents per share)	140	145	164	178	181
Total shareholder return (12 month %)	(12.6)	35.4	31.5	5.9	(7.5)
Average AVR as a % of target[3]	110%	117%	133%	133%	128%

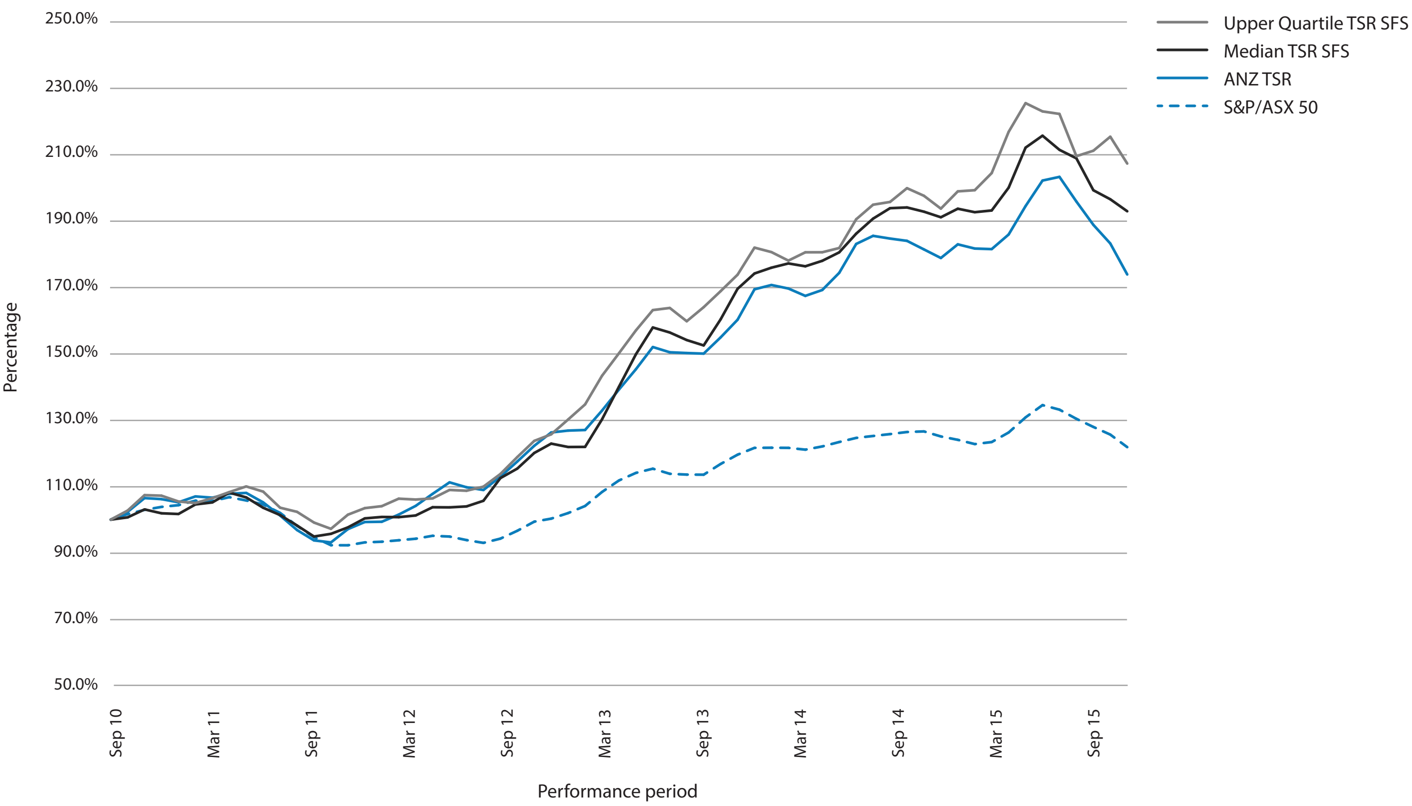
1 From 1 October 2012, the Group has used cash profit as a measure of performance for ongoing business activities of the Group, enabling shareholders to assess Group and divisional performance against prior periods and against peer institutions. For 2012 to 2015 statutory profit has been adjusted for non-core items to arrive at cash profit. For 2011 statutory profit has been adjusted for non-core items to arrive at underlying profit, which like cash profit is a measure of the ongoing business performance of the Group but used different criteria for adjusting items. Neither cash profit nor underlying profit are audited; however, the external auditor has informed the Audit Committee that the cash/underlying profit adjustments have been determined on a consistent basis across the respective periods presented.

2 The opening share price at 1 October 2010 was $23.79.

3 The average AVR payments for each year are based on those executives (including the CEO) disclosed in each relevant reporting period.

Figure 4 compares ANZ's TSR performance against the median TSR and upper quartile TSR of the LTVR select financial services (SFS) comparator group and also against the S&P/ASX 50 Index over the 2011 to 2015 measurement period. ANZ's TSR performance is below the median TSR of the LTVR SFS comparator group and above the ASX 50 index over the five year period to 30 September 2015. Although this is across a different performance period, it is consistent with the outcomes of the most recently tested LTVR grants.

FIGURE 4: ANZ 5-YEAR CUMULATIVE TOTAL SHAREHOLDER RETURN PERFORMANCE



7.2 AVR– PERFORMANCE AND OUTCOMES

ANZ uses a balanced scorecard to measure performance in relation to the Group's main variable remuneration plans. The scorecard provides a framework whereby a combination of measures can be applied to ensure a broader long term strategic focus on driving shareholder value as well as a focus on annual priorities.

The balanced scorecard is aligned to the Group's long term strategic intent under the themes of High Performing, Most Respected, Well Managed, Best Connected and Customer Driven, with each of the five categories having broadly equal weighting. The HR Committee considers performance against the balanced scorecard and also takes into account affordability (in light of Group performance) in approving the pool spend.

The Board has assessed ANZ's overall 2015 performance as above, on or below target for each category within the balanced scorecard of measures. The Board has given full consideration to the performance of the Group and the Disclosed Executives in determining their rewards. Overall spend approved by the Board for the main annual variable remuneration pool was below target levels with a range of underlying outcomes for individuals, in line with ANZ's objectives of differentiating reward based on performance.

The following provides key measures within each category of the balanced scorecard used in 2015 for assessing performance for the purpose of determining annual variable remuneration pools.

Category	Measure	Outcome[1]
High Performing		Below Target:
	Revenue	Revenue of $20,518 million, up 5% on 2014. Strong growth in Australia and New Zealand divisions was moderated by lower growth in International and Institutional Banking – reflecting both the challenging conditions along with decisions taken to restrict Risk Weighted Assets growth and also to forego some lower margin Financial Institutions Trade business – and in Global Wealth, where 2014 benefited from the Trustees' sale.
	Economic profit[2]	Economic profit of $2,381 million (determined using an 11% Cost of Capital), was down 13% year on year due to higher capital holding in preparation for regulatory capital changes.
	Return on equity (ROE)	Cash ROE of 14.0% was down from 15.4% in 2014 due to growth in cash profit being more than offset by higher capital growth on the back of capital raisings and the dilutive impact of a weakening AUD.
	Cash earnings per share (EPS)	Cash EPS of 260.3 cents, in line with 2014, and reflects the impact of share issuances from the capital raising and interim dividend discounted reinvestment plan.
Most Respected		Above Target:
	Workforce diversity	Workforce diversity is core to delivering on our super regional strategy. The percentage of management roles filled by women has increased from 39.2% to 40.4% year on year.[3] ANZ is continually focused on increasing the diversity of its workforce.
	Employee engagement	An engaged workforce is regarded as an important driver of sustainable long term performance. Despite continuing challenging business conditions and significant bank-wide changes over the year, employee engagement has improved to 76% in 2015 compared to 73% in 2014.
	Senior leaders as role models	The overall assessment of Senior Leaders as role models of our values has remained steady at 71% year on year.
Well Managed		On Target:
	Maintain strong credit rating	Maintained a strong credit rating at AA which is fundamental to the ongoing stability of the Group.
	Core funding ratio (CFR)	Maintained a strong CFR of 94.9%, through disciplined balance sheet management.
	Cost to income ratio	Cost to income ratio of 45.6% increased 90bps due to slower revenue growth in International and Institutional Banking and the cost of hedging our foreign currency denominated profits being a reduction against revenue, and increased depreciation and amortisation.
	Number of repeat adverse internal audit ratings	ANZ Global Internal Audit conducts an ongoing and rigorous review process to identify weaknesses in procedures and compliance with policies. In 2015 there were no repeat adverse audit ratings.

Category	Measure	Outcome[1]
Best Connected		On Target:
	Growth in Asia Pacific, Europe and America (APEA)	ANZ aspires to be the most respected bank in the Asia Pacific region by using super regional connectivity to better meet the needs of customers which are increasingly linked to regional capital, trade and wealth flows. One important measure of the success of the super regional strategy is the growth in total Network revenues (revenue arising from having a meaningful business in APEA regardless of whether the revenue is subsequently booked within the region or in Australia or New Zealand). APEA Network revenue accounted for 25% of Group revenue in 2015.
	Growth in cross-border revenue	Growth in cross-border revenue improved from 2% to 3.9% highlighting the strength of our regional networks.
	Growth in products per customer	In 2015, products per customer increased in Australia, New Zealand and Wealth divisions with International and Institutional Banking remaining stable.
Customer Driven		On Target:
	Customer satisfaction (based on external survey outcomes)	ANZ tracks customer satisfaction across its businesses as part of a group of indicators of longer term performance trends. ANZ aims to achieve top quartile customer satisfaction scores in each business based on external surveys. In 2015, customer satisfaction in Australia Retail has decreased slightly, but market share has increased, and Corporate and Commercial segment maintained a stable customer satisfaction score. Customer satisfaction in New Zealand has improved across Personal, Commercial and Rural customer segments whilst also increasing market share. International and Institutional Banking has achieved #1 ranking in terms of customer satisfaction (Peter Lee Surveys) in APEA and New Zealand. Wealth customer satisfaction increased in both ANZ Financial Planning and Direct Channels.

1 The outcomes of these key measures are derived from unaudited financial and non-financial information.
2 Economic profit is an unaudited risk adjusted profit measure determined by adjusting cash profit for economic credit costs, the benefit of imputation credits and the cost of capital.
3 Includes all employees regardless of leave status but not contractors (which are included in FTE).

7.3 LTVR – PERFORMANCE AND OUTCOMES

The following provides the vesting outcomes for LTVR performance rights granted to the CEO and Disclosed Executives (excluding the CRO) in November/December 2011 which reached the end of the performance period in November/December 2014.

TABLE 3: LTVR PERFORMANCE RIGHTS HURDLE OUTCOMES

Recipients	Type	Hurdle	Grant date	First date exercisable	ANZ TSR %	Median TSR%	Vested %	Lapsed %
CEO	LTVR performance rights	Relative TSR – Select financial services	16-Dec-11	16-Dec-14	87.83%	93.95%	0%	100%
Executives	LTVR performance rights	Relative TSR – Select financial services	14-Nov-11	13-Nov-14	89.65%	96.59%	0%	100%

8. 2015 Remuneration

8.1 NON-EXECUTIVE DIRECTORS (NEDS)

Principles underpinning the remuneration policy for NEDs.

Principle	Comment
Aggregate Board and Committee fees are within the maximum annual aggregate limit approved by shareholders	The current aggregate fee pool for NEDs of $4 million was approved by shareholders at the 2012 Annual General Meeting. The annual total of NEDs' fees, including superannuation contributions, is within this agreed limit.
Fees are set by reference to key considerations	Board and Committee fees are set by reference to a number of relevant considerations including: ▸ general industry practice and best principles of corporate governance; ▸ the responsibilities and risks attached to the role of NEDs; ▸ the time commitment expected of NEDs on Group and Company matters; and ▸ fees paid to NEDs of comparable companies. ANZ compares NED fees to a comparator group of Australian listed companies with a similar size market capitalisation, with particular focus on the major financial services institutions. This is considered an appropriate group, given similarity in size, nature of work and time commitment required by NEDs.
The remuneration structure preserves independence whilst aligning interests of NEDs and shareholders	So that independence and impartiality is maintained, fees are not linked to the performance of the Company and NEDs are not eligible to participate in any of the Group's variable remuneration arrangements.

Components of NED Remuneration

NEDs receive a base fee for being a Director of the Board, and additional fees for either chairing or being a member of a Board Committee. The Chairman of the Board does not receive additional fees for service on a Board Committee.

NEDs also receive superannuation contributions in accordance with the current Superannuation Guarantee legislation (up to the Government's prescribed maximum contributions limit) which satisfies the Company's statutory superannuation contributions.

Based on an independent assessment of market practice the Board elected to increase the ANZ Chairman fee and NED base fee as shown below. All Committee Chair and Committee Member fees remained unchanged for 2015.

Elements	Details			
Board/Committee fees per annum		**Year**	**Fee**	
	Board Chairman Fee[1]	2015	$810,000	(including superannuation)
		2014	$802,000	(including superannuation)
	Board NED Base Fee	2015	$235,000	(including superannuation)
		2014	$230,000	(including superannuation)
	Committee Fees	**Year**	**Committee Chair**	**Committee Member**
	Audit	2015	$65,000	$32,500
	Governance	2015	$35,000	$15,000
	Human Resources	2015	$55,000	$25,000
	Risk	2015	$60,000	$30,000
	Technology	2015	$35,000	$15,000
Post-employment Benefits	The Chairman and NED base fee structure (included above) are inclusive of superannuation contributions.			

1 ANZ Board Chairman is an ex-officio member of all Board Committees and does not receive Committee member fees.

NED Shareholding Guidelines

The NED shareholding guidelines require NEDs to accumulate shares, over a five year period from appointment, to the value of 100% (200% for the Chairman) of the NED base fee and to maintain this shareholding while a Director of ANZ. NEDs have agreed that where their holding is below this guideline they will direct a minimum of 25% of their fees each year toward achieving this shareholding.

All NEDs have met or, if appointed within the last five years, are on track to meet their minimum shareholding guidelines requirement.

NED Statutory Remuneration Disclosure

TABLE 4: NED REMUNERATION FOR 2015 AND 2014

		Short-Term NED Benefits		Post-Employment	
	Financial Year	Fees[1] $	Non monetary benefits $	Super contributions $	Total remuneration[2,3] $
Current Non-Executive Directors					
D Gonski[4]	**2015**	**791,085**	**–**	**18,915**	**810,000**
	2014	383,559	–	11,837	395,396
I Atlas[5]	**2015**	**270,460**	**–**	**18,915**	**289,375**
	2014	3,995	–	380	4,375
P Dwyer	**2015**	**336,085**	**–**	**18,915**	**355,000**
	2014	320,524	–	18,027	338,551
H Lee	**2015**	**306,085**	**–**	**18,915**	**325,000**
	2014	296,973	–	18,027	315,000
G Liebelt	**2015**	**331,085**	**–**	**18,915**	**350,000**
	2014	300,764	–	18,027	318,791
I Macfarlane	**2015**	**323,585**	**–**	**18,915**	**342,500**
	2014	319,473	–	18,027	337,500
J Macfarlane[6]	**2015**	**293,585**	**–**	**18,915**	**312,500**
	2014	103,109	–	7,557	110,666
Former Non-Executive Directors					
J Morschel[7]	**2015**	**–**	**–**	**–**	**–**
	2014	453,768	23,187	13,331	490,286
G Clark[8]	**2015**	**–**	**–**	**–**	**–**
	2014	64,402	4,302	4,444	73,148
P Hay[9]	**2015**	**–**	**–**	**–**	**–**
	2014	176,692	3,065	11,138	190,895
D Meiklejohn[10]	**2015**	**–**	**–**	**–**	**–**
	2014	68,696	9,029	4,444	82,169
A Watkins[11]	**2015**	**–**	**–**	**–**	**–**
	2014	182,446	3,815	11,208	197,469
Total of all Non-Executive Directors	**2015**	**2,651,970**	**–**	**132,405**	**2,784,375**
	2014	2,674,401	43,398	136,447	2,854,246

1 Fees are the sum of Board fees and Committee fees, as included in the Annual Report.
2 Long-term benefits and share-based payments are not applicable for the Non-Executive Directors. There were no termination benefits for the Non-Executive Directors in either 2014 or 2015.
3 Amounts disclosed for remuneration of Directors exclude insurance premiums paid by the Group in respect of Directors' and officers' liability insurance contracts. The total premium, which cannot be disclosed because of confidentiality requirements, has not been allocated to the individuals covered by the insurance policy as, based on all available information, the Directors believe that no reasonable basis for such allocation exists.
4 D Gonski commenced as a Non-Executive Director on 27 February 2014 and as Chairman on 1 May 2014 so 2014 remuneration reflects amounts received for the partial service for the 2014 year.
5 I Atlas commenced as a Non-Executive Director on 24 September 2014 so 2014 remuneration reflects amounts received for the partial service for the 2014 year.
6 J Macfarlane commenced as a Non-Executive Director on 22 May 2014 so 2014 remuneration reflects amounts received for the partial service for the 2014 year.
7 J Morschel retired as Chairman on 30 April 2014 so 2014 remuneration reflects amounts received for the partial service for the 2014 year. Non monetary benefits relate to car parking and gifts on retirement. $90,959 was paid to J Morschel on retirement in relation to his accrued entitlements under the closed ANZ Directors' Retirement Scheme (not included in table above).
8 G Clark retired as a Non-Executive Director on 18 December 2013 so 2014 remuneration reflects amounts received for the partial service for the 2014 year. Non monetary benefits relate to gifts on retirement. $123,990 was paid to G Clark on retirement in relation to his accrued entitlements under the closed ANZ Directors' Retirement Scheme (not included in table above).
9 P Hay retired as a Non-Executive Director on 30 April 2014 so 2014 remuneration reflects amounts received for the partial service for the 2014 year. Non monetary benefits relate to gifts on retirement.
10 D Meiklejohn retired as a Non-Executive Director on 18 December 2013 so 2014 remuneration reflects amounts received for the partial service for the 2014 year. Non monetary benefits relate to office space, car parking and gifts on retirement. $96,545 was paid to D Meiklejohn on retirement in relation to his accrued entitlements under the closed ANZ Directors' Retirement Scheme (not included in table above).
11 A Watkins retired as a Non-Executive Director on 30 April 2014 so 2014 remuneration reflects amounts received for the partial service for the 2014 year. Non monetary benefits relate to gifts on retirement.

8.2 CHIEF EXECUTIVE OFFICER (CEO)

Actual remuneration provided to the CEO in 2015 is detailed below, with remuneration tables provided in Section 8.5.

Fixed remuneration: The CEO's fixed remuneration was increased from $3.15 million to $3.4 million effective 1 October 2014. The Board determined that an increase was appropriate to reflect the skills and experience of the CEO noting that no adjustment had been made since October 2010.

AVR: The CEO has a target AVR opportunity of $3.4 million. The actual amount paid can increase or decrease from this number dependent on his performance as CEO and the performance of the organisation as a whole. Specifically, if, in the Board's view the CEO has performed above/below his targets, the Board may exercise its discretion to increase/decrease the AVR beyond his target payment.

The Board approved the CEO's 2015 balanced scorecard annual objectives and his longer term strategic goals at the start of the bank financial year and then assessed his performance against these at the end of the bank financial year. The CEO's AVR payment for 2015 was then determined having regard to his delivery against these objectives including ANZ's productivity performance and focus on capital efficiency, his demonstration of values led behaviours, as well as progress achieved in relation to ANZ's long term strategic goals. The AVR payment for 2015 is $4 million with $2.05 million paid in cash and the balance ($1.95 million) awarded as deferred share rights, half deferred for one year and half for two years.

LTVR: At the 2014 Annual General Meeting shareholders approved an LTVR grant of performance rights to the CEO of $3.4 million (using a fair value approach), divided into two equal tranches. The performance condition for each tranche is relative TSR against a set comparator group. Performance will be assessed at the end of the three year performance period commencing 21 November 2014 (with no retesting). The total number of performance rights granted was determined by splitting the LTVR grant value into two equal tranches of $1.7 million each and then dividing these amounts by the fair value (at the start of the performance period) of each tranche. This equated to 119,382 performance rights being allocated for the first tranche and 109,890 performance rights being allocated for the second tranche. The face value of the performance rights at the start of the performance period (based on the five trading day VWAP of the Company's shares traded on the ASX in the week up to, and including, 21 November 2014, of $31.8908) was $7.3 million.

The CEO has not been awarded an LTVR for 2015 as he will step down as CEO on 31 December 2015.

8.3 INCOMING CHIEF EXECUTIVE OFFICER (CEO)

Fixed remuneration and AVR amounts shown in the remuneration tables in Section 8.5 relate to Mr Elliott's role as CFO.

The non statutory remuneration table includes an amount relating to the proposed LTVR for Mr Elliott in his capacity as the incoming CEO. The proposed grant has a face value at grant of $2.1 million at 50% vesting and $4.2 million at 100% vesting, subject to shareholder approval at the 2015 Annual General Meeting. LTVR reflects the importance of focusing the incoming CEO on the achievement of longer term strategic objectives and alignment with shareholders interests. The LTVR will be delivered as performance rights split into three equal tranches, two tranches with a separate relative TSR performance hurdle and the third tranche with an Absolute CAGR TSR performance hurdle. Each tranche will be measured independently. The number of performance rights granted to the incoming CEO in each tranche will be determined using an allocation value based on the five trading day VWAP of the Company's shares traded on the ASX in the week up to, and including, the start of the performance period (18 November 2015) and will not take into account the probability of performance measures being met. The TSR hurdles will be subject to testing after three years, i.e. November 2018 (with no retesting). Further information is provided in the 2015 Annual General Meeting Notice of Meeting.

8.4 DISCLOSED EXECUTIVES

Actual remuneration provided to the Disclosed Executives in 2015 is summarised below, with remuneration tables provided in Section 8.5.

Fixed remuneration: The annual review of ANZ's fixed remuneration levels for Disclosed Executives identified that most executives were competitively positioned within the market and therefore adjustments were only made to three executives (Mr Currie, Ms Phillips and Mr Williams).

AVR: All variable remuneration awarded in the 2015 financial year related to performance from the 2014 financial year.

In determining AVR outcomes each year the Board take into consideration overall Company performance against the balanced scorecard of measures, along with individual performance against set objectives.

Overall, the total amount of AVR payments to Disclosed Executives for the 2015 year (which are paid/granted in the 2016 financial year) are flat or slightly lower as a percentage of target than for the 2014 year reflecting a solid performance.

LTVR: LTVR performance rights granted to Disclosed Executives during the 2015 financial year were allocated in November 2014 in two tranches (using a fair value approach). Each tranche is subject to meeting the relative TSR performance hurdle of that tranche, measured over a three year performance period commencing 21 November 2014. The CRO received LTVR deferred share rights.

For awards to be allocated in November 2015, the Board elected to grant LTVR to Disclosed Executives below, at or above target. LTVR reflects the importance of focusing Disclosed Executives on the achievement of longer term strategic objectives and the alignment with shareholders interests. It also recognises the capabilities of these individuals and the need to retain their expertise over the longer term. The LTVR will be delivered as performance rights using the same approach as for the incoming CEO as detailed in Section 8.3 Incoming Chief Executive Officer (CEO), except for the CRO who will receive LTVR deferred share rights.

8.5 REMUNERATION TABLES – CEO AND DISCLOSED EXECUTIVES

Table 5: Non Statutory Remuneration Disclosure has been prepared to provide shareholders with a view of remuneration structure and how remuneration was paid or communicated to the CEO and Disclosed Executives for 2014 and 2015. The Board believes presenting information in this way provides the shareholder with increased clarity and transparency of the CEO and Disclosed Executives' remuneration, clearly showing the amounts awarded for each remuneration component (fixed remuneration, AVR and LTVR) within the financial year as well as the amounts actually received. Details of prior year awards which may have vested in 2014 and 2015 are provided in the footnotes.

	Individuals included in table	Fixed remuneration	Non monetary benefits	Retirement benefits
NON STATUTORY REMUNERATION DISCLOSURE TABLE	CEO and Current Disclosed Executives (pro-rated for period of year as a KMP)	Total of cash salary and superannuation contributions	Non monetary benefits which typically consist of company-funded benefits and fringe benefits tax payable on these benefits	Not included
STATUTORY REMUNERATION DISCLOSURE TABLE	CEO, Current and Former Disclosed Executives (pro-rated for period of year as a KMP)	Cash salary (including any reductions made in relation to the utilisation of ANZ's Lifestyle Leave Policy) and superannuation contributions	As above	Retirement benefit accrued during the year. This relates to a retirement allowance available to individuals employed prior to Nov 1992.

1 Subject to Shareholder approval for the incoming CEO.

TABLE 5: NON STATUTORY REMUNERATION DISCLOSURE – CEO AND CURRENT DISCLOSED EXECUTIVE REMUNERATION FOR 2015 AND 2014

	Financial Year	Fixed: Remuneration $	Fixed: Non monetary benefits $	Cash $	Deferred as equity $
CEO and Current Disclosed Executives					
M Smith[3]	**2015**	**3,400,000**	**204,530**	**2,050,000**	**1,950,000**
Chief Executive Officer	2014	3,150,000	170,019	2,050,000	1,950,000
A Currie[4]	**2015**	**1,100,000**	**16,537**	**1,000,000**	**900,000**
Chief Operating Officer	2014	1,000,000	15,938	950,000	850,000
S Elliott[5]	**2015**	**1,250,000**	**17,037**	**1,300,000**	**1,200,000**
Chief Financial Officer	2014	1,250,000	20,663	1,300,000	1,200,000
A Géczy[6]	**2015**	**1,250,000**	**856,640**	**850,000**	**750,000**
Chief Executive Officer, International & Institutional Banking	2014	1,250,000	337,718	900,000	800,000
D Hisco[7]	**2015**	**1,181,243**	**439,790**	**1,162,631**	**1,062,631**
Chief Executive Officer, New Zealand	2014	1,165,493	430,342	1,150,083	1,050,082
G Hodges[8]	**2015**	**1,050,000**	**18,448**	**800,000**	**700,000**
Deputy Chief Executive Officer	2014	1,050,000	19,166	800,000	700,000
J Phillips[9]	**2015**	**1,050,000**	**156,957**	**900,000**	**800,000**
Chief Executive Officer, Global Wealth and Group Managing Director, Marketing, Innovation and Digital	2014	1,000,000	5,500	900,000	800,000
M Whelan[10]	**2015**	**500,000**	**5,625**	**500,000**	**400,000**
Chief Executive Officer, Australia					
N Williams[11]	**2015**	**1,350,000**	**21,441**	**1,000,000**	**900,000**
Chief Risk Officer	2014	1,250,000	18,551	950,000	850,000

1 The possible range of AVR is between 0 and 2 times target AVR. The actual AVR received is dependent on ANZ and individual performance. Anyone who received less than 100% of target forfeited the rest of their AVR entitlement. The minimum value is nil and the maximum value is what was actually paid.

2 Total Remuneration assumes LTVR face value at 50% vesting.

3 **M Smith -** Non monetary benefits include car parking, life insurance and taxation services. In 2015 equity to the value of $2,149,382 vested in respect of previously disclosed deferred AVR granted in November 2012 and November 2013. Deferred LTVR which was granted in December 2011 and previously disclosed, lapsed in December 2014.

4 **A Currie -** Non monetary benefits include car parking and taxation services. In 2015 equity to the value of $732,721 vested in respect of deferred AVR granted in November 2012 and November 2013, and equity to the value of $763,011 vested in respect of deferred LTVR granted in November 2011.

5 **S Elliott -** Non monetary benefits include car parking and taxation services. In 2015 equity to the value of $1,243,525 vested in respect of previously disclosed deferred AVR granted in November 2012 and November 2013. Deferred LTVR which was granted in November 2011 and previously disclosed, lapsed in November 2014. The 2015 LTVR relates to the proposed LTVR grant as incoming CEO, subject to approval by shareholders at the 2015 Annual General Meeting.

6 **A Géczy -** Non monetary benefits include relocation expenses, car parking and taxation services.

The information provided in Table 5 is non statutory information and differs from the information provided in Table 6: Statutory Remuneration Disclosure, which has been prepared in accordance with Australian Accounting Standards. A description of the difference between the two tables in relation to the 2015 financial year information is provided below:

Long service leave accrual	Annual Variable Remuneration (AVR)	Long Term Variable Remuneration (LTVR)	Other equity allocations
Not included	AVR awarded in Nov 2015 for the 2015 financial year – expressed as a cash value plus a deferred equity grant value	Award value of LTVR granted in Nov/Dec[1] 2015	Not included
	The equity allocation value multiplied by the number of instruments granted equals the AVR/LTVR deferred equity dollar value		
Long service leave accrued during the year	Includes cash AVR (Nov 2015 element only) under total cash incentive and amortised AVR for deferred equity from current and prior year Amortised AVR values relate to AVR awards made in Nov 2012, 2013, 2014 and to be granted in Nov 2015	Amortised LTVR values relate to LTVR awards made in Nov/Dec 2011, 2012, 2013 and 2014	Amortised values for equity awards made in prior years, such as Employee Share Offer, excluding AVR and LTVR awards
	Equity is amortised over the vesting period of the award.		

AVR			LTVR		Total Remuneration[2]		
Total $	As % of target %	As % of maximum opportunity[1] %	Face value at 50% vesting $	Face value at 100% vesting $	Total $	Deferred as equity $	Received $
4,000,000	**118%**	**59%**	**–**	**–**	**7,604,530**	**1,950,000**	**5,654,530**
4,000,000	127%		3,400,000	7,311,667	10,720,019	5,350,000	5,370,019
1,900,000	**144%**	**72%**	**750,000**	**1,500,000**	**3,766,537**	**1,650,000**	**2,116,537**
1,800,000	150%		750,000	1,612,845	3,565,938	1,600,000	1,965,938
2,500,000	**167%**	**83%**	**2,100,000**	**4,200,000**	**5,867,037**	**3,300,000**	**2,567,037**
2,500,000	167%		800,000	1,720,349	4,570,663	2,000,000	2,570,663
1,600,000	**107%**	**53%**	**800,000**	**1,600,000**	**4,506,640**	**1,550,000**	**2,956,640**
1,700,000	113%		800,000	1,720,349	4,087,718	1,600,000	2,487,718
2,225,262	**157%**	**78%**	**699,264**	**1,398,528**	**4,545,559**	**1,761,895**	**2,783,664**
2,200,165	157%		699,260	1,503,715	4,495,260	1,749,342	2,745,918
1,500,000	**119%**	**60%**	**500,000**	**1,000,000**	**3,068,448**	**1,200,000**	**1,868,448**
1,500,000	119%		500,000	1,075,230	3,069,166	1,200,000	1,869,166
1,700,000	**135%**	**67%**	**700,000**	**1,400,000**	**3,606,957**	**1,500,000**	**2,106,957**
1,700,000	142%		700,000	1,505,310	3,405,500	1,500,000	1,905,500
900,000	**161%**	**81%**	**350,000**	**700,000**	**1,755,625**	**750,000**	**1,005,625**
1,900,000	**117%**	**78%**	**750,000**		**4,021,441**	**1,650,000**	**2,371,441**
1,800,000	120%		750,000		3,818,551	1,600,000	2,218,551

7 **D Hisco** - 2014 and 2015 remuneration value in the table represents his NZD remuneration converted to AUD at the average exchange rate for the 2014 and 2015 financial years respectively. Non monetary benefits include expenses related to his assignment to New Zealand, car parking and taxation services. In 2015 equity to the value of $1,095,173 vested in respect of previously disclosed deferred AVR granted in November 2012 and November 2013. Deferred LTVR which was granted in November 2011 and previously disclosed, lapsed in November 2014. D Hisco also received shares to the value of $740 in relation to the Employee Share Offer in December 2014 and will receive shares to the value of $736 in relation to the Employee Share Offer in December 2015.

8 **G Hodges** - Non monetary benefits include car parking and taxation services. In 2015 equity to the value of $646,299 vested in respect of previously disclosed deferred AVR granted in November 2012 and November 2013. Deferred LTVR which was granted in November 2011 and previously disclosed, lapsed in November 2014.

9 **J Phillips** - Relocated to Sydney in 2015. Non monetary benefits include relocation expenses, car parking and taxation services. In 2015 equity to the value of $658,846 vested in respect of previously disclosed deferred AVR granted in November 2012 and November 2013. Deferred LTVR which was granted in 2011 and previously disclosed, lapsed in November 2014.

10 **M Whelan** - Commenced in a Disclosed Executive role on 3 April 2015 so 2015 remuneration reflects amounts prorated for the partial service year. Non monetary benefits comprise car parking.

11 **N Williams** - Non monetary benefits include car parking and taxation services. In 2015 equity to the value of $750,313 vested in respect of deferred AVR granted in November 2012 and November 2013 and equity to the value of $763,011 vested in respect of deferred LTVR granted in November 2011. (LTVR is delivered as unhurdled deferred share rights and is not subject to meeting TSR performance hurdles).

TABLE 6: STATUTORY REMUNERATION DISCLOSURE – CEO AND DISCLOSED EXECUTIVE REMUNERATION FOR 2015 AND 2014

		Short-Term Employee Benefits			Post-Employment	
	Financial Year	Cash salary[1] $	Non monetary benefits[2] $	Total cash incentive[3,4] $	Super contributions[5] $	Retirement benefit accrued during year[6] $
CEO and Current Disclosed Executives						
M Smith Chief Executive Officer	**2015**	**3,308,557**	**204,530**	**2,050,000**	**91,443**	**–**
	2014	3,150,000	170,019	2,050,000	–	–
A Currie Chief Operating Officer	**2015**	**966,112**	**16,537**	**1,000,000**	**95,434**	**–**
	2014	879,723	15,938	950,000	85,191	–
S Elliott Chief Financial Officer	**2015**	**1,141,553**	**17,037**	**1,300,000**	**108,447**	**–**
	2014	1,143,512	20,663	1,300,000	106,488	–
A Géczy Chief Executive Officer, International & Institutional Banking	**2015**	**1,141,553**	**856,640**	**850,000**	**108,447**	**–**
	2014	1,143,512	337,718	900,000	106,488	–
D Hisco[10] Chief Executive Officer, New Zealand	**2015**	**1,181,243**	**439,790**	**1,162,631**	**–**	**8,529**
	2014	1,165,493	430,342	1,150,083	–	61,805
G Hodges Deputy Chief Executive Officer	**2015**	**958,904**	**18,448**	**800,000**	**91,096**	**4,565**
	2014	960,550	19,166	800,000	89,450	7,945
J Phillips Chief Executive Officer, Global Wealth and Group Managing Director, Marketing, Innovation and Digital	**2015**	**958,904**	**156,957**	**900,000**	**91,096**	**–**
	2014	914,809	5,500	900,000	85,191	–
M Whelan[11] Chief Executive Officer, Australia	**2015**	**456,621**	**5,625**	**500,000**	**43,379**	**–**
N Williams Chief Risk Officer	**2015**	**1,232,877**	**21,441**	**1,000,000**	**117,123**	**13,830**
	2014	1,143,512	18,551	950,000	106,488	25,251
Former Disclosed Executives						
P Chronican[12] Chief Executive Officer, Australia	**2015**	**1,484,018**	**17,163**	**300,000**	**140,982**	**–**
	2014	1,189,252	15,938	925,000	110,748	–
Total of all Executive KMPs[13]	**2015**	**12,830,342**	**1,754,168**	**9,862,631**	**887,447**	**26,924**
	2014	11,690,363	1,033,835	9,925,083	690,044	95,001

1 Cash salary includes adjustments made in relation to the utilisation of ANZ's Lifestyle Leave Policy, where applicable.

2 Non monetary benefits generally consist of company-funded benefits such as car parking and taxation services. This item also includes costs met by the company in relation to relocation, gifts received on leaving ANZ for former Disclosed Executives, and life insurance for the CEO. The fringe benefits tax payable on any benefits is also included in this item.

3 The total cash incentive relates to the cash component only, with the relevant amortisation of the AVR deferred components included in share-based payments and amortised over the vesting period. The total AVR was approved by the Board on 27 October 2015. 100% of the cash component of the AVR awarded for the 2014 and 2015 years vested to the Disclosed Executive in the applicable financial year.

4 The possible range of AVR is between 0 and 2 times target AVR. The actual AVR received is dependent on ANZ and individual performance. The 2015 AVR awarded (cash and equity component) as a percentage of target AVR was: M Smith 118% (2014: 127%); A Currie 144% (2014: 150%); S Elliott 167% (2014:167%); A Géczy 107% (2014: 113%); D Hisco 157% (2014: 157%); G Hodges 119% (2014: 119%); J Phillips 135% (2014: 142%); M Whelan 161%; N Williams 117% (2014: 120%) and P Chronican 64% (2014: 112%). Anyone who received less than 100% of target forfeited the rest of their AVR entitlement. The minimum value is nil and the maximum value is what was actually paid.

5 For all Australian based Disclosed Executives, the superannuation contribution reflects the Superannuation Guarantee Contribution – individuals may elect to take this contribution as superannuation or a combination of superannuation and cash. The amount for M Smith reflects a part year superannuation contribution made during 2015.

6 Accrual relates to Retirement Allowance. As a result of being employed with ANZ prior to November 1992, D Hisco, G Hodges and N Williams are eligible to receive a Retirement Allowance on retirement, retrenchment, death, or resignation for illness, incapacity or domestic reasons. The Retirement Allowance is calculated as follows: three months of preserved notional salary (which is 65% of Fixed Remuneration) plus an additional 3% of notional salary for each year of full time service above 10 years, less the total accrual value of long service leave (including taken and untaken).

7 In accordance with the requirements of AASB 2 Share-based payments, the amortisation value includes a proportion of the fair value (taking into account market-related vesting conditions) of all equity that had not yet fully vested as at the commencement of the financial year. The fair value is determined at grant date and is allocated on a straight-line basis over the relevant vesting period. The amount included as remuneration is not related to nor indicative of the benefit (if any) that may ultimately be realised should the equity become exercisable.

8 Remuneration amounts disclosed exclude insurance premiums paid by the consolidated entity in respect of directors' and officers' liability insurance contracts which cover current and former KMP of the controlled entities. The total premium, which cannot be disclosed because of confidentiality requirements, has not been allocated to the individuals covered by the insurance policy as, based on all available information, the directors believe that no reasonable basis for such allocation exists.

Long-Term Employee Benefits	Share-Based Payments[7]						
	Total amortisation value of						
	AVR		LTVR		Other equity allocations		
Long service leave accrued during the year $	Shares $	Rights $	Shares $	Rights $	Shares $	Termination benefits $	Grand total remuneration[8,9] $
78,054	**1,172,496**	**767,058**	**–**	**3,170,182**	**–**	**–**	**10,842,320**
47,073	1,893,344	–	–	3,133,587	–	–	10,444,023
25,567	**823,673**	**–**	**20,306**	**713,982**	**–**	**–**	**3,661,611**
14,983	717,821	–	195,545	463,757	–	–	3,322,958
18,940	**1,191,554**	**–**	**–**	**988,004**	**–**	**–**	**4,765,535**
18,752	1,134,313	–	–	922,786	–	–	4,646,514
18,940	**608,406**	**–**	**–**	**436,929**	**–**	**–**	**4,020,915**
18,938	313,878	–	–	178,321	–	–	2,998,855
25,130	**–**	**1,028,252**	**–**	**619,810**	**466**	**–**	**4,465,851**
62,038	–	790,752	–	548,048	217	–	4,208,778
15,910	**670,413**	**–**	**–**	**496,497**	**–**	**–**	**3,055,833**
32,355	611,759	–	–	495,131	–	–	3,016,356
19,779	**753,726**	**–**	**–**	**553,742**	**–**	**–**	**3,434,204**
15,010	658,421	–	–	493,171	–	–	3,072,102
22,550	**259,248**	**–**	**204,251**	**61,893**	**–**	**–**	**1,553,567**
65,795	**841,966**	**–**	**20,306**	**664,022**	**–**	**–**	**3,977,360**
127,499	745,149	–	183,979	413,799	–	–	3,714,228
–	**719,083**	**200,000**	**–**	**818,698**	**–**	**104,145**	**3,784,089**
19,525	848,607	–	–	657,940	–	–	3,767,010
290,665	**7,040,565**	**1,995,310**	**244,863**	**8,523,759**	**466**	**104,145**	**43,561,285**
356,173	6,923,292	790,752	379,524	7,306,540	217	–	39,190,824

9 While the CEO is an Executive Director, he has been included in this table with the Disclosed Executives.

10 D Hisco was eligible in 2014 and 2015 to receive shares in relation to the Employee Share Offer, which provides a grant of ANZ shares in each financial year to eligible employees subject to Board approval. Refer to note 41 Employee Share and Option Plans for further details on the Employee Share Offer. Long service leave accrued during the year includes a one-off long service loyalty award.

11 M Whelan commenced in a Disclosed Executive role on 3 April 2015 so 2015 remuneration reflects amounts prorated for the partial service year.

12 P Chronican concluded in role on 2 April 2015 and will be ceasing employment 31 December 2015. Statutory remuneration table reflects his expense up to his date of termination, 31 December 2015 (i.e. shows 15 months of fixed remuneration (noting his annual fixed remuneration for 2015 remained unchanged at $1.3 million) and share-based payments expensed to 31 December 2015). AVR reflects amounts received for the partial service year up to 2 April 2015, date concluded in role. Termination benefits reflect payment for accrued annual leave payable upon termination.

13 For those Disclosed Executives who were disclosed in both 2014 and 2015, the following are noted:
- M Smith – uplift in year-on-year total remuneration, driven mainly by an increase in salary, non monetary benefits and long service leave accrual.
- A Currie – uplift in year-on-year total remuneration, driven mainly by an increase in salary, cash incentive and amortised value of equity.
- S Elliott – uplift in year-on-year total remuneration, driven by an increase in the amortised value of equity.
- A Géczy – uplift in year-on-year total remuneration, driven by an increase in non monetary benefits and the amortised value of equity.
- D Hisco – uplift in year-on-year total remuneration, driven by an increase in the amortised value of equity.
- G Hodges – minimal change in year-on-year total remuneration.
- J Phillips – uplift in year-on-year total remuneration, driven mainly by an increase in salary, non monetary benefits and amortised value of equity.
- N Williams – uplift in year-on-year total remuneration, driven mainly by an increase in salary, cash incentive and amortised value of equity.
- P Chronican – uplift in year-on-year total remuneration, driven by inclusion of expensing in relation to termination (fixed remuneration for 15 months, expensing of equity and annual leave payable upon termination).

9. Equity

All shares underpinning equity awards may be purchased on market, or be newly issued shares or a combination of both. For the 2014 equity granted to the CEO and Disclosed Executives in November/December 2014, all AVR deferred shares were purchased on market and for LTVR performance rights, the approach to satisfying awards will be determined closer to the time of vesting.

9.1 CEO AND DISCLOSED EXECUTIVES EQUITY

Details of deferred shares and rights granted to the CEO and Disclosed Executives during the 2015 year, and granted to the CEO and Disclosed Executives in prior years which vested, were exercised/sold or which lapsed/were forfeited during the 2015 year is set out below.

TABLE 7: CEO AND DISCLOSED EXECUTIVES EQUITY GRANTED, VESTED, EXERCISED/SOLD AND LAPSED/FORFEITED

						Vested			Lapsed/Forfeited			Exercised/Sold				
Name	Type of equity	Number granted[1]	Grant date	First date exercisable	Date of expiry	Number	%	Value[2] $	Number	%	Value[2] $	Number	%	Value[2] $	Vested and exercisable as at 30 Sep 2015[3]	Unexer -cisable as at 30 Sep 2015
CEO and Current Disclosed Executives																
M Smith[4]	AVR deferred shares	36,334	12-Nov-12	12-Nov-14	–	36,334	100	1,171,466	–	–	–	(36,334)	100	1,223,064	–	–
	AVR deferred shares	30,709	22-Nov-13	22-Nov-14	–	30,709	100	977,916	–	–	–	(30,709)	100	1,033,717	–	–
	AVR deferred shares[14]	30,574	21-Nov-14	21-Nov-15	–	–	–	–	–	–	–	–	–	–	–	30,574
	AVR deferred shares[14]	30,573	21-Nov-14	21-Nov-16	–	–	–	–	–	–	–	–	–	–	–	30,573
	LTVR performance rights	326,424	16-Dec-11	17-Dec-14	16-Dec-16	–	–	–	(326,424)	100	(10,000,619)	–	–	–	–	–
	LTVR performance rights[15]	119,382	18-Dec-14	18-Dec-17	18-Dec-19	–	–	–	–	–	–	–	–	–	–	119,382
	LTVR performance rights[15]	109,890	18-Dec-14	18-Dec-17	18-Dec-19	–	–	–	–	–	–	–	–	–	–	109,890
A Currie[5]	AVR deferred shares	12,616	12-Nov-12	12-Nov-14	–	12,616	100	406,760	–	–	–	(12,616)	100	403,214	–	–
	AVR deferred shares	10,236	22-Nov-13	22-Nov-14	–	10,236	100	325,961	–	–	–	(10,236)	100	325,459	–	–
	AVR deferred shares[14]	13,327	21-Nov-14	21-Nov-15	–	–	–	–	–	–	–	–	–	–	–	13,327
	AVR deferred shares[14]	13,327	21-Nov-14	21-Nov-16	–	–	–	–	–	–	–	–	–	–	–	13,327
	LTVR deferred shares	23,696	14-Nov-11	14-Nov-14	–	23,696	100	763,011	–	–	–	(23,696)	100	757,336	–	–
	LTVR performance rights[15]	26,334	21-Nov-14	21-Nov-17	21-Nov-19	–	–	–	–	–	–	–	–	–	–	26,334
	LTVR performance rights[15]	24,240	21-Nov-14	21-Nov-17	21-Nov-19	–	–	–	–	–	–	–	–	–	–	24,240
S Elliott[6]	AVR deferred shares	20,185	12-Nov-12	19-Nov-14	–	20,185	100	641,726	–	–	–	–	–	–	20,185	–
	AVR deferred shares	18,898	22-Nov-13	22-Nov-14	–	18,898	100	601,799	–	–	–	–	–	–	18,898	–
	AVR deferred shares[14]	18,815	21-Nov-14	21-Nov-15	–	–	–	–	–	–	–	–	–	–	–	18,815
	AVR deferred shares[14]	18,814	21-Nov-14	21-Nov-16	–	–	–	–	–	–	–	–	–	–	–	18,814
	LTVR performance rights	71,982	14-Nov-11	14-Nov-14	14-Nov-16	–	–	–	(71,982)	100	(2,317,820)	–	–	–	–	–
	LTVR performance rights[15]	28,089	21-Nov-14	21-Nov-17	21-Nov-19	–	–	–	–	–	–	–	–	–	–	28,089
	LTVR performance rights[15]	25,856	21-Nov-14	21-Nov-17	21-Nov-19	–	–	–	–	–	–	–	–	–	–	25,856
A Géczy[7]	AVR deferred shares[14]	12,543	21-Nov-14	21-Nov-15	–	–	–	–	–	–	–	–	–	–	–	12,543
	AVR deferred shares[14]	12,543	21-Nov-14	21-Nov-16	–	–	–	–	–	–	–	–	–	–	–	12,543
	LTVR performance rights[15]	28,089	21-Nov-14	21-Nov-17	21-Nov-19	–	–	–	–	–	–	–	–	–	–	28,089
	LTVR performance rights[15]	25,856	21-Nov-14	21-Nov-17	21-Nov-19	–	–	–	–	–	–	–	–	–	–	25,856
D Hisco[8]	LTVR deferred shares	23,243	31-Oct-08	31-Oct-11	–	–	–	–	–	–	–	(7,243)	31	234,532	16,000	–
	Employee Share Offer	23	04-Dec-14	04-Dec-17	–	–	–	–	–	–	–	–	–	–	–	23
	AVR deferred share rights	18,382	12-Nov-12	12-Nov-14	12-Nov-16	18,382	100	592,665	–	–	–	(18,382)	100	654,622	–	–
	AVR deferred share rights	15,780	22-Nov-13	22-Nov-14	21-Nov-16	15,780	100	502,508	–	–	–	(15,780)	100	561,959	–	–
	AVR deferred share rights[14]	17,408	21-Nov-14	21-Nov-15	21-Nov-17	–	–	–	–	–	–	–	–	–	–	17,408
	AVR deferred share rights[14]	18,370	21-Nov-14	21-Nov-16	21-Nov-18	–	–	–	–	–	–	–	–	–	–	18,370
	LTVR performance rights	55,370	14-Nov-11	14-Nov-14	14-Nov-16	–	–	–	(55,370)	100	(1,782,914)	–	–	–	–	–
	LTVR performance rights[15]	24,552	21-Nov-14	21-Nov-17	21-Nov-19	–	–	–	–	–	–	–	–	–	–	24,552
	LTVR performance rights[15]	22,600	21-Nov-14	21-Nov-17	21-Nov-19	–	–	–	–	–	–	–	–	–	–	22,600

Name	Type of equity	Number granted[1]	Grant date	First date exercisable	Date of expiry	Vested Number	Vested %	Vested Value[2] $	Lapsed/Forfeited Number	Lapsed/Forfeited %	Lapsed/Forfeited Value[2] $	Exercised/Sold Number	Exercised/Sold %	Exercised/Sold Value[2] $	Vested and exercisable as at 30 Sep 2015[3]	Unexer-cisable as at 30 Sep 2015
G Hodges[9]	AVR deferred shares	11,102	12-Nov-12	12-Nov-14	–	11,102	100	357,946	–	–	–	–	–	–	11,102	–
	AVR deferred shares	9,055	22-Nov-13	22-Nov-14	–	9,055	100	288,353	–	–	–	–	–	–	9,055	–
	AVR deferred shares[14]	10,975	21-Nov-14	21-Nov-15	–	–	–	–	–	–	–	–	–	–	–	10,975
	AVR deferred shares[14]	10,975	21-Nov-14	21-Nov-16	–	–	–	–	–	–	–	–	–	–	–	10,975
	LTVR performance rights	55,370	14-Nov-11	14-Nov-14	14-Nov-16	–	–	–	(55,370)	100	(1,782,914)	–	–	–	–	–
	LTVR performance rights[15]	17,556	21-Nov-14	21-Nov-17	21-Nov-19	–	–	–	–	–	–	–	–	–	–	17,556
	LTVR performance rights[15]	16,160	21-Nov-14	21-Nov-17	21-Nov-19	–	–	–	–	–	–	–	–	–	–	16,160
J Phillips[10]	AVR deferred shares	11,102	12-Nov-12	12-Nov-13	–	–	–	–	–	–	–	(11,102)	100	353,844	–	–
	AVR deferred shares	11,102	12-Nov-12	12-Nov-14	–	11,102	100	357,946	–	–	–	(11,102)	100	353,844	–	–
	AVR deferred shares	9,449	22-Nov-13	22-Nov-14	–	9,449	100	300,900	–	–	–	–	–	–	9,449	–
	AVR deferred shares[14]	12,543	21-Nov-14	21-Nov-15	–	–	–	–	–	–	–	–	–	–	–	12,543
	AVR deferred shares[14]	12,543	21-Nov-14	21-Nov-16	–	–	–	–	–	–	–	–	–	–	–	12,543
	LTVR performance rights	55,370	14-Nov-11	14-Nov-14	14-Nov-16	–	–	–	(55,370)	100	(1,782,914)	–	–	–	–	–
	LTVR performance rights[15]	24,578	21-Nov-14	21-Nov-17	21-Nov-19	–	–	–	–	–	–	–	–	–	–	24,578
	LTVR performance rights[15]	22,624	21-Nov-14	21-Nov-17	21-Nov-19	–	–	–	–	–	–	–	–	–	–	22,624
M Whelan[11]	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
N Williams[12]	AVR deferred shares	11,606	12-Nov-12	12-Nov-14	–	11,606	100	374,196	–	–	–	(11,606)	100	374,196	–	–
	AVR deferred shares	11,811	22-Nov-13	22-Nov-14	–	11,811	100	376,117	–	–	–	(11,811)	100	376,441	–	–
	AVR deferred shares[14]	13,327	21-Nov-14	21-Nov-15	–	–	–	–	–	–	–	–	–	–	–	13,327
	AVR deferred shares[14]	13,327	21-Nov-14	21-Nov-16	–	–	–	–	–	–	–	–	–	–	–	13,327
	LTVR deferred shares	23,696	14-Nov-11	14-Nov-14	–	23,696	100	763,011	–	–	–	(23,696)	100	763,011	–	–
	LTVR deferred share rights[15]	27,685	21-Nov-14	21-Nov-17	21-Nov-19	–	–	–	–	–	–	–	–	–	–	27,685
Former Disclosed Executives																
P Chronican[13]	AVR deferred shares	15,139	12-Nov-12	12-Nov-14	–	15,139	100	488,106	–	–	–	(15,139)	100	475,427	–	–
	AVR deferred shares	14,961	22-Nov-13	22-Nov-14	–	14,961	100	476,427	–	–	–	(14,961)	100	469,837	–	–
	AVR deferred shares[14]	12,935	21-Nov-14	21-Nov-15	–	–	–	–	–	–	–	–	–	–	–	12,935
	AVR deferred shares[14]	12,935	21-Nov-14	21-Nov-16	–	–	–	–	–	–	–	–	–	–	–	12,935
	LTVR performance rights	71,982	14-Nov-11	14-Nov-14	14-Nov-16	–	–	–	(71,982)	100	(2,317,820)	–	–	–	–	–
	LTVR performance rights[15]	24,578	21-Nov-14	21-Nov-17	21-Nov-19	–	–	–	–	–	–	–	–	–	–	24,578
	LTVR performance rights[15]	22,624	21-Nov-14	21-Nov-17	21-Nov-19	–	–	–	–	–	–	–	–	–	–	22,624

1 Executives, for the purpose of the five highest paid executive disclosures, are defined as Disclosed Executives or other members of Management Board. Rights granted to the five highest paid executives as remuneration in 2015 are included above.

2 The point in time value of shares/share rights and/or performance rights is based on the one day VWAP of the Company's shares traded on the ASX on the date of vesting, lapsing/forfeiture or exercising/sale/transfer out of trust, multiplied by the number of shares/share rights and/or performance rights.

3 The number vested and exercisable is the number of shares, options and rights that remain vested at the end of the reporting period. No shares, options and rights were vested and unexercisable.

4 M Smith - The CEO had a proportion of his AVR amount deferred as equity. The Board determined the deferred amount for the CEO. The 2014 LTVR grant for the CEO was delivered as performance rights. LTVR performance rights granted 16 Dec 2011 lapsed on 16 Dec 2014 and the one day VWAP was $30.6369. Prior year grants of LTVR performance rights that remained unexerciseable as at 30 September 2015 include: 328,810 (December 2012); 100,832 and 100,254 (December 2013); 119,382 and 109,890 (December 2014).

5 A Currie - Prior year grants of LTVR performance rights that remained unexerciseable as at 30 September 2015 include: 73,818 (November 2012); 27,036 and 24,687 (November 2013); 26,334 and 24,240 (November 2014).

6 S Elliott - LTVR performance rights granted 14 Nov 2011 lapsed on 14 Nov 2014 and the one day VWAP was $32.20. Prior year grants of LTVR performance rights that remained unexerciseable as at 30 September 2015 include: 118,110 (November 2012); 36,049 and 32,916 (November 2013); 28,089 and 25,856 (November 2014).

7 A Géczy - Prior year grants of LTVR performance rights that remained unexerciseable as at 30 September 2015 include: 22,530 and 20,572 (November 2013); 28,089 and 25,856 (November 2014).

8 D Hisco - AVR deferred share rights granted 12 Nov 2012 and 22 Nov 2013 were exercised on 24 Apr 2015, the one day VWAP on date of exercise was $35.6121 and the exercise price was $0.00. LTVR performance rights granted 14 Nov 2011 lapsed on 14 Nov 2014 and the one day VWAP was $32.20. Prior year grants of LTVR performance rights that remained unexerciseable as at 30 September 2015 include: 49,212 (November 2012); 25,205 and 23,015 (November 2013); 24,552 and 22,600 (November 2014).

9 G Hodges - LTVR performance rights granted 14 Nov 2011 lapsed on 14 Nov 2014 and the one day VWAP was $32.20. Prior year grants of LTVR performance rights that remained unexerciseable as at 30 September 2015 include: 49,212 (November 2012); 18,024 and 16,458 (November 2013); 17,556 and 16,160 (November 2014).

10 J Phillips - LTVR performance rights granted 14 Nov 2011 lapsed on 14 Nov 2014 and the one day VWAP was $32.20. Prior year grants of LTVR performance rights that remained unexerciseable as at 30 September 2015 include: 49,212 (November 2012); 18,024 and 16,458 (November 2013); 24,578 and 22,624 (November 2014).

11 M Whelan - M Whelan commenced in a Disclosed Executive role on 3 April 2015 and there are no disclosable transactions from this date. Prior year grants of LTVR performance rights that remained unexerciseable as at 30 September 2015 relate to grants from prior roles.

12 N Williams - Prior year grants of LTVR deferred share rights that remained unexerciseable as at 30 September 2015 include: 29,225 (November 2012); 27,603 (November 2013); 27,685 (November 2014).

13 P Chronican - LTVR performance rights granted 14 Nov 2011 lapsed on 14 Nov 2014 and the one day VWAP was $32.20. Prior year grants of LTVR performance rights that remained unexerciseable as at 30 September 2015 include: 63,976 (November 2012); 25,234 and 23,041 (November 2013); 24,578 and 22,624 (November 2014).

14 The Disclosed Executives had a proportion of their AVR amount deferred as equity. In 2015 D Hisco received share rights rather than shares as locally appropriate. A share right effectively provides a right in the future to acquire a share in ANZ at nil cost to the employee. Refer to the AVR arrangements section for further details of the mandatory deferral arrangements for the Disclosed Executives.

15 The 2014 LTVR grants for Disclosed Executives were delivered as performance rights excluding for the CRO.

9.2 NED, CEO AND DISCLOSED EXECUTIVES EQUITY HOLDINGS

Details of shares held directly, indirectly or beneficially by each NED, including their related parties, are provided below.

TABLE 8: NED SHAREHOLDINGS (INCLUDING MOVEMENTS DURING THE 2015 YEAR)

Name	Type	Opening balance at 1 Oct 2014	Shares granted during the year as remuneration	Received during the year on exercise of options or rights	Resulting from any other changes during the year[1]	Closing balance at 30 Sep 2015[2,3]
Current Non-Executive Directors						
D Gonski	Ordinary shares	30,921	–	–	567	31,488
I Atlas	Ordinary shares	7,360	–	–	–	7,360
P Dwyer	Ordinary shares	10,000	–	–	567	10,567
H Lee	Directors' Share Plan	2,109	–	–	121	2,230
	Ordinary shares	8,000	–	–	–	8,000
G Liebelt	Ordinary shares	9,748	–	–	567	10,315
	Capital notes	1,500	–	–	–	1,500
	Capital notes 2	2,500	–	–	–	2,500
I Macfarlane	Ordinary shares	17,616	–	–	567	18,183
	Capital notes	1,500	–	–	–	1,500
	Convertible preference shares (CPS2)	500	–	–	500	1,000
	Convertible preference shares (CPS3)	1,000	–	–	–	1,000
J Macfarlane	Ordinary shares	12,284	–	–	567	12,851
	Capital notes 2	2,000	–	–	–	2,000
	Capital notes 3	–	–	–	5,000	5,000

1 Shares from any other changes during the year include the net result of any shares purchased (including under the ANZ share purchase plan), sold, or acquired under the dividend reinvestment plan.

2 The following shares (included in the holdings above) were held on behalf of the NEDs (i.e. indirect beneficially held shares) as at 30 September 2015: D Gonski - 31,488, I Atlas - 7,360, P Dwyer - 10,567, H Lee - 2,230, G Liebelt - 14,315, I Macfarlane - 21,683, J Macfarlane - 19,851.

3 There was no change in the balance as at the Director's Report sign-off date.

Details of shares, deferred share rights and performance rights held directly, indirectly or beneficially by the CEO and each Disclosed Executive, including their related parties, are provided below.

TABLE 9: CEO AND DISCLOSED EXECUTIVE SHAREHOLDINGS AND RIGHTS HOLDINGS (INCLUDING MOVEMENTS DURING THE 2015 YEAR)

Name	Type	Opening balance at 1 Oct 2014	Shares granted during the year as remuneration[1]	Received during the year on exercise of options or rights	Resulting from any other changes during the year[2]	Closing balance at 30 Sep 2015[3,4]
CEO and Current Disclosed Executives						
M Smith	Deferred shares	103,474	61,147	–	(70,292)	94,329
	Ordinary shares	901,868	–	–	76,970	978,838
	LTVR performance rights	856,320	229,272	–	(326,424)	759,168
A Currie	Deferred shares	58,946	26,654	–	(46,642)	38,958
	Ordinary shares	1,042	–	–	–	1,042
	LTVR performance rights	125,541	50,574	–	–	176,115
S Elliott	Deferred shares	60,999	37,629	–	4,514	103,142
	Ordinary shares	42	–	–	2	44
	LTVR performance rights	259,057	53,945	–	(71,982)	241,020
A Géczy	Deferred shares	–	25,086	–	675	25,761
	LTVR performance rights	43,102	53,945	–	–	97,047
D Hisco	Deferred shares	23,243	–	–	(7,243)	16,000
	Employee Share Offer	25	23	–	–	48
	Ordinary shares	57,000	–	34,162	–	91,162
	AVR deferred share rights	50,770	35,778	(34,162)	–	52,386
	LTVR performance rights	152,802	47,152	–	(55,370)	144,584
G Hodges	Deferred shares	145,038	21,950	–	5,951	172,939
	Ordinary shares	95,639	–	–	(25,000)	70,639
	LTVR performance rights	139,064	33,716	–	(55,370)	117,410
J Phillips	Deferred shares	55,389	25,086	–	(18,947)	61,528
	Ordinary shares	9,733	–	–	(3,898)	5,835
	LTVR performance rights	139,064	47,202	–	(55,370)	130,896
M Whelan[5]	Deferred shares	117,976	–	–	787	118,763
	LTVR performance rights	27,278	–	–	–	27,278
N Williams	Deferred shares	60,945	26,654	–	(46,963)	40,636
	Ordinary shares	–	–	–	567	567
	LTVR deferred share rights	56,828	27,685	–	–	84,513
Former Disclosed Executives						
P Chronican	Deferred shares	47,112	25,870	–	(31,052)	41,930
	Ordinary shares	150,792	–	–	33,550	184,342
	Capital Notes	–	–	–	1,228	1,228
	Convertible preference shares (CPS2)	1,499	–	–	–	1,499
	LTVR performance rights	184,233	47,202	–	(71,982)	159,453

1 Details of options/rights granted as remuneration during 2015 are provided in Table 7.

2 Shares resulting from any other changes during the year include the net result of any shares purchased (including under the ANZ share purchase plan), forfeited, sold or acquired under the dividend reinvestment plan.

3 The following shares (included in the holdings above) were held on behalf of the CEO and Disclosed Executives (i.e. indirect beneficially held shares) as at 30 September 2015: M Smith - 1,002,033; A Currie - 38,958; S Elliott - 103,142; A Géczy - 25,761; D Hisco - 34,048; G Hodges - 215,674; J Phillips - 61,528; M Whelan - 118,763; N Williams - 40,636 and P Chronican - 41,930.

4 No options/rights were vested and exercisable or vested and unexerciseable as at 30 September 2015. There was no change in the balance as at the Director's Report sign-off date.

5 Commencing balance is based on holdings as at the date of commencement in a Disclosed Executive role (3 April 2015).

9.3 EQUITY VALUATIONS

This section outlines the valuations used throughout this report in relation to equity grants.

ANZ engages an external expert to independently value any required deferred share rights and performance rights, taking into account factors including the performance conditions, share price volatility, life of the instrument, dividend yield and share price at grant date.

The following table provides details of the valuations of the various equity instruments issued during the year and in prior years for shares and rights where vesting, lapse/forfeiture or exercise/sale has occurred during the year:

TABLE 10: EQUITY VALUATION INPUTS – SHARES AND RIGHTS

Recipients	Type	Grant date	Exercise price $	Equity fair value[1] $	Share closing price at grant $	ANZ expected volatility %	Equity term (years)	Vesting period (years)	Expected life (years)	Expected dividend yield %	Risk free interest rate %
CEO and Executives	AVR deferred shares	12-Nov-12	–	24.57	24.45	–	–	1	–	–	–
CEO and Executives	AVR deferred shares	12-Nov-12	–	24.57	24.45	–	–	2	–	–	–
CEO and Executives	AVR deferred shares	22-Nov-13	–	31.66	31.68	–	–	1	–	–	–
CEO and Executives	AVR deferred shares	21-Nov-14	–	31.84	31.82	–	–	1	–	–	–
CEO and Executives	AVR deferred shares	21-Nov-14	–	31.84	31.82	–	–	2	–	–	–
Executives	LTVR deferred shares	31-Oct-08	–	17.18	17.36	–	–	3	–	–	–
Executives	LTVR deferred shares	14-Nov-11	–	20.89	20.66	–	–	3	–	–	–
Executives	Employee Share Offer shares	4-Dec-14	–	32.13	32.22	–	–	3	–	–	–
Executives	AVR deferred share rights	12-Nov-12	0.00	21.76	24.45	22.5	4	2	2	6.00	2.66
Executives	AVR deferred share rights	22-Nov-13	0.00	30.10	31.68	20.0	3	1	1	5.25	2.54
Executives	AVR deferred share rights	21-Nov-14	0.00	30.16	31.82	17.5	3	1	1	5.50	2.53
Executives	AVR deferred share rights	21-Nov-14	0.00	28.58	31.82	17.5	4	2	2	5.50	2.53
Executives	LTVR deferred share rights	21-Nov-14	0.00	27.09	31.82	17.5	5	3	3	5.50	2.53
Executives	LTVR performance rights	14-Nov-11	0.00	9.03	20.66	25.0	5	3	3	6.50	3.53
CEO	LTVR performance rights	16-Dec-11	0.00	9.65	20.93	25.0	5	3	3	7.00	3.06
CEO (for allocation purposes) and Executives	LTVR performance rights	21-Nov-14	0.00	14.24	31.82	17.5	5	3	3	5.50	2.53
CEO (for allocation purposes) and Executives	LTVR performance rights	21-Nov-14	0.00	15.47	31.82	17.5	5	3	3	5.50	2.53
CEO (for expensing purposes)	LTVR performance rights	18-Dec-14	0.00	13.67	30.98	17.5	5	3	3	5.50	2.20
CEO (for expensing purposes)	LTVR performance rights	18-Dec-14	0.00	14.69	30.98	17.5	5	3	3	5.50	2.20

1 For shares, the volume weighted average share price of all ANZ shares sold on the ASX on the date of grant is used to calculate the fair value. No dividends are incorporated into the measurement of the fair value of shares. For rights, an independent fair value calculation is conducted to determine the fair value.

10. NEDs, CEO and Disclosed Executives Loan and Other Transactions (non remuneration)

10.1 LOAN TRANSACTIONS

Loans made to the NEDs, the CEO and Disclosed Executives are made in the ordinary course of business on normal commercial terms and conditions no more favourable than those given to other employees or customers, including the term of the loan, security required and the interest rate.

Details of loans outstanding at the reporting date to NEDs, the CEO and Disclosed Executives including their related parties, where the individual's aggregate loan balance exceeded $100,000 at any time during the year, are provided below. Other than the loans disclosed below no other loans were made, guaranteed or secured by any entity in the Group to the NEDs, the CEO and Disclosed Executives, including their related parties.

TABLE 11: NED LOAN TRANSACTIONS

Name	Opening balance at 1 Oct 2014 $	Closing balance at 30 Sep 2015 $	Interest paid and payable in the reporting period[1] $	Highest balance in the reporting period $
Non-Executive Directors				
J Macfarlane	6,489,628	7,882,159	407,206	8,231,862
Total	**6,489,628**	**7,882,159**	**407,206**	**8,231,862**

1 Actual interest paid after taking into consideration offset accounts. The loan balance is shown gross, however the interest paid takes into account the impact of offset amounts.

TABLE 12: CEO AND DISCLOSED EXECUTIVE LOAN TRANSACTIONS

Name	Opening balance at 1 Oct 2014[1] $	Closing balance at 30 Sep 2015 $	Interest paid and payable in the reporting period[2] $	Highest balance in the reporting period $
CEO and Current Disclosed Executives				
M Smith	1,000,000	1,000,000	43,330	3,199,970
A Currie	3,778,488	3,833,108	163,381	4,027,951
S Elliott	1,600,000	1,598,516	56,454	1,610,128
A Géczy	8,394,849	24,777,211	1,030,346	25,725,488
D Hisco	3,438,788	2,116,292	169,738	3,704,926
G Hodges	3,189,527	3,961,872	160,663	6,190,409
J Phillips	–	2,254,377	5,231	2,254,377
M Whelan	1,841,167	2,690,090	52,192	2,710,950
N Williams	1,668,474	286,000	17,511	1,890,735
Total	**24,911,293**	**42,517,466**	**1,698,846**	**51,314,934**

1 For Disclosed Executives who commenced during the 2015 financial year, opening balances are as at date of commencement.
2 Actual interest paid after taking into consideration offset accounts. The loan balance is shown gross, however the interest paid takes into account the impact of offset amounts.

10.2 OTHER TRANSACTIONS

All other transactions of the NEDs, the CEO and Disclosed Executives and their related parties are conducted on normal commercial terms and conditions no more favourable than those given to other employees or customers, and are deemed trivial or domestic in nature.

Signed in accordance with a resolution of the Directors.

David M Gonski, AC
Chairman

5 November 2015

Graeme R Liebelt
Director

SECTION

02

CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS (continued)

FINANCIAL STATEMENTS

Income Statement for the year ended 30 September

		Consolidated		The Company[1]	
	Note	2015 $m	2014 $m	2015 $m	2014 $m
Interest income	3	30,526	29,524	26,665	25,560
Interest expense	4	(15,910)	(15,714)	(16,249)	(15,550)
Net interest income		14,616	13,810	10,416	10,010
Other operating income	3	4,094	4,189	6,575	5,784
Net funds management and insurance income	3	1,736	1,538	203	217
Share of associates' profit	3	625	517	376	248
Operating income		21,071	20,054	17,570	16,259
Operating expenses	4	(9,359)	(8,760)	(7,350)	(6,878)
Profit before credit impairment and income tax		11,712	11,294	10,220	9,381
Credit impairment charge	15	(1,179)	(986)	(969)	(974)
Profit before income tax		10,533	10,308	9,251	8,407
Income tax expense	5	(3,026)	(3,025)	(1,945)	(1,971)
Profit for the year		7,507	7,283	7,306	6,436
Comprising:					
Profit attributable to non-controlling interests		14	12	–	–
Profit attributable to shareholders of the Company		7,493	7,271	7,306	6,436
Earnings per ordinary share (cents)					
Basic	7	271.5	267.1	n/a	n/a
Diluted	7	257.2	257.0	n/a	n/a
Dividend per ordinary share (cents)	6	181	178	n/a	n/a

1 Comparative amounts have changed. Refer to note 45 for details.

The notes appearing on pages 66 to 169 form an integral part of these financial statements.

Statement of Comprehensive Income for the year ended 30 September

	Note	Consolidated 2015 $m	Consolidated 2014 $m	The Company[1] 2015 $m	The Company[1] 2014 $m
Profit for the year		7,507	7,283	7,306	6,436
Other comprehensive income					
Items that will not be reclassified subsequently to profit or loss					
Remeasurement gain/(loss) on defined benefit plans	31,40	(6)	43	24	8
Fair value gain/(loss) attributable to changes in own credit risk of financial liabilities designated at fair value		52	(35)	52	(35)
Income tax on items that will not be reclassified subsequently to profit or loss					
Remeasurement gain/(loss) on defined benefit plans		4	(11)	(4)	(2)
Fair value gain/(loss) attributable to changes in own credit risk of financial liabilities designated at fair value		(15)	10	(15)	10
Items that may be reclassified subsequently to profit or loss					
Foreign currency translation reserve[2]					
Exchange differences taken to equity	31	1,736	487	878	212
Exchange differences transferred to income statement		(4)	37	(4)	37
Available-for-sale revaluation reserve					
Valuation gain/(loss) taken to equity	31	(40)	134	(74)	90
Transferred to income statement		(71)	(47)	(49)	(40)
Cash flow hedge reserve					
Valuation gain/(loss) taken to equity	31	160	165	149	168
Transferred to income statement		(15)	(31)	–	8
Income tax on items that may be reclassified subsequently to profit or loss					
Available-for-sale revaluation reserve		36	(23)	39	(14)
Cash flow hedge reserve		(45)	(41)	(46)	(53)
Share of associates' other comprehensive income[3]		59	(24)	44	(23)
Other comprehensive income net of tax		1,851	664	994	366
Total comprehensive income for the year		9,358	7,947	8,300	6,802
Comprising total comprehensive income attributable to:					
Non-controlling interests		30	16	–	–
Shareholders of the Company		9,328	7,931	8,300	6,802

1 Comparative amounts have changed. Refer to note 45 for details.
2 Includes a $16 million gain of foreign currency translation differences attributed to non-controlling interests (2014: $4 million gain).
3 Share of associates' other comprehensive income includes items that may be reclassified subsequently to profit and loss comprised of Available-for-sale assets reserve gain of $53 million (2014: loss of $25 million) for the Group and gain of $44 million (2014: loss of $23 million) for the Company; Foreign currency translation reserve of $8 million gain (2014: nil) for the Group; Cash flow hedge reserve of nil (2014: gain of $1 million) for the Group and items that will not be reclassified subsequently to profit or loss comprised of Defined benefit plans loss of $2 million (2014: nil) for the Group.

The notes appearing on pages 66 to 169 form an integral part of these financial statements.

Balance Sheet as at 30 September

	Note	Consolidated 2015 $m	Consolidated 2014 $m	The Company[1] 2015 $m	The Company[1] 2014 $m
Assets					
Cash	10	53,903	32,559	51,217	30,655
Settlement balances owed to ANZ		18,596	20,241	16,601	18,150
Collateral paid		9,967	5,459	8,234	4,873
Trading securities	11	49,000	49,692	37,373	38,049
Derivative financial instruments	12	85,625	56,369	75,694	52,882
Available-for-sale assets	13	43,667	30,917	37,612	26,151
Net loans and advances	14	562,173	521,752	440,383	415,066
Regulatory deposits		1,773	1,565	557	434
Due from controlled entities		–	–	109,920	99,194
Shares in controlled entities	33	–	–	17,823	14,870
Investments in associates	35	5,440	4,582	3,018	2,166
Current tax assets	5	90	38	84	27
Deferred tax assets	5	402	417	712	778
Goodwill and other intangible assets	25	8,312	7,950	2,830	2,451
Investments backing policy liabilities	38	34,820	33,579	–	–
Premises and equipment	26	2,221	2,181	990	1,001
Other assets	27	5,846	4,791	2,949	2,243
Esanda dealer finance assets held for sale	14	8,065	–	8,065	–
Total assets		889,900	772,092	814,062	708,990
Liabilities					
Settlement balances owed by ANZ		11,250	10,114	9,901	8,189
Collateral received		7,829	5,599	6,886	4,886
Deposits and other borrowings	16	570,794	510,079	472,031	423,172
Derivative financial instruments	12	81,270	52,925	71,844	50,474
Due to controlled entities		–	–	105,079	93,796
Current tax liabilities	5	267	449	94	301
Deferred tax liabilities	5	249	120	123	62
Policy liabilities	38	35,401	34,554	–	–
External unit holder liabilities (life insurance funds)		3,291	3,181	–	–
Provisions	28	1,074	1,100	731	695
Payables and other liabilities	29	10,366	10,984	6,294	7,682
Debt issuances	17	93,747	80,096	75,579	64,161
Subordinated debt	18	17,009	13,607	15,812	12,870
Total liabilities		832,547	722,808	764,374	666,288
Net assets		57,353	49,284	49,688	42,702
Shareholders' equity					
Ordinary share capital	30	28,367	24,031	28,611	24,280
Preference share capital	30	–	871	–	871
Reserves	31	1,571	(239)	939	(6)
Retained earnings	31	27,309	24,544	20,138	17,557
Share capital and reserves attributable to shareholders of the Company		57,247	49,207	49,688	42,702
Non-controlling interests	30	106	77	–	–
Total shareholders' equity		57,353	49,284	49,688	42,702

1 Comparative amounts have changed. Refer to note 45 for details.

The notes appearing on pages 66 to 169 form an integral part of these financial statements.

Cash Flow Statement for the year ended 30 September

	Note	Consolidated 2015 $m	Consolidated 2014 $m	The Company 2015 $m	The Company 2014 $m
Cash flows from operating activities					
Interest received		30,667	29,327	26,754	25,417
Interest paid		(15,458)	(14,886)	(15,809)	(14,716)
Dividends received		231	127	2,630	1,890
Other operating income received		18,297	2,704	15,818	3,780
Other operating expenses paid		(8,573)	(8,123)	(6,806)	(6,476)
Income taxes paid		(3,082)	(3,207)	(2,388)	(2,615)
Net cash flows from funds management and insurance business					
Premiums, other income and life investment deposits received		7,577	7,549	154	168
Investment income and policy deposits received		286	620	–	–
Claims and policyholder liability payments		(5,930)	(5,578)	–	–
Commission expense (paid)/received		(648)	(471)	49	49
Cash flows from operating activities before changes in operating assets and liabilities		23,367	8,062	20,402	7,497
Changes in operating assets and liabilities arising from cash flow movements					
(Increase)/decrease in operating assets					
Collateral paid		(3,585)	1,271	(2,427)	957
Trading securities		2,870	(8,600)	2,161	(7,131)
Loans and advances		(32,280)	(35,154)	(21,759)	(29,408)
Net intra-group loans and advances		–	–	(992)	1,856
Net cash flows from investments backing policyholder liabilities					
Purchase of insurance assets		(7,065)	(4,856)	–	–
Proceeds from sale/maturity of insurance assets		7,239	4,625	–	–
Increase/(decrease) in operating liabilities					
Deposits and other borrowings		30,050	36,592	22,210	31,798
Settlement balances owed by ANZ		781	1,358	1,422	668
Collateral received		1,073	1,435	854	1,103
Payables and other liabilities		(974)	910	(1,491)	1,417
Change in operating assets and liabilities arising from cash flow movements		(1,891)	(2,419)	(22)	1,260
Net cash provided by operating activities	9(a)	21,476	5,643	20,380	8,757
Cash flows from investing activities					
Available-for-sale assets					
Purchases		(24,236)	(12,652)	(18,876)	(7,849)
Proceeds from sale or maturity		15,705	11,136	11,256	6,489
Controlled entities and associates					
Purchases (net of cash acquired)	9(c)	–	–	(1,375)	(21)
Proceeds from sale (net of cash disposed)	9(c)	4	251	–	249
Premises and equipment					
Purchases		(321)	(370)	(204)	(248)
Other assets		(928)	(292)	(280)	86
Net cash used in investing activities		(9,776)	(1,927)	(9,479)	(1,294)
Cash flows from financing activities					
Debt issuances					
Issue proceeds		16,637	17,156	12,969	13,102
Redemptions		(15,966)	(10,710)	(12,250)	(8,642)
Subordinated debt					
Issue proceeds		2,683	3,258	2,517	3,258
Redemptions		–	(2,586)	–	(2,586)
Dividends paid		(3,763)	(3,827)	(3,784)	(3,843)
Share capital issues		3,207	4	3,207	4
Preference shares bought back		(755)	–	(755)	–
Share buybacks		–	(500)	–	(500)
Net cash provided by financing activities		2,043	2,795	1,904	793
Net increase in cash and cash equivalents		13,743	6,511	12,805	8,256
Cash and cash equivalents at beginning of year		48,229	41,111	45,048	36,279
Effects of exchange rate changes on cash and cash equivalents		7,306	607	6,983	513
Cash and cash equivalents at end of year	9(b)	69,278	48,229	64,836	45,048

The notes appearing on pages 66 to 169 form an integral part of these financial statements.

Statement of Changes in Equity for the year ended 30 September

Consolidated	Ordinary share capital $m	Preference shares $m	Reserves[1] $m	Retained earnings $m	Shareholders' equity attributable to equity holders of the Bank $m	Non-controlling interests $m	Total shareholders' equity $m
As at 1 October 2013	23,641	871	(907)	21,936	45,541	62	45,603
Profit or loss	–	–	–	7,271	7,271	12	7,283
Other comprehensive income for the year	–	–	653	7	660	4	664
Total comprehensive income for the year	–	–	653	7,278	7,931	16	7,947
Transactions with equity holders in their capacity as equity holders:							
Dividends paid	–	–	–	(4,700)	(4,700)	(1)	(4,701)
Dividend income on Treasury shares held within the Group's life insurance statutory funds	–	–	–	22	22	–	22
Dividend reinvestment plan	851	–	–	–	851	–	851
Transactions with non-controlling interests	–	–	10	–	10	–	10
Other equity movements:							
Share-based payments/(exercises)	–	–	13	–	13	–	13
Treasury shares Global Wealth adjustment	24	–	–	–	24	–	24
Group share option scheme	4	–	–	–	4	–	4
Group employee share acquisition scheme	11	–	–	–	11	–	11
Group share buyback	(500)	–	–	–	(500)	–	(500)
Transfer of options/rights lapsed	–	–	(8)	8	–	–	–
As at 30 September 2014	24,031	871	(239)	24,544	49,207	77	49,284
Profit or loss	–	–	–	7,493	7,493	14	7,507
Other comprehensive income for the year	–	–	1,802	33	1,835	16	1,851
Total comprehensive income for the year	–	–	1,802	7,526	9,328	30	9,358
Transactions with equity holders in their capacity as equity holders:							
Dividends paid	–	–	–	(4,907)	(4,907)	(1)	(4,908)
Dividend income on Treasury shares held within the Group's life insurance statutory funds	–	–	–	22	22	–	22
Dividend reinvestment plan	1,122	–	–	–	1,122	–	1,122
Preference share bought back	–	(871)	–	–	(871)	–	(871)
Other equity movements:							
Share-based payments/(exercises)	–	–	16	–	16	–	16
Share placement and share purchase plan	3,206	–	–	–	3,206	–	3,206
Treasury shares Global Wealth adjustment	5	–	–	–	5	–	5
Group share option scheme	2	–	–	–	2	–	2
Group employee share acquisition scheme	1	–	–	–	1	–	1
Transfer of options/rights lapsed	–	–	(8)	8	–	–	–
Foreign exchange gains on preference shares bought back	–	–	–	116	116	–	116
As at 30 September 2015	28,367	–	1,571	27,309	57,247	106	57,353

1 Further information on reserves is disclosed in note 31 to the financial statements.

The notes appearing on pages 66 to 169 form an integral part of these financial statements.

The Company	Ordinary share capital $m	Preference shares $m	Reserves[1,2] $m	Retained earnings[1] $m	Shareholders' equity attributable to equity holders of the Bank[1] $m	Non-controlling interests $m	Total shareholders' equity[1] $m
As at 1 October 2013	23,914	871	(396)	15,826	40,215	–	40,215
Profit or loss	–	–	–	6,436	6,436	–	6,436
Other comprehensive income for the year	–	–	385	(19)	366	–	366
Total comprehensive income for the year	–	–	385	6,417	6,802	–	6,802
Transactions with equity holders in their capacity as equity holders:							
Dividends paid	–	–	–	(4,694)	(4,694)	–	(4,694)
Dividend reinvestment plan	851	–	–	–	851	–	851
Other equity movements:							–
Share-based payments/(exercises)	–	–	13	–	13	–	13
Group share option scheme	4	–	–	–	4	–	4
Group employee share acquisition scheme	11	–	–	–	11	–	11
Group share buyback	(500)	–	–	–	(500)	–	(500)
Transfer of options/rights lapsed	–	–	(8)	8	–	–	–
As at 30 September 2014	24,280	871	(6)	17,557	42,702	–	42,702
Profit or loss	–	–	–	7,306	7,306	–	7,306
Other comprehensive income for the year	–	–	937	57	994	–	994
Total comprehensive income for the year	–	–	937	7,363	8,300	–	8,300
Transactions with equity holders in their capacity as equity holders:							
Dividends paid	–	–	–	(4,906)	(4,906)	–	(4,906)
Dividend reinvestment plan	1,122	–	–	–	1,122	–	1,122
Preference share bought back	–	(871)	–	–	(871)	–	(871)
Other equity movements:							
Share-based payments/(exercises)	–	–	16	–	16	–	16
Share placement and share purchase plan	3,206	–	–	–	3,206	–	3,206
Group share option scheme	2	–	–	–	2	–	2
Group employee share acquisition scheme	1	–	–	–	1	–	1
Transfer of options/rights lapsed	–	–	(8)	8	–	–	–
Foreign exchange gains on preference shares bought back	–	–	–	116	116	–	116
As at 30 September 2015	28,611	–	939	20,138	49,688	–	49,688

1 Comparative amounts have changed. Refer to note 45 for details.
2 Further information on reserves is disclosed in note 31 to the financial statements.

The notes appearing on pages 66 to 169 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1: Significant Accounting Policies

The financial statements of Australia and New Zealand Banking Group Limited (the Company) and its controlled entities (the Group) for the year ended 30 September 2015 were authorised for issue in accordance with a resolution of the Directors on 4 November 2015.

The Company is incorporated and domiciled in Australia. The address of the Company's registered office is ANZ Centre, Level 9, 833 Collins Street, Docklands, Victoria, Australia 3008.

The Company and Group are for-profit entities.

ANZ provides a broad range of banking and financial products and services to retail, high net worth, small business, corporate and commercial and institutional customers.

Geographically, operations span Australia, New Zealand, a number of countries in the Asia Pacific region, the United Kingdom, France, Germany and the United States.

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied by the Company and all Group entities for all years presented in these financial statements.

A) BASIS OF PREPARATION

i) Statement of compliance

The financial statements of the Company and Group are general purpose financial statements which have been prepared in accordance with the relevant provisions of the Banking Act 1959, Australian Accounting Standards (AASs) and other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

International Financial Reporting Standards (IFRS) are Standards and Interpretations adopted by the International Accounting Standards Board (IASB). IFRS forms the basis of AASs. The Group's application of AASs ensures that the financial statements of the Company and Group comply with IFRS.

ii) Use of estimates and assumptions

The preparation of these financial statements requires the use of management judgement, estimates and assumptions that affect reported amounts and the application of accounting policies. Discussion of the critical accounting treatments, which include complex or subjective decisions or assessments, are covered in note 2. Such estimates, judgements and assumptions are reviewed on an ongoing basis.

iii) Basis of measurement

The financial information has been prepared in accordance with the historical cost basis except that the following assets and liabilities are stated at their fair value:

- derivative financial instruments;
- available-for-sale financial assets;
- financial instruments held for trading; and
- assets and liabilities designated as fair value through profit or loss.

In accordance with AASB 1038 Life Insurance Contracts ('AASB 1038'), life insurance liabilities are measured using the Margin on Services model.

In accordance with AASB 119 Employee Benefits ('AASB 119'), defined benefit obligations are measured using the Projected Unit Credit Method.

iv) Changes in Accounting Policy

The accounting policies are consistent with those of the previous financial year except for:

AASB 2014-9 Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements ('AASB 2014-9')

In December 2014, the Australia Accounting Standards Board issued the amended standard AASB 2014-9 which, unless early adopted, is effective for the Group's financial year ending 30 September 2017. AASB 2014-9 amends AASB 127 *Separate Financial Statements* to include an option allowing entities to elect to use the equity method of accounting for investments in subsidiaries, joint ventures and associates in the parent entity's separate financial statements.

The Company has early adopted this standard and elected to apply the equity method for accounting for investments in associates. These investments were previously accounted for at cost. In accordance with transitional provisions the change has been applied retrospectively, with the net impact of initial application recognised in retained earnings as at 1 October 2013. As a result the share of associates' profit and share of associates' other comprehensive income are recognised in the Company's financial statements and dividends received from the associate recognised as a reduction to the equity accounted carrying value. The current year impact of this change is an increase in the Company's profit before income tax of $317 million, no change to the Company's income tax expense and an increase in the Company's other comprehensive income of $535 million. In the Company's balance sheet, investments in associates have increased by $2,298 million, retained earnings have increased by $1,554 million and reserves have increased by $744 million. Comparative information has been restated. Refer to note 45 for further details.

v) Rounding

The Company is an entity of the kind referred to in Australian Securities and Investments Commission class order 98/100 dated 10 July 1998 (as amended). Consequently, amounts in the financial statements have been rounded to the nearest million dollars, except where otherwise indicated.

vi) Comparatives

Certain amounts in the comparative information have been reclassified to conform with current period financial statement presentations. Refer to note 45 for further details.

vii) Principles 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 it is determined that control over the entity exists. Control is deemed to exist when the Group is exposed, 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. Power is assessed by examining existing rights that give the Group the current ability to direct the relevant activities of the entity.

At times, the determination of control can be judgemental. Further detail on the judgement involved in assessing control has been provided in note 2(iii).

The effect of all transactions between entities in the Group has been eliminated.

Where subsidiaries are sold or acquired during the year, their operating results are included to the date of disposal or from the date of acquisition. When control ceases, the assets and liabilities of the subsidiary, any related non-controlling interest and other components of equity are derecognised.

1: Significant Accounting Policies (continued)

Any interest retained in the former subsidiary is initially measured at fair value and any resulting gain or loss is recognised in the income statement.

In the Company's financial statements, investments in subsidiaries are carried at cost less accumulated impairment losses.

viii) Associates

The equity method is applied to accounting for associates in both the consolidated financial statements of the Group and the financial statements of the Company.

Under the equity method, the share of results of associates is included in the income statement and statement of other comprehensive income. Investments in associates are carried in the balance sheet at cost plus the post-acquisition share of changes in associates' net assets less accumulated impairment.

Investments in associates are reviewed for any indication of impairment at least at each reporting date. Where an indication of impairment exists the recoverable amount of the associate is determined based on the higher of the associates' fair value less costs to sell and its value in use. A discounted cash flow methodology and other methodologies such as the capitalisation of earnings methodology are used to determine the recoverable amount.

ix) Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each Group entity are measured using the currency of the primary economic environment in which the entity operates (the functional currency).

The consolidated financial statements are presented in Australian dollars, which is the Company's functional and presentation currency.

Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Monetary assets and liabilities resulting from foreign currency transactions are subsequently translated at the spot rate at reporting date.

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, are recognised in the income statement in the period in which they arise.

Translation differences on non-monetary items measured at fair value through profit or loss, are reported as part of the fair value gain or loss on these items.

Translation differences on non-monetary items classified as available-for-sale financial assets are included in the available-for-sale revaluation reserve in equity.

Translation to presentation currency

The results and financial position of all Group entities (none of which has the functional currency of a hyperinflationary economy) that have a functional currency different from the Group's presentation currency are translated into the Group's presentation currency as follows:

- assets and liabilities are translated at the rates of exchange ruling at reporting date;
- revenue and expenses are translated at the average exchange rate for the period, unless this average is not a reasonable approximation of the rate prevailing on transaction date, in which case revenue and expenses are translated at the exchange rate ruling at transaction date; and
- all resulting exchange differences are recognised in the foreign currency translation reserve.

When a foreign operation is disposed, cumulative exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill arising on the acquisition of a foreign operation is treated as an asset of the foreign operation and translated at the spot rate at reporting date.

B) INCOME RECOGNITION

i) Interest income

Interest income is recognised as it accrues using the effective interest rate method.

The effective interest rate method calculates the amortised cost of a financial asset or financial liability and allocates the interest income or interest expense over the expected life of the financial asset or financial liability so as to achieve a constant yield on the financial asset or liability.

For assets subject to prepayment, expected life is determined on the basis of the historical behaviour of the particular asset portfolio, taking into account contractual obligations and prepayment experience. This is assessed on a regular basis.

ii) Fee and commission income

Fees and commissions received that are integral to the effective interest rate of a financial asset are recognised using the effective interest rate method. For example, loan origination fees, together with related direct costs, are deferred and recognised as an adjustment to the effective interest rate on a loan once drawn.

Fees and commissions that relate to the execution of a significant act (for example, advisory or arrangement services, placement fees and underwriting fees) are recognised when the significant act has been completed.

Fees charged for providing ongoing services (for example, maintaining and administering existing facilities) are recognised as income over the period the service is provided.

iii) Dividend income

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

iv) Leasing income

Income on finance leases is recognised on a basis that reflects a constant periodic return on the net investment in the finance lease.

v) Gain or loss on sale of assets

The gain or loss on the disposal of assets is determined as the difference between the carrying amount of the asset at the time of disposal and the proceeds of disposal, net of incremental disposal costs. This is recognised as an item of other income in the year in which the significant risks and rewards of ownership transfer to the buyer.

1: Significant Accounting Policies (continued)

C) EXPENSE RECOGNITION

i) Interest expense

Interest expense on financial liabilities measured at amortised cost is recognised as it accrues using the effective interest rate method.

ii) Loan origination expenses

Certain loan origination expenses are an integral part of the effective interest rate of a financial asset measured at amortised cost. These loan origination expenses include:

- fees and commissions payable to brokers and certain customer incentive payments in respect of originating lending business; and
- other expenses of originating lending business, such as external legal costs and valuation fees, provided these are direct and incremental costs related to the origination of a financial asset.

Such loan origination expenses are initially recognised as part of the cost of acquiring the financial asset and amortised as part of the effective yield of the financial asset over its expected life using the effective interest rate method.

iii) Share-based compensation expense

The Group has various equity settled share-based compensation plans. These are described in note 41 and comprise the ANZ Employee Share Acquisition Plan and the ANZ Share Option Plan.

ANZ Employee Share Acquisition Plan

The fair value of ANZ ordinary shares granted under the Employee Share Acquisition Plan is measured at grant date, using the one-day volume weighted average market price of ANZ shares. The fair value is expensed on a straight-line basis over the relevant vesting period. This is recognised as share-based compensation expense with a corresponding increase in share capital.

ANZ Share Option Plan

The fair value of share options (deferred share rights, performance rights) is measured at grant date, using an option pricing model. The fair value is expensed on a straight line basis over the relevant vesting period. This is recognised as share based compensation expense with a corresponding increase in the share options reserve.

The option pricing model takes into account the exercise price of the option, the risk-free interest rate, the expected volatility of ANZ's ordinary share price and other factors. Market vesting conditions are taken into account in determining the fair value.

A deferred share right or a performance right is a right to acquire a share at nil cost to the employee subject to satisfactorily meeting time and/or performance hurdles. For equity grants made after 1 November 2012, any portion of the award which vests may be satisfied by a cash equivalent payment rather than shares at the Board's discretion.

Other adjustments

Subsequent to the grant of an equity-based award, the amount recognised as an expense is reversed when an employee fails to satisfy the minimum service period specified in the award upon resignation, termination or notice of dismissal for serious misconduct.

The expense is not reversed where the award does not vest due to the failure to meet a market-based performance condition.

iv) Lease payments

Leases entered into by the Group as lessee are predominantly operating leases. Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

D) INCOME TAX

i) Income tax expense

Income tax on earnings for the year comprises current and deferred tax and is based on the applicable tax law in each jurisdiction. It is recognised in the income statement as tax expense, except when it relates to items credited directly to equity, in which case it is recorded in equity, or where it arises from the initial accounting for a business combination, in which case it is included in the determination of goodwill.

ii) Current tax

Current tax is the expected tax payable on taxable income for the year, based on tax rates (and tax laws) which are enacted at the reporting date, including any adjustment for tax payable in previous periods. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

iii) Deferred tax

Deferred tax is accounted for using the comprehensive tax balance sheet method. It is generated by temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax base.

Deferred tax assets, including those related to the tax effects of income tax losses and credits available to be carried forward, are recognised only to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences or unused tax losses and credits can be utilised.

Deferred tax liabilities are recognised for all taxable temporary differences, other than those relating to taxable temporary differences arising from goodwill. They are also recognised for taxable temporary differences arising on investments in controlled entities, branches, and associates, except where the Group is able to control the reversal of the temporary differences and it is probable that temporary differences will not reverse in the foreseeable future. Deferred tax assets associated with these investments are recognised only to the extent that it is probable that the temporary difference will reverse in the foreseeable future and there will be sufficient taxable profits against which to utilise the benefits of the temporary difference.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date. The measurement reflects the tax consequences that would follow from the manner in which the Group, at the reporting date, expects to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax assets and liabilities are offset 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.

1: Significant Accounting Policies (continued)

E) ASSETS

FINANCIAL ASSETS

i) Financial assets and liabilities at fair value through profit or loss

Purchases and sales of trading securities are recognised on trade date.

Trading securities are financial instruments acquired principally for the purpose of selling in the short-term or which are a part of a portfolio which is managed for short-term profit-taking. Trading securities are initially recognised and subsequently measured in the balance sheet at their fair value.

Derivatives that are not effective accounting hedging instruments are measured at fair value through profit or loss.

The Group may designate certain financial assets and liabilities as measured at fair value through profit or loss in any of the following circumstances:

- investments backing policy liabilities (refer note 1(I)(iii));
- life investment contract liabilities (refer note 1(I)(i));
- external unit holder liabilities (life insurance funds) (refer note 1(I)(ii);
- doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets and liabilities, or recognising the gains or losses thereon, on different bases;
- a group of financial assets or financial liabilities or both is managed and its performance is evaluated on a fair value basis; or
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Changes in the fair value of these financial instruments are recognised in the income statement except in the case of financial liabilities designated as fair value through profit or loss. For financial liabilities designated as fair value through profit or loss, the amount of fair value gain or loss attributable to changes in the Group's own credit risk is recognised in other comprehensive income (retained earnings). The remaining amount of fair value gain or loss is recognised in profit or loss. Amounts recognised in other comprehensive income are not subsequently reclassified to profit or loss.

ii) Derivative financial instruments

Derivative financial instruments are contracts whose value is derived from one or more underlying price, index or other variable. They include swaps, forward rate agreements, futures and options.

Derivative financial instruments are entered into for trading purposes (including customer-related reasons), or for hedging purposes where the derivative instruments are used to hedge the Group's exposures to interest rate risk, currency risk, credit risk and other exposures relating to non-trading positions.

Derivative financial instruments are recognised initially at fair value with gains or losses from subsequent measurement at fair value being recognised in the income statement. Valuation adjustments are integral in determining the fair value of derivatives. This includes a credit valuation adjustment (CVA) to reflect the credit worthiness of the counterparty and a funding valuation adjustment (FVA) to account for the funding cost inherent in the portfolio.

Where the derivative is effective as a hedging instrument and is designated as such, the timing of the recognition of any resultant gain or loss in the income statement is dependent on the hedging designation.

Fair value hedge

Where the Group hedges the fair value of a recognised asset or liability or firm commitment, changes in the fair value of the derivative designated as a fair value hedge are recognised in the income statement. Changes in the fair value of the hedged item attributable to the hedged risk are reflected in adjustments to the carrying value of the hedged item, which are also recognised in the income statement.

Hedge accounting is discontinued when the hedge instrument expires or is sold, terminated, exercised or no longer qualifies for hedge accounting. The adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to the income statement over the period to maturity of the hedged item.

If the hedged item is sold or repaid, the unamortised fair value adjustment is recognised immediately in the income statement.

Cash flow hedge

The Group designates derivatives as cash flow hedges where the instrument hedges the variability in cash flows of a recognised asset or liability, a foreign exchange component of a firm commitment or a highly probable forecast transaction. For qualifying cash flow hedges, the fair value gain or loss associated with the effective portion of the cash flow hedge is recognised in other comprehensive income and then recycled to the income statement in the periods when the hedged item is recognised in the income statement. Any ineffective portion is recognised immediately in the income statement. When the hedging instrument expires, is sold, terminated, or no longer qualifies for hedge accounting, the cumulative amount deferred in equity remains in the cash flow hedge reserve, and is subsequently transferred to the income statement when the hedged item is recognised in the income statement.

When a forecast hedged transaction is no longer expected to occur, the amount deferred in the cash flow hedge reserve is recognised immediately in the income statement.

Net investment hedge

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. The gain or loss from remeasuring the fair value of the hedging instrument relating to the effective portion of the hedge is deferred in the foreign currency translation reserve in other comprehensive income and the ineffective portion is recognised immediately in the income statement.

The cumulative gain or loss recognised in other comprehensive income is recognised in the income statement on the disposal or partial disposal of a foreign operation.

Derivatives that do not qualify for hedge accounting

All gains and losses from changes in the fair value of derivatives that are not designated in a hedging relationship but are entered into to manage the interest rate and foreign exchange risk of the Group are recognised in the income statement. Under certain circumstances, the component of the fair value change in the derivative which relates to current period realised and accrued interest is included in net interest income. The remainder of the fair value movement is included in other income.

iii) Available-for-sale financial assets

Purchases and sales of available-for-sale financial assets are recognised on trade date being the date on which the Group commits to purchase or sell the asset.

1: Significant Accounting Policies (continued)

Available-for-sale financial assets comprise non-derivative financial assets which the Group designates as available-for-sale but which are not deemed to be held principally for trading purposes, and include equity investments and debt securities.

Available-for-sale financial assets are initially recognised at fair value plus transaction costs. Subsequent gains or losses arising from changes in fair value are included as a separate component of equity in the available-for sale revaluation reserve except for interest, dividends and foreign exchange gains and losses on monetary assets, which are recognised directly in the income statement. When the asset is sold, the cumulative gain or loss relating to the asset is transferred from the available-for-sale revaluation reserve to the income statement.

Where there is objective evidence of impairment of an available-for-sale financial asset, the cumulative loss related to that asset is removed from equity and recognised in the income statement, as an impairment expense for debt instruments or as other income for equity instruments. If, in a subsequent period, the amount of an impairment loss relating to an available-for-sale debt instrument decreases and the decrease can be linked objectively to an event occurring after the impairment event, the loss is reversed through the income statement through the impairment expense line.

iv) Net loans and advances

Net loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money to a debtor with no intention of trading the loans and advances. Loans and advances are initially recognised at fair value plus transaction costs that are directly attributable to the issue of the loan or advance. They are subsequently measured at amortised cost using the effective interest rate method (refer note 1(B)(i)) unless specifically designated on initial recognition as fair value through profit or loss.

All loans are graded according to the level of credit risk.

Net loans and advances includes direct finance provided to customers such as bank overdrafts, credit cards, term loans, finance lease receivables and commercial bills.

Impairment of loans and advances

Loans and advances are reviewed at least at each reporting date for impairment.

Credit impairment provisions are raised for exposures that are known to be impaired. Exposures are impaired and impairment losses are recorded if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the loan and prior to the reporting date, and that loss event, or events, has had an impact on the estimated future cash flows of the individual loan or the collective portfolio of loans that can be reliably estimated.

Impairment is assessed for assets that are individually significant (or on a portfolio basis for small value assets) and then on a collective basis for those exposures not individually known to be impaired.

Exposures that are assessed collectively are placed in pools of similar assets with similar risk characteristics. The required provision is estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the collective pool.

The historical loss experience is adjusted based on current observable data such as changed economic conditions. The provision also takes account of the impact of inherent risk of large concentrated losses within the portfolio and an assessment of the economic cycle.

The estimated impairment losses are measured as the difference between the asset's carrying amount and the estimated future cash flows discounted to their present value.

As the discount unwinds during the period between recognition of impairment and recovery of the cash flow, it is recognised in interest income.

Impairment of capitalised acquisition-related expenses is assessed through comparing the actual behaviour of the portfolio against initial expected life assumptions.

The provision for impairment loss (individual and collective) is deducted from loans and advances in the balance sheet and the movement for the reporting period is reflected in the income statement.

When a loan is uncollectable, either partially or in full, it is written-off against the related provision for loan impairment. Unsecured facilities are normally written-off when they become 180 days past due or earlier in the event of the customer's bankruptcy or similar legal release from the obligation. In the case of secured facilities, remaining balances are written-off after proceeds from the realisation of collateral have been received if there is a shortfall.

Impairment losses recognised in previous periods are reversed in the income statement if the estimate of the loss subsequently decreases.

A provision is also raised for off-balance sheet items such as loan commitments that are considered to be onerous.

v) Lease receivables

Contracts to lease assets and hire purchase agreements are classified 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. All other lease contracts are classified as operating leases.

vi) Repurchase agreements

Securities sold under repurchase agreements are retained in the financial statements where substantially all the risks and rewards of ownership remain with the Group. A counterparty liability is recognised and classified as deposits and other borrowings. The difference between the sale price and the repurchase price is accrued over the life of the repurchase agreement and charged to interest expense in the income statement.

Securities purchased under agreements to resell, where the Group does not acquire the risks and rewards of ownership, are recorded as receivables in cash or net loans and advances if the original maturity is greater than 90 days. The security is not included in the balance sheet. Interest income is accrued on the underlying loan amount.

Securities borrowed are not recognised in the balance sheet, unless these are sold to third parties, at which point the obligation to repurchase is recorded as a financial liability at fair value with fair value movements included in the income statement.

vii) Derecognition

The Group enters into transactions where it transfers financial assets recognised on its balance sheet yet retains either all or a portion of the risks and rewards of the transferred assets. If all, or substantially all, of the risks and rewards are retained, the transferred assets are not derecognised from the balance sheet.

In transactions where substantially all the risks and rewards of ownership of a financial asset are neither retained nor transferred, the Group derecognises the asset if control over the asset is lost.

1: Significant Accounting Policies (continued)

In transfers where control over the asset is retained, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset. The rights and obligations retained or created in the transfer are recognised separately as assets and liabilities as appropriate.

NON-FINANCIAL ASSETS

viii) Goodwill

Goodwill represents the excess of the purchase consideration over the fair value of the identifiable net assets of a controlled entity at the date of gaining control. Goodwill is recognised as an asset and not amortised, but assessed for impairment at least annually or more frequently if there is an indication that the goodwill may be impaired. This involves using a discounted cash flow methodology or capitalisation of earnings methodology to determine the expected recoverable amount of the cash-generating units (CGU) to which the goodwill relates. Where it exceeds the recoverable amount, the difference is charged to the income statement. Any impairment of goodwill is not subsequently reversed.

ix) Software

Software include costs incurred in acquiring and building software and computer systems.

Software is amortised using the straight-line method over its expected useful life to the Group. The period of amortisation is between 3 and 5 years, except for certain major core infrastructure projects where the useful life has been determined to be 7 or 10 years and has been approved by the Audit Committee. The amortisation period for software assets is reviewed at least annually. Where the expected useful life of the asset is different from previous estimates the amortisation period is changed prospectively.

At each reporting date, software assets are reviewed for impairment indicators. If any such indication exists, the recoverable amount of the assets are estimated and compared against the existing carrying value. Where the carrying value exceeds the recoverable amount, the difference is charged to the income statement.

Costs incurred in planning or evaluating software proposals, or in maintaining systems after implementation, are not capitalised.

x) Acquired portfolio of insurance and investment business

Identifiable intangible assets in respect of acquired portfolios of insurance and investment business acquired in a business combination are stated initially at fair value at acquisition date. These are amortised over the period of expected benefits of between 15 and 23 years.

The amortisation period is reviewed annually and the asset is reviewed for indicators of impairment. Any impairment identified is charged to the income statement.

xi) Deferred acquisition costs

Refer to note 1(I)(vii).

xii) Other intangible assets

Other intangible assets include management fee rights and aligned advisor relationships.

Management fee rights and aligned advisor relationships are amortised over the expected useful lives to the Group using the straight line method.

Where the intangible asset is assessed to have an indefinite life, it is carried at cost less any impairment losses.

The period of amortisation is no longer than:

Management fee rights	7 years
Aligned advisor relationships	8 years

The amortisation period is reviewed at least at the end of each annual reporting period and changed if there has been a significant change in the pattern of expected future benefits from the asset.

xiii) Premises and equipment

Assets other than freehold land are depreciated at rates based upon their expected useful lives to the Group, using the straight-line method. The depreciation rates used for each class of asset are:

Buildings	1.5%
Building integrals	10%
Furniture & equipment	10%–20%
Computer & office equipment	12.5%–33%

Leasehold improvements are amortised on a straight-line basis over the shorter of their useful life or the remaining term of the lease.

The depreciation rate is reviewed annually and changed if there has been a significant change in the pattern of expected future benefits from the asset.

At each reporting date, the carrying amounts of premises and equipment are reviewed for impairment. If any impairment indicator exists, the recoverable amount of the assets are estimated and compared against the carrying value. Where the carrying value exceeds the recoverable amount, the difference is charged to the income statement. If it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the CGU to which the asset belongs.

A previously recognised impairment loss is reversed if there has been an increase in the estimated recoverable amount.

xiv) Borrowing costs

Borrowing costs incurred for the construction of qualifying assets are capitalised into the cost of the qualifying asset during the period of time that is required to complete and prepare the asset for its intended use. The calculation of borrowing costs is based on an internal measure of the costs associated with the borrowing of funds.

F) LIABILITIES

FINANCIAL LIABILITIES

i) Deposits and other borrowings

Deposits and other borrowings include certificates of deposit, interest bearing deposits, debentures and other similar interest bearing financial instruments. Deposits and other borrowings not designated at fair value through profit or loss on initial recognition are measured at amortised cost. The interest expense is recognised using the effective interest rate method.

ii) Financial liabilities at fair value through profit or loss

Refer to note 1(E)(i).

iii) Acceptances

The exposure arising from the acceptance of bills of exchange that are sold into the market is recognised as a liability. An asset of equal value is recognised to reflect the offsetting claim against the drawer of the bill. Bill acceptances generate fee income that is recognised in the income statement when earned.

1: Significant Accounting Policies (continued)

iv) Debt issuances and subordinated debt

Debt issuances and subordinated debt are accounted for in the same way as deposits and other borrowings, except for those debt securities which are designated as at fair value through profit or loss on initial recognition.

v) Financial guarantee contracts

Financial guarantee contracts that require the issuer to make specified payments to reimburse the holder for a loss the holder incurs because a specified debtor fails to make payments when due, are initially recognised in the financial statements at fair value on the date the guarantee is given (typically this is the premium received). Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of their amortised amount and the best estimate of the expenditure required to settle any financial obligation arising at the reporting date. These estimates are determined based on experience of similar transactions and the history of past losses.

vi) Derecognition

Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expires.

NON-FINANCIAL LIABILITIES

vii) Employee benefits

Leave benefits

The liability for long service leave (including on-costs) is calculated and accrued for in respect of all applicable employees using an actuarial valuation. Expected future payments for long service leave are discounted using market yields at the reporting date on a blended rate of high quality corporate bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows. The amounts expected to be paid in respect of employees' entitlements to annual leave are accrued at expected salary rates including on-costs.

Defined contribution superannuation schemes

The Group operates a number of defined contribution schemes and 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 schemes.

The Group's contributions to these schemes are recognised as an expense in the income statement when incurred.

Defined benefit superannuation schemes

The Group operates a small number of defined benefit schemes. The liability and expense related to providing benefits to employees under each defined benefit scheme are calculated by independent actuaries.

A defined benefit liability is recognised to the extent that the present value of the defined benefit obligation of each scheme, calculated using the Projected Unit Credit Method, is greater than the fair value of each scheme's assets. Where this calculation results in an asset of the Group, a defined benefit asset is recognised, which is capped at the recoverable amount. In each reporting period, the movements in the net defined benefit liability are treated as follows:

- the net movement relating to the current period's service cost, net interest on the net defined benefit liability, past service costs and other costs (such as the effects of any curtailments and settlements) is recognised as an operating expense in the Income Statement;
- 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), are recognised directly in retained earnings through other comprehensive income; and
- contributions made by the Group are recognised directly against the net defined benefit position.

viii) Provisions

The Group recognises provisions when there is a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation at reporting date. 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.

G) EQUITY

i) Ordinary shares

Ordinary shares in the Company are recognised at the amount paid per ordinary share net of directly attributable issue costs.

ii) Treasury shares

Shares in the Company which are purchased on-market by the ANZ Employee Share Acquisition Plan or issued by the Company to the ANZ Employee Share Acquisition Plan are classified as treasury shares (to the extent that they relate to unvested employee share based awards) and are deducted from share capital.

In addition, the life insurance business may also purchase and hold shares in the Company to back policy liabilities in the life insurance statutory funds. These shares are also classified as treasury shares and deducted from share capital. These assets, plus any corresponding income statement fair value movement on the assets and dividend income, are eliminated when the life statutory funds are consolidated into the Group. The cost of the investment in the shares is deducted from share capital. However, the corresponding life investment contract and life insurance contract liabilities, and related changes in the liabilities recognised in the income statement, remain upon consolidation.

Treasury shares are excluded from the weighted average number of ordinary shares used in the earnings per share calculations.

iii) Non-controlling interest

Non-controlling interests represent the share in the net assets of subsidiaries attributable to equity interests not owned directly or indirectly by the Company.

iv) Reserves

Foreign currency translation reserve

As indicated in note 1(A)(ix), exchange differences arising on translation of assets and liabilities into the Group's presentation currency are reflected in the foreign currency translation reserve. Any offsetting gains or losses on hedging these balances, together with any tax effect, are also reflected in this reserve. When a foreign operation is sold, attributable exchange differences are recognised in the income statement.

1: Significant Accounting Policies (continued)

Available-for-sale revaluation reserve

This reserve includes changes in the fair value and exchange differences on the revaluation of available-for-sale financial assets, net of tax. These changes are transferred to the income statement (in other operating income) when the asset is derecognised or impaired.

Cash flow hedge reserve

This reserve includes the fair value gains and losses associated with the effective portion of designated cash flow hedging instruments net of tax. The cumulative deferred gain or loss on the hedge is recognised in the income statement when the hedged transaction impacts the income statement.

Share option reserve

This reserve includes the amounts which arise on the recognition of share-based compensation expense (see note 1(C)(iii)). Amounts are transferred out of the reserve into share capital when the equity instruments are exercised.

Transactions with non-controlling interests reserve

The transactions with non-controlling interests reserve represents the impact of transactions with non-controlling shareholders in their capacity as shareholders.

H) PRESENTATION

i) Offsetting of income and expenses

Income and expenses are not offset unless required or permitted by an accounting standard. This generally arises in the following circumstances:

- where transaction costs form an integral part of the effective interest rate of a financial instrument which is measured at amortised cost, these are offset against the interest income/expense as part of the effective yield; or
- where gains and losses arise from a group of similar transactions, such as foreign exchange gains and losses.

ii) Offsetting assets and liabilities

Assets and liabilities are offset and the net amount reported in the balance sheet only where there is:

- a current enforceable legal right to offset the asset and liability; and
- an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

iii) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the Chief Executive Officer to make decisions about resources to be allocated to the segment and assess its performance and for which discrete information is available. Changes in the internal organisational structure of the Group can cause the composition of the Group's reportable segments to change. Where this occurs corresponding segment information for the previous financial year is restated, unless the information is not available and the cost to prepare it would be excessive.

I) LIFE INSURANCE AND FUNDS MANAGEMENT BUSINESS

The Group conducts its life insurance and funds management business (the Life Business) in Australia primarily through OnePath Life Limited, which is registered under the Life Insurance Act 1995 (Life Act) and in New Zealand through OnePath Life (NZ) Limited which is licensed under the Insurance (Prudential Supervision) Act 2010.

The operations of the Life Business are conducted within separate statutory funds, as required by the Life Act and are reported in aggregate with the shareholder's fund in the income statement, statement of changes in equity, balance sheet and cash flow statements of the Group. The assets of the Life Business in Australia are allocated between policyholder and shareholder funds in accordance with the requirements of the Life Act. Under AASs, the financial statements must include all assets, liabilities, revenues, expenses and equity, irrespective of whether they are designated as relating to shareholders or policyholders. Accordingly, the consolidated financial statements include both policyholder (statutory) and shareholders' funds.

i) Policy liabilities

Policy liabilities include liabilities arising from life insurance contracts and life investment contracts.

Life insurance contracts are insurance contracts regulated under the Life Act and similar contracts issued by entities operating outside Australia. An insurance contract is a contract under which an insurer accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder.

All contracts written by registered life insurers that do not meet the definition of an insurance contract are referred to as life investment contracts. Life investment contract business relates to funds management products in which the Group issues a contract where the resulting liability to policyholders is linked to the performance and value of the assets that back those liabilities.

Whilst the underlying assets are registered in the name of the life insurer and the policyholder has no direct access to the specific assets, the contractual arrangements are such that the policyholder bears the risks and rewards of the fund's underlying assets investment performance with the exception of capital guaranteed products where the policyholder is guaranteed a minimum return or asset value. The Group derives fee income from the administration of the underlying assets.

Life investment contracts that include a discretionary participation feature (participating contracts) are accounted for as if they are life insurance contracts under AASB 1038.

Life insurance liabilities

Life insurance liabilities are determined using the 'Margin on Services' (MoS) model using a projection method. Under the projection method, the liability is determined as the net present value of the expected future cash flows, plus planned margins of revenues over expenses relating to services yet to be provided, discounted using a risk-free discount rate that reflects the nature, structure and term of the liabilities. Expected future cash flows include premiums, expenses, redemptions and benefit payments, including bonuses.

Profits from life insurance contracts are brought to account using the MoS model in accordance with Actuarial Standard LPS 340 Valuation of Policy Liabilities as issued by APRA under the Life Act and Professional Standard 3 Determination of Life Insurance Policy Liabilities as issued by the New Zealand Society of Actuaries.

1: Significant Accounting Policies (continued)

Under the MoS model, profit is recognised as premiums are received and services are provided to policyholders. When premiums are received but the service has not been provided, the profit is deferred. Losses are expensed when identified.

Costs associated with the acquisition of policies are recognised over the period that the policy generates profits. Costs are only deferred to the extent that a contract is expected to be profitable.

Participating contracts, defined as those contracts that entitle the policyholder to participate in the performance and value of certain assets in addition to the guaranteed benefit, are entitled to share in the profits that arise from the participating business. This profit sharing is governed by the Life Act and the life insurance company's constitution. The profit sharing entitlement is treated as an expense in the consolidated financial statements. Any benefits which remain payable at the end of the reporting period are recognised as part of life insurance liabilities.

Life investment contract liabilities

Life investment contracts consist of two components: a financial instrument and an investment management service.

The financial instrument component of the life investment contract liabilities is designated at fair value through profit or loss. The investment management service component, including associated acquisition costs, is recognised as revenue in the profit or loss as services are performed. See note 1(l)(vii) for the deferral and amortisation of life investment contract acquisition costs and entry fees.

The life investment contract liability is directly linked to the performance and value of the assets that back them and is determined as the fair value of those assets after tax. For fixed income policies the liability is determined as the net present value of expected cash flows subject to a minimum of current surrender value.

ii) External unit holder liabilities (life insurance funds)

The life insurance business includes controlling interests in investment funds. The total amounts of the underlying assets, liabilities, revenues and expenses of the controlled entities are recognised in the Group's consolidated financial statements. When a controlled investment fund is consolidated, the share of the unit holder liability attributable to the Group is eliminated but amounts due to external unit holders remain as liabilities in the Group's consolidated balance sheet.

iii) Investments backing policy liabilities

All investments backing policy liabilities are designated as at fair value through profit or loss. All policyholder assets, being those assets held within the statutory funds of the life company that are not segregated and managed under a distinct shareholder investment mandate are held to back life insurance and life investment contract liabilities (collectively referred to as policy liabilities).

iv) Claims

Claims are recognised when the liability to the policyholder under the policy contract has been established or upon notification of the insured event depending on the type of claim.

Claims incurred in respect of life investment contracts represent withdrawals and are recognised as a reduction in life investment contract liabilities.

Claims incurred that relate to the provision of services and bearing of insurance risks are treated as expenses and these are recognised on an accruals basis once the liability to the policyholder has been established under the terms of the contract.

v) Revenue

Life insurance premiums

Life insurance premiums earned by providing services and bearing risks are treated as revenue. For annuity, risk and traditional business, all premiums are recognised as revenue. Premiums with no due date are recognised as revenue on a cash received basis. Premiums with a regular due date are recognised as revenue on an accruals basis. Unpaid premiums are only recognised as revenue during the days of grace or where secured by the surrender value of the policy and are included as other assets in the balance sheet.

Life investment contract premiums

There is no premium revenue in respect of life investment contracts. Life investment deposit premiums are recognised as an increase in policy liabilities. Amounts received from policyholders in respect of life investment contracts are recognised as an investment contract liability where the receipt is in the nature of a deposit, or recognised as an origination fee with an ongoing investment management fee.

Fees

Fees are charged to policyholders in connection with life insurance and life investment contracts and are recognised when the service has been provided. Entry fees from life investment contracts are deferred and recognised over the average expected life of the contracts. Deferred entry fees are presented within other liabilities in the balance sheet.

vi) Reinsurance contracts

Reinsurance premiums, commissions and claim settlements, as well as the reinsurance element of insurance contract liabilities, are accounted for on the same basis as the underlying direct insurance contracts for which the reinsurance was purchased.

vii) Policy acquisition costs

Life insurance contract acquisition costs

Policy acquisition costs are the fixed and variable costs of acquiring new business. The appointed actuary assesses the value and future recoverability of these costs in determining policy liabilities. The net profit impact is presented in the income statement as a change in policy liabilities. The deferral is determined as the lesser of actual costs incurred and the allowance for recovery of these costs from the premiums or policy charge as appropriate for each business class. This is subject to an overall limit that future profits are anticipated to cover these costs. Losses arising on acquisition are recognised in the income statement in the year in which they occur. Amounts which are deemed recoverable from future premiums or policy charges are deferred and amortised over the life of the policy.

Life investment contract acquisition costs

Incremental acquisition costs, such as commissions, that are directly attributable to securing a life investment contract are recognised as an asset where they can be identified separately and measured reliably and if it is probable that they will be recovered. These deferred acquisition costs are presented in the balance sheet as an intangible asset and are amortised over the period that they will be recovered from future policy charges.

Any impairment losses arising on deferred acquisition costs are recognised in the income statement in the period in which they occur.

1: Significant Accounting Policies (continued)

viii) Basis of expense apportionment

All life investment contracts and insurance contracts are categorised based on individual policy or product. Expenses for these products are then allocated between acquisition, maintenance, investment management and other expenses.

Expenses which are directly attributable to an individual policy or product are allocated directly to a particular expense category, fund, class of business and product line as appropriate. Where expenses are not directly attributable to an individual policy or product, they are appropriately apportioned based on detailed expense analysis having regard to the objective in incurring that expense and the outcome achieved. The apportionment has been made in accordance with Actuarial Standard LPS 340, issued by the Australian Prudential Regulation Authority, and on an equitable basis to the different classes of business in accordance with Division 2 of Part 6 of the Life Act.

J) OTHER

i) Contingent liabilities

Contingent liabilities acquired in a business combination are measured at fair value at the acquisition date. At subsequent reporting dates the value of such contingent liabilities is reassessed based on the estimate of the expenditure required to settle the contingent liability.

Other contingent liabilities are not recognised in the balance sheet but disclosed in note 43 unless it is considered remote that the Group will be liable to settle the possible obligation.

ii) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period after eliminating treasury shares.

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effect of dilutive ordinary shares.

iii) Accounting Standards not early adopted

The following accounting standards relevant to the Company and/or the Group have been issued but are not yet effective and have not been applied in these financial statements.

AASB 9 *Financial Instruments* ('AASB 9')

The Australia Accounting Standards Board issued the final version of AASB 9 in December 2014. When operative, this standard will replace AASB 139 *Financial Instruments: Recognition and Measurement*. AASB 9 addresses recognition and measurement requirements for financial assets and financial liabilities, impairment requirements that introduce an expected credit loss impairment model and general hedge accounting requirements which more closely align with risk management activities undertaken when hedging financial and non-financial risks.

AASB 9 is not mandatorily effective for the Group until 1 October 2018. The Group is in the process of assessing the impact of AASB 9 and is not yet able to reasonably estimate the impact on its financial statements.

The Group early adopted, in isolation, the part of AASB 9 relating to gains and losses attributable to changes in own credit risk of financial liabilities designated as fair value through profit or loss in the prior financial year (effective from 1 October 2013). Refer to note 1(E)(i) for a description of the accounting policy.

AASB 15 *Revenue from Contracts with Customers* ('AASB 15')

The Australia Accounting Standards Board issued AASB 15 in December 2014. The standard is not mandatorily effective for the Group until 1 October 2018. AASB 15 contains new requirements for the recognition of revenue and additional disclosures about revenue.

While it is expected that a significant proportion of the Group's revenue will be outside the scope of AASB 15, the Group is in the process of assessing the impact of AASB 15 and is not yet able to reasonably estimate the impact on its financial statements.

2: Critical Estimates and Judgements Used in Applying Accounting Policies

The preparation of the financial statements of the Company and Group involves making estimates and judgements that affect the reported amounts within the financial statements. The estimates and judgements are continually evaluated based on historical factors and expectations of future events, which are believed to be reasonable under the circumstances. All material changes to accounting policies and estimates and the application of these policies and judgements are approved by the Audit Committee of the Board.

A brief explanation of the critical estimates and judgements follows.

i) Provisions for credit impairment

The measurement of impairment of loans and advances requires management's best estimate of the losses incurred in the portfolio at reporting date.

Individual and collective provisioning involves the use of assumptions for estimating the amount and timing of expected future cash flows. The process of estimating the amount and timing of cash flows involves considerable management judgement. These judgements are regularly revised to reduce any differences between loss estimates and actual loss experience.

The collective provision involves estimates regarding the historical loss experience for assets with credit characteristics similar to those in the collective pool. The historical loss experience is adjusted based on current observable data and events and an assessment of the impact of model risk. The provision also takes into account management's assessment of the impact of large concentrated losses inherent within the portfolio and the economic cycle.

The use of such judgements and reasonable estimates is considered by management to be an essential part of the financial reporting process and does not impact on the reliability of the provision.

ii) Impairment of non-lending assets

The carrying values of non-lending assets are subject to impairment assessments at each reporting date. Judgement is required in identifying the cash-generating units to which goodwill and other assets are allocated for the purpose of impairment testing.

Impairment testing involves identifying appropriate internal and external indicators of impairment and whether these exist at each reporting date. Where an indication of impairment exists, the recoverable amount of the asset is determined based on the higher of the assets fair value less costs to sell and its value in use. Judgement is applied when determining the assumptions supporting the recoverable amount calculations.

2: Critical Estimates and Judgements Used in Applying Accounting Policies (continued)

During the year the impairment assessment of non-lending assets identified that two of the Group's associate investments (AMMB Holdings Berhad (Ambank) and PT Bank Pan Indonesia (PT Panin)) demonstrated indicators of impairment. Although their market value (based on share price) was below their carrying value no impairment was recognised as the carrying values were supported by their value in use. The value in use calculation is sensitive to a number of key assumptions, including future profitability levels, capital levels, long term growth rates and discount rates. Refer note 35 for the key assumptions included in the value in use calculation.

iii) Consolidation

The Company assesses, at inception and at each reporting date, whether an entity should be consolidated based on the accounting policy outlined in note 1(A)(vii). Such assessments are predominantly required for structured finance transactions, securitisation activities, and involvement with investment funds. When assessing whether the Company controls (and therefore consolidates) a structured entity, judgement is required about whether the Company has power over the relevant activities as well as exposure to variable returns of the structured entity. All involvement, rights and exposure to returns are considered when assessing if control exists.

The Company is deemed to have power over an investment fund when it preforms the function of Manager/Responsible Entity of that investment fund. Whether the Company controls the investment fund depends on whether it holds that power as principal, or as an agent for other investors. The Company is considered the principal, and thus controls an investment fund, when it cannot be easily removed from the position of Manager/Responsible Entity by other investors and has variable returns through significant aggregate economic interest in that investment fund. In all other cases the Company is considered to be acting in an agency capacity and does not control the investment fund.

iv) Financial instruments at fair value

The Group's financial instruments measured at fair value are stated in note 1(A)(iii). In estimating the fair value of financial instruments the Group uses quoted market prices in an active market, wherever possible.

In the event that there is no active market for the instrument, fair value is based on present value estimates or other market accepted valuation techniques. The valuation models incorporate the impact of bid/ask spreads, counterparty credit spreads and other factors that market participants would consider in determining the fair value. The selection of appropriate valuation techniques, methodologies and inputs requires judgement. These are reviewed and updated as market practice evolves.

The majority of valuation techniques employ only observable market data. However, for certain financial instruments, the fair value cannot be determined with reference to current market transactions or valuation techniques whose variables only include data from observable markets. For these financial instruments, the fair value is determined using data derived and extrapolated from market data and tested against historic transactions and observed market trends.

Application of professional judgement is required to analyse the data available to support each assumption upon which these valuations are based. Changing the assumptions changes the resulting estimate of fair value.

The majority of outstanding derivative positions are transacted over-the-counter where no active market exists for such instruments and therefore need to be valued using valuation techniques. Included in the determination of the fair value of derivatives is a credit valuation adjustment (CVA) to reflect the credit worthiness of the counterparty. Amongst other factors, this is influenced by the mark-to-market of the derivative trades and by the movement in the market cost of credit. Further, in order to account for the funding costs inherent in the derivative, a funding valuation adjustment (FVA) is applied. Judgment is required to determine the appropriate cost of funding and the future expected cash flows used to determine FVA.

v) Provisions (other than loan impairment)

The Group holds provisions for various obligations including employee entitlements, restructurings and litigation related claims. The provision for long-service leave is supported by an independent actuarial report and involves assumptions regarding employee turnover, future salary growth rates and discount rates. Other provisions involve judgements regarding the 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.

vi) Life insurance contract liabilities

Policy liabilities for life insurance contracts are computed using statistical or mathematical methods, which are expected to give approximately the same results as if an individual liability was calculated for each contract. The computations are made by suitably qualified personnel on the basis of recognised actuarial methods, with due regard to relevant actuarial principles and standards. The methodology takes into account the risks and uncertainties of the particular class of life insurance business written. Deferred policy acquisition costs are connected with the measurement basis of life insurance liabilities and are equally sensitive to the factors that are considered in the liability measurement.

The key factors that affect the estimation of these liabilities and related assets are:

- the cost of providing the benefits and administering the insurance contracts;
- mortality and morbidity experience on life insurance products, including enhancements to policyholder benefits;
- discontinuance experience, which affects the Company's ability to recover the cost of acquiring new business over the lives of the contracts; and
- the amounts credited to policyholders' accounts compared to the returns on invested assets through asset-liability management and strategic and tactical asset allocation.

In addition, factors such as regulation, competition, interest rates, taxes and general economic conditions affect the level of these liabilities.

The total value of policy liabilities for life insurance contracts have been appropriately calculated in accordance with these principles.

vii) Taxation

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.

3: Income

	Consolidated 2015 $m	Consolidated 2014 $m	The Company[1] 2015 $m	The Company[1] 2014 $m
Interest income				
Loans and advances and acceptances	27,515	26,752	20,657	20,620
Trading securities	1,594	1,546	1,109	1,091
Available-for-sale assets	759	627	609	500
Other	658	599	468	432
Total external interest income	30,526	29,524	22,843	22,643
Controlled entities	–	–	3,822	2,917
Total interest income	30,526	29,524	26,665	25,560
Interest income is analysed by type of financial asset as follows:				
Financial assets not classified at fair value through profit or loss	28,916	27,949	25,549	24,446
Trading securities	1,594	1,546	1,109	1,091
Financial assets designated at fair value through profit or loss	16	29	7	23
Total interest income	30,526	29,524	26,665	25,560
i) Fee and commission income				
Lending fees[2]	833	779	727	676
Non-lending fees and commissions[3]	2,807	2,648	2,023	1,867
	3,640	3,427	2,750	2,543
Controlled entities	–	–	1,144	1,257
Total fee and commission income[3]	3,640	3,427	3,894	3,800
Fee and commission expense[3,4]	(1,006)	(922)	(806)	(704)
Net fee and commission income[3]	2,634	2,505	3,088	3,096
ii) Other income				
Net foreign exchange earnings	1,007	1,073	719	672
Net (losses)/gains from trading securities and derivatives[5]	(131)	138	(173)	54
Credit risk on credit intermediation trades	8	(22)	8	(22)
Movement on financial instruments measured at fair value through profit or loss[6]	241	97	129	71
Dividends received from controlled entities[7]	–	–	2,571	1,702
Brokerage income	58	50	–	–
Loss on divestment of investment in SSI	–	(21)	–	(21)
Dilution gain on investment in Bank of Tianjin (BoT)	–	12	–	12
Insurance settlement	–	26	–	–
Gain on sale of ANZ Trustees	–	125	–	115
Other[3]	277	206	233	105
Total other income	1,460	1,684	3,487	2,688
Other operating income	4,094	4,189	6,575	5,784
Net funds management and insurance income				
Funds management income	930	917	111	122
Investment income	1,848	2,656	–	–
Insurance premium income	1,541	1,314	43	46
Commission income/(expense)	(452)	(471)	49	49
Claims	(718)	(707)	–	–
Changes in policy liabilities	(1,434)	(2,147)	–	–
Elimination of treasury share gain/(loss)	21	(24)	–	–
Total net funds management and insurance income	1,736	1,538	203	217
Total other operating income	5,830	5,727	6,778	6,001
Total share of associates' profit	625	517	376	248
Total income	36,981	35,768	33,819	31,809

1 Comparative amounts have changed. Refer to note 45 for details.
2 Lending fees exclude fees treated as part of the effective yield calculation and included in interest income (refer note 1 B(ii)).
3 Certain card related fees that are integral to the generation of income were reclassified within total income to better reflect the nature of the items. Comparatives have been restated and fees of $488 million for the Group and $380 million for the Company were moved from 'non-lending fees and commissions', and fees of $10 million for the Group and $10 million for the Company were moved from 'Other income', and included in 'fee and commission expenses'.
4 Includes interchange fees paid.
5 Does not include interest income relating to trading securities and derivatives used for balance sheet risk management.
6 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 financial liabilities designated at fair value.
7 Dividends received from controlled entities are subject to meeting applicable regulatory and company law requirements, including solvency requirements.

4: Expenses

	Consolidated		The Company	
	2015 $m	2014 $m	2015 $m	2014 $m
Interest expense				
Deposits	11,159	11,229	8,514	8,935
Borrowing corporations' debt	70	62	–	–
Commercial paper	515	436	255	241
Debt issuances and subordinated debt	3,747	3,543	2,874	2,780
Other	419	444	358	359
Total external interest expense	15,910	15,714	12,001	12,315
Controlled entities	–	–	4,248	3,235
Total interest expense	15,910	15,714	16,249	15,550
Interest expense is analysed by types of financial liabilities as follows:				
Financial liabilities not classified at fair value through profit or loss	15,572	15,381	16,171	15,412
Financial liabilities designated at fair value through profit or loss	338	333	78	138
	15,910	15,714	16,249	15,550
Operating expenses				
i) Personnel				
Employee entitlements and taxes	325	278	233	209
Salaries and wages	3,719	3,495	2,678	2,591
Superannuation costs – defined benefit plan (note 40)	7	10	2	4
– defined contribution plans	324	300	269	246
Equity-settled share-based payments	216	215	185	183
Other	888	790	648	590
Total personnel expenses (excl. restructuring)	5,479	5,088	4,015	3,823
ii) Premises				
Depreciation of buildings and integrals	192	198	128	136
Rent	479	450	379	364
Utilities and other outgoings	180	178	119	118
Other	71	62	57	51
Total premises expenses (excl. restructuring)	922	888	683	669
iii) Technology				
Data communication	115	104	70	64
Depreciation	675	550	599	453
Licences and outsourced services	447	400	290	291
Rentals and repairs	158	153	129	126
Software impairment	17	15	12	11
Other	50	44	31	17
Total technology expenses (excl. restructuring)	1,462	1,266	1,131	962
iv) Other				
Advertising and public relations	292	278	203	208
Audit fees and other fees (note 44)	21	19	11	10
Freight, stationery, postage and telephone	263	273	192	189
Non-lending losses, frauds and forgeries	66	52	56	39
Professional fees	324	239	273	220
Travel and entertainment expenses	205	193	146	141
Amortisation and impairment of other intangible assets	88	118	9	8
Other	206	233	607	509
Total other expenses (excl. restructuring)	1,465	1,405	1,497	1,324
v) Restructuring	31	113	24	100
Total operating expenses	9,359	8,760	7,350	6,878

5: Income Tax

INCOME TAX EXPENSE

	Consolidated 2015 $m	Consolidated 2014 $m	The Company[1] 2015 $m	The Company[1] 2014 $m
Income tax recognised in the income statement				
Tax expense comprises:				
Current tax expense	2,932	2,658	1,866	1,769
Adjustments recognised in the current year in relation to the current tax of prior years	–	1	1	–
Deferred tax expense/(income) relating to the origination and reversal of temporary differences	94	366	78	202
Total income tax expense charged in the income statement	3,026	3,025	1,945	1,971
Reconciliation of the prima facie income tax expense on pre-tax profit with the income tax expense charged in the income statement				
Profit before income tax	10,533	10,308	9,251	8,407
Prima facie income tax expense at 30%	3,160	3,092	2,775	2,522
Tax effect of permanent differences:				
Overseas tax rate differential	(95)	(102)	(22)	(25)
Rebateable and non-assessable dividends	(2)	(2)	(771)	(570)
Profit from associates	(187)	(155)	(113)	(74)
Sale of ANZ Trustees and SSI	–	(11)	–	(11)
Offshore Banking Units	(1)	5	(1)	5
Foreign exchange translation of US hybrid loan capital	–	–	–	72
ANZ Wealth Australia – policyholder income and contributions tax	130	170	–	–
ANZ Wealth Australia – tax consolidation benefit	(56)	–	–	–
Tax provisions no longer required	(17)	(50)	(17)	(40)
Interest on convertible instruments	72	71	72	71
Other	22	6	21	21
	3,026	3,024	1,944	1,971
Income tax (over) provided in previous years	–	1	1	–
Total income tax expense charged in the income statement	3,026	3,025	1,945	1,971
Effective tax rate	28.7%	29.3%	21.0%	23.4%
Australia	2,144	2,136	1,806	1,811
Overseas	882	889	139	160

1 Comparative amounts have changed as a result of changes to the income statement disclosed in note 45.

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. Tax expense/income and deferred tax liabilities/assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax consolidated group on a 'group allocation' basis. Current tax liabilities and assets of the tax consolidated group are recognised by the Company (as head entity in the tax-consolidated group).

Due to the existence of 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 in accordance with the arrangement.

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 should the head entity default on its income tax payment obligations.

5: Income Tax (continued)

TAX ASSETS

	Consolidated		The Company	
	2015 $m	2014 $m	2015 $m	2014 $m
Australia				
Current tax asset	59	9	59	9
Deferred tax asset	208	280	585	676
	267	289	644	685
New Zealand				
Deferred tax asset	–	–	5	6
	–	–	5	6
Asia Pacific, Europe & America				
Current tax asset	31	29	25	18
Deferred tax asset	194	137	122	96
	225	166	147	114
Total current and deferred tax assets	492	455	796	805
Total current tax assets	90	38	84	27
Total deferred tax assets	402	417	712	778
Deferred tax assets recognised in profit or loss				
Collective provision for loans and advances	767	724	626	594
Individual provision for impaired loans and advances	259	292	215	236
Other provisions	285	272	205	184
Provision for employee entitlements	158	152	120	119
Other	170	203	66	102
	1,639	1,643	1,232	1,235
Deferred tax assets recognised directly in equity				
Available-for-sale revaluation reserve	–	–	9	–
Own credit risk of financial liabilities	–	10	–	10
	–	10	9	10
Set-off of deferred tax assets pursuant to set-off provisions[1]	(1,237)	(1,236)	(529)	(467)
Net deferred tax assets	402	417	712	778

Unrecognised deferred tax assets

The following deferred tax assets will only be recognised if:

- assessable income derived is of a nature and an amount sufficient to enable the benefit to be realised;
- the conditions for deductibility imposed by tax legislation are complied with; and
- no changes in tax legislation adversely affect the Group in realising the benefit.

	2015 $m	2014 $m	2015 $m	2014 $m
Unused realised tax losses (on revenue account)	5	5	–	–
Total unrecognised deferred tax assets	5	5	–	–

1 Deferred tax assets and liabilities are set-off where they relate to income tax levied by the same taxation authority on either the same taxable entity or different taxable entities within the same taxable group.

5: Income Tax (continued)

TAX LIABILITIES

	Consolidated 2015 $m	Consolidated 2014 $m	The Company 2015 $m	The Company 2014 $m
Australia				
Current tax payable	–	208	–	208
	–	208	–	208
New Zealand				
Current tax payable	74	60	18	21
Deferred tax liabilities	113	53	–	–
	187	113	18	21
Asia Pacific, Europe & America				
Current tax payable	193	181	76	72
Deferred tax liabilities	136	67	123	62
	329	248	199	134
Total current and deferred tax liabilities	516	569	217	363
Total current tax liabilities	267	449	94	301
Total deferred tax liabilities	249	120	123	62
Deferred tax liabilities recognised in profit or loss				
Acquired portfolio of insurance and investment business	214	235	–	–
Insurance related deferred acquisition costs	135	124	–	–
Lease finance	289	249	64	41
Other	660	562	434	375
	1,298	1,170	498	416
Deferred tax liabilities recognised directly in equity				
Cash flow hedges	117	73	122	76
Foreign currency translation reserve	36	36	–	–
Available-for-sale revaluation reserve	14	75	–	29
Defined benefits obligation	16	2	27	8
Own credit risk of financial liabilities	5	–	5	–
	188	186	154	113
Set-off of deferred tax liabilities pursuant to set-off provision[1]	(1,237)	(1,236)	(529)	(467)
Net deferred tax liability	249	120	123	62
Unrecognised deferred tax liabilities				
The following deferred tax liabilities have not been brought to account as liabilities:				
Other unrealised taxable temporary differences[2]	386	323	70	45
Total unrecognised deferred tax liabilities	386	323	70	45

1 Deferred tax assets and liabilities are set-off where they relate to income tax levied by the same taxation authority on either the same taxable entity or different taxable entities within the same taxable group.
2 Represents additional potential foreign tax costs should all retained earnings in offshore branches and subsidiaries be repatriated.

6: Dividends

	Consolidated[1]		The Company	
	2015 $m	2014 $m	2015 $m	2014 $m
Ordinary share dividends[2]				
Interim dividend	2,379	2,278	2,379	2,278
Final dividend	2,619	2,497	2,619	2,497
Bonus option plan adjustment	(92)	(81)	(92)	(81)
Dividend on ordinary shares	4,906	4,694	4,906	4,694

1 Excludes dividends paid by subsidiaries of the Group to non-controlling equity holders (2015: $1 million, 2014: $1 million).
2 Dividends are not accrued and are recorded when paid.

A final dividend of 95 cents, fully franked for Australian tax purposes, is proposed to be paid on each eligible fully paid ANZ ordinary share on 16 December 2015 (2014: final dividend of 95 cents, paid 16 December 2014, fully franked for Australian tax purposes). It is proposed that New Zealand imputation credits of NZ 11 cents per fully paid ANZ ordinary share will also be attached to the 2015 final dividend (2014: NZ 12 cents). The 2015 interim dividend of 86 cents, paid 1 July 2015, was fully franked for Australian tax purposes (2014: interim dividend of 83 cents, paid 1 July 2014, fully franked for Australian tax purposes). New Zealand imputation credits of NZ 10 cents per fully paid ANZ ordinary share were attached to the 2015 interim dividend (2014: NZ 10 cents).

The tax rate applicable to the Australian franking credits attached to the 2015 interim dividend and to be attached to the proposed 2015 final dividend is 30% (2014: 30%).

Dividends paid in cash or satisfied by the issue of shares under the dividend reinvestment plan during the years ended 30 September 2015 and 2014 were as follows:

	Consolidated		The Company	
	2015 $m	2014 $m	2015 $m	2014 $m
Paid in cash[1]	3,784	3,843	3,784	3,843
Satisfied by share issue[2]	1,122	851	1,122	851
	4,906	4,694	4,906	4,694

	Consolidated		The Company	
	2015 $m	2014 $m	2015 $m	2014 $m
Preference share dividend[3]				
Euro Trust Securities[4]	1	6	–	–
Dividend on preference shares	1	6	–	–

1 Refers to cash paid to shareholders who did not elect to participate in the dividend reinvestment plan or the bonus option plan.
2 Includes shares issued to participating shareholders under the dividend reinvestment plan.
3 Dividends are not accrued and are recorded when paid.
4 Refer to note 30 for details.

DIVIDEND FRANKING ACCOUNT

	2015 $m	2014 $m
Australian franking credits available for subsequent financial years at a corporate tax rate of 30% (2014: 30%)	593	982

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 that will arise from the receipt/payment of dividends that have been recognised as tax receivables/payables as at the end of the financial year.

6: Dividends (continued)

The final proposed 2015 dividend will utilise the entire balance of $593 million franking credits available at 30 September 2015. Instalment tax payments on account of the 2016 financial year which will be made after 30 September 2015 will generate sufficient franking credits to enable the final 2015 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 that will be subject to tax in Australia.

New Zealand imputation credits can be attached to our Australian dividends, but may only be used by our New Zealand resident shareholders. The amount of available New Zealand imputation credits at the end of the financial year, adjusted for credits that will arise from the payment of New Zealand income tax payable as at the end of the financial year and New Zealand imputation credits that will arise from dividends receivable as at the end of the financial year, is NZ$3,508 million (2014: NZ$3,492 million).

RESTRICTIONS WHICH LIMIT THE PAYMENT OF DIVIDENDS

There are presently no significant restrictions on the payment of dividends from material controlled entities to the Company. Various capital adequacy, liquidity, foreign currency controls, statutory reserve and other prudential and legal requirements must be observed by certain controlled entities and the impact of these requirements on the payment of cash dividends is monitored.

There are presently no significant restrictions on the payment of dividends by the Company, although reductions in shareholders' equity through the payment of cash dividends are monitored having regard to the following:

- There are regulatory and other legal requirements to maintain a specified level of capital. Further, APRA has advised that a bank under its supervision, including the Company, must obtain its written approval before paying dividends (i) on ordinary shares which exceed its after tax earnings after taking into account any payments on more senior capital instruments in the financial year to which they relate or (ii) where the Company's Common Equity Tier 1 capital ratio falls within capital range buffers specified by APRA from time to time;
- The Corporations Act 2001 (Cth) provides that the Company must not pay a dividend on any instrument unless (i) it has sufficient net assets for the payment, (ii) the payment is fair and reasonable to the Company's shareholders as a whole, and (iii) the payment does not materially prejudice the Company's ability to pay its creditors;
- The terms of the Company's ANZ Convertible Preference Shares also limit the payment of dividends on these securities in certain circumstances. Generally the Company may not pay a dividend on these securities if to do so would result in the Company becoming, or likely to become, insolvent or breaching specified capital adequacy ratios, if the dividend would exceed its after tax prudential profits (as defined by APRA from time to time) or if APRA so directs; and
- If any dividend, interest or redemption payments or other distributions are not paid on the scheduled payment date, or shares or other qualifying Tier 1 securities are not issued on the applicable conversion or redemption dates, on the Company's ANZ Convertible Preference Shares or ANZ Capital Notes in accordance with their terms, the Company may be restricted from declaring or paying any dividends or other distributions on Tier 1 securities including ANZ ordinary shares and preference shares. This restriction is subject to a number of exceptions.

DIVIDEND REINVESTMENT PLAN

During the year ended 30 September 2015, 8,031,825 fully paid ANZ ordinary shares were issued at $32.02 per share and 27,073,309 fully paid ANZ ordinary shares at $31.93 per share to participating shareholders under the dividend reinvestment plan (2014: 14,941,125 fully paid ANZ ordinary shares at $31.83 per share, and 11,268,833 fully paid ANZ ordinary shares at $33.30 per share). All eligible shareholders can elect to participate in the dividend reinvestment plan .

For the 2015 final dividend, no discount will be applied when calculating the 'Acquisition Price' used in determining the number of fully paid ANZ ordinary shares to be provided under the dividend reinvestment plan and bonus option plan terms and conditions, and the 'Pricing Period' under the dividend reinvestment plan and bonus option plan terms and conditions will be the ten trading days commencing on 13 November 2015 (unless otherwise determined by the Directors and announced on the ASX).

BONUS OPTION PLAN

The amount paid in dividends during the year has been reduced as a result of certain eligible shareholders participating in the bonus option plan and foregoing all or part of their right to dividends. These shareholders were issued fully paid ANZ ordinary shares under the bonus option plan.

During the year ended 30 September 2015, 2,899,350 fully paid ANZ ordinary shares were issued under the bonus option plan (2014: 2,479,917 fully paid ANZ ordinary shares).

7: Earnings Per Ordinary Share

	Consolidated 2015 $m	Consolidated 2014 $m
Basic earnings per share (cents)	271.5	267.1
Earnings reconciliation ($millions)		
Profit for the year	7,507	7,283
Less: profit attributable to minority interests	14	12
Less: preference share dividend paid	1	6
Earnings used in calculating basic earnings per share	7,492	7,265
Weighted average number of ordinary shares (millions)[1]	2,759.0	2,719.7
Diluted earnings per share (cents)	257.2	257.0
Earnings reconciliation ($millions)		
Earnings used in calculating basic earnings per share	7,492	7,265
Add: US Trust Securities interest expense	–	7
Add: ANZ Convertible Preference Shares interest expense	128	155
Add: ANZ Capital Notes interest expense	134	81
Add: ANZ NZ Capital Notes interest expense	12	–
Earnings used in calculating diluted earnings per share	7,766	7,508
Weighted average number of ordinary shares (millions)[1]		
Used in calculating basic earnings per share	2,759.0	2,719.7
Add: weighted average number of options/rights potentially convertible to ordinary shares	6.2	5.5
weighted average number of convertible US Trust Securities at current market prices	–	6.1
weighted average number of ANZ Convertible Preference Shares	123.4	127.5
weighted average number of ANZ Capital Notes	122.7	63.1
weighted average number of ANZ NZ Capital Notes	8.5	–
Used in calculating diluted earnings per share	3,019.8	2,921.9

1 Weighted average number of ordinary shares excludes 11.8 million weighted average number of ordinary treasury shares held in ANZEST Pty Ltd (2014: 14.5 million) for the Group employee share acquisition scheme and 12.4 million weighted average number of ordinary treasury shares held in ANZ Wealth Australia (2014: 12.5 million).

8: Segment Analysis

(i) DESCRIPTION OF SEGMENTS

The Group operates on a divisional structure with Australia, International and Institutional Banking (IIB), New Zealand and Global Wealth being the major operating divisions. The IIB and Global Wealth divisions are coordinated globally. Global Technology, Services and Operations (GTSO) and Group Centre provide support to the operating divisions, including technology, operations, shared services, property, risk management, financial management, strategy, marketing, human resources and corporate affairs. The Group Centre includes Group Treasury and Shareholder Functions.

The segments and product and services categories as reported below are consistent with internal reporting provided to the chief operating decision maker, being the Chief Executive Officer.

The primary sources of external revenue across all divisions are interest income, fee income and trading income. The Australia and New Zealand divisions derive revenue from products and services from retail and commercial banking. IIB derives its revenue from retail and institutional products and services as well as partnerships. Global Wealth derives revenue from funds management, insurance and private wealth.

During 2015 the Merchant Services and Commercial Credit Cards businesses were transferred out of the Cards and Payments business unit in Australia Retail and split between Australia C&CB and IIB based on customer ownership. There have been no other major structure changes, however certain period comparatives have been restated to align with current period presentation resulting from minor changes to customer segmentation and the realignment of support functions.

(ii) OPERATING SEGMENTS

Transactions between business units across segments within ANZ are conducted on an arms length basis.

Year ended 30 September 2015 ($m)	Australia	International and Institutional Banking	New Zealand	Global Wealth	GTSO and Group Centre	Other items[1]	Group Total
External interest income	15,997	8,312	5,853	297	67	–	30,526
External interest expense	(4,540)	(3,262)	(3,118)	(524)	(4,466)	–	(15,910)
Adjustment for intersegment interest	3,948	877	419	(405)	(4,839)	–	–
Net interest income	7,509	4,173	2,316	178	440	–	14,616
Other external operating income	1,166	2,629	365	1,552	(435)	553	5,830
Share of associates' profit	2	618	4	1	–	–	625
Segment revenue	8,678	7,419	2,684	1,730	7	553	21,071
Other external expenses	(1,808)	(1,999)	(663)	(571)	(4,318)	–	(9,359)
Adjustments for intersegment expenses	(1,349)	(1,617)	(401)	(404)	3,771	–	–
Operating expenses	(3,157)	(3,616)	(1,064)	(975)	(547)	–	(9,359)
Profit before credit impairment and income tax	5,521	3,803	1,620	755	(540)	553	11,712
Credit impairment (charge)/release	(853)	(295)	(55)	–	(2)	26	(1,179)
Segment result before tax	4,668	3,508	1,565	755	(542)	579	10,533
Income tax expense	(1,394)	(830)	(438)	(154)	92	(302)	(3,026)
Non-controlling interests	–	(14)	–	–	–	–	(14)
Profit after income tax attributed to shareholders of the company	3,274	2,664	1,127	601	(450)	277	7,493
Non-cash expenses							
Depreciation and amortisation	(158)	(187)	(15)	(109)	(486)	–	(955)
Equity-settled share based payment expenses	(14)	(137)	(12)	(8)	(45)	–	(216)
Credit impairment (charge)/release	(853)	(295)	(55)	–	(2)	26	(1,179)
Financial position							
Goodwill	–	1,180	1,801	1,616	–	–	4,597
Investments in associates	14	5,419	4	3	–	–	5,440

1 In evaluating the performance of the operating segments, certain items are removed from the operating segment result where they are not considered integral to the ongoing performance of the segment and are evaluated separately. These items are set out in part (iii) of this note (refer pages 184 to 185 for further analysis).

8: Segment Analysis (continued)

Year ended 30 September 2014 ($m)	Australia	International and Institutional Banking	New Zealand	Global Wealth	GTSO and Group Centre	Other items[1]	Group Total
External interest income	16,069	7,783	5,251	307	114	–	29,524
External interest expense	(5,159)	(2,965)	(2,624)	(442)	(4,538)	14	(15,714)
Adjustment for intersegment interest	(3,833)	(809)	(456)	303	4,796	(1)	–
Net interest income	7,077	4,009	2,171	168	372	13	13,810
Other external operating income	1,113	2,585	348	1,577	(359)	463	5,727
Share of associates' profit	3	511	1	–	2	–	517
Segment revenue	8,193	7,105	2,520	1,745	15	476	20,054
Other external expenses	(1,658)	(1,790)	(644)	(602)	(4,066)	–	(8,760)
Adjustments for intersegment expenses	(1,357)	(1,485)	(387)	(402)	3,631	–	–
Operating expenses	(3,015)	(3,275)	(1,031)	(1,004)	(435)	–	(8,760)
Profit before credit impairment and income tax	5,178	3,830	1,489	741	(420)	476	11,294
Credit impairment (charge)/release	(818)	(216)	8	2	35	3	(986)
Segment result before tax	4,360	3,614	1,497	743	(385)	479	10,308
Income tax expense	(1,306)	(894)	(419)	(201)	120	(325)	(3,025)
Non-controlling interests	–	(12)	–	–	–	–	(12)
Profit after income tax attributed to shareholders of the company	3,054	2,708	1,078	542	(265)	154	7,271
Non-cash expenses							
Depreciation and amortisation	(119)	(155)	(16)	(120)	(429)	–	(839)
Equity-settled share based payment expenses	(16)	(130)	(13)	(7)	(49)	–	(215)
Credit impairment (charge)/release	(818)	(216)	8	2	35	3	(986)
Financial position							
Goodwill	–	1,131	1,766	1,614	–	–	4,511
Investments in associates	11	4,485	3	6	77	–	4,582

1 In evaluating the performance of the operating segments, certain items are removed from the operating segment result, where they are not considered integral to the ongoing performance of the segment and are evaluated separately. These items are set out in part (iii) of this note (refer pages 184 to 185 for further analysis).

(iii) OTHER ITEMS

The table below sets out the profit after tax impact of other items.

Item	Related segment	Profit after tax 2015 $m	Profit after tax 2014 $m
Treasury shares adjustment	Global Wealth	16	(24)
Revaluation of policy liabilities	Global Wealth	73	26
Economic hedging	International and Institutional Banking	179	72
Revenue and net investment hedges	GTSO and Group Centre	3	101
Structured credit intermediation trades	International and Institutional Banking	6	(21)
Total		277	154

8: Segment Analysis (continued)

(iv) EXTERNAL SEGMENT REVENUE BY PRODUCTS AND SERVICES

The table below sets out revenue from external customers for groups of similar products and services. No single customer amounts to greater than 10% of the Group's revenue.

	Revenue[1]	
	2015 $m	2014 $m
Retail	8,104	7,464
Commercial	4,199	4,057
Wealth	1,730	1,745
Institutional	5,818	5,794
Partnerships	608	487
Other	612	507
	21,071	20,054

(v) GEOGRAPHICAL INFORMATION

The following table sets out revenue and non-current assets based on the geographical locations in which the Group operates.

	Australia		APEA		New Zealand		Total	
Consolidated	2015 $m	2014 $m	2015 $m	2014 $m	2015 $m	2014 $m	2015 $m	2014 $m
Total external revenue[1]	13,346	12,926	4,013	3,650	3,712	3,478	21,071	20,054
Non-current assets[2]	347,040	308,768	55,257	42,326	79,337	72,989	481,635	424,083

1 Includes net interest income.

2 Non-current assets refers to assets that are expected to be recovered more than 12 months after balance date. They do not include financial instruments, deferred tax assets, post-employment benefits assets or rights under insurance contracts.

9: Notes to the Cash Flow Statement

a) Reconciliation of net profit after income tax to net cash provided by operating activities

	Consolidated		The Company	
	2015 $m	2014 $m	2015 $m	2014 $m
Operating profit after income tax attributable to shareholders of the Company	7,493	7,271	7,306	6,436
Adjustment to reconcile operating profit after income tax to net cash provided by operating activities				
Provision for credit impairment	1,179	986	969	974
Depreciation and amortisation	955	839	735	597
Profit on sale of businesses	–	(146)	–	(136)
Net loss on disposal of premises and equipment	6	40	12	14
Net derivatives/foreign exchange adjustment	14,395	(1,257)	11,976	80
Equity settled share-based payments expense[1]	18	27	(13)	(5)
Other non-cash movements	(499)	(501)	(429)	(312)
Net (increase)/decrease in operating assets				
Collateral paid	(3,585)	1,271	(2,427)	957
Trading securities	2,870	(8,600)	2,161	(7,131)
Loans and advances	(32,280)	(35,154)	(21,759)	(29,408)
Investments backing policy liabilities	(1,787)	(1,802)	–	–
Net intra-group loans and advances	–	–	(992)	1,856
Interest receivable	106	(162)	54	(108)
Accrued income	(44)	9	(46)	28
Net tax assets	(56)	(182)	(443)	(644)
Net (decrease)/increase in operating liabilities				
Deposits and other borrowings	30,050	36,592	22,210	31,798
Settlement balances owed by ANZ	781	1,358	1,422	668
Collateral received	1,073	1,435	854	1,103
Life insurance contract policy liabilities	1,507	2,147	–	–
Payables and other liabilities	(974)	910	(1,491)	1,417
Interest payable	452	828	435	828
Accrued expenses	(148)	(136)	(186)	(124)
Provisions including employee entitlements	(36)	(130)	32	(131)
Total adjustments	13,983	(1,628)	13,074	2,321
Net cash provided by operating activities	21,476	5,643	20,380	8,757

1 The equity settled share-based payments expense is net of on-market share purchases of $198 million (2014: $188 million) in the Group and the Company used to satisfy the obligation.

b) Reconciliation of cash and cash equivalents

Cash and cash equivalents at the end of the period as shown in the Cash Flow Statement is reflected in the related items in the Balance Sheet as follows:

	Consolidated		The Company	
	2015 $m	2014 $m	2015 $m	2014 $m
Cash	53,903	32,559	51,217	30,655
Settlement balances owed to ANZ	15,375	15,670	13,619	14,393
	69,278	48,229	64,836	45,048

c) Acquisitions and disposals

Cash (outflows) from acquisitions and investments (net of cash acquired)				
Investments in controlled entities	–	–	(1,375)	(21)
	–	–	(1,375)	(21)
Cash inflows from disposals (net of cash disposed)				
Disposals of controlled entities	–	148	–	156
Disposals of associates	4	103	–	93
	4	251	–	249

d) Non-cash financing activities

Dividends satisfied by share issue	1,122	851	1,122	851
Dividends satisfied by bonus share issue	92	81	92	81
	1,214	932	1,214	932

10: Cash

	Consolidated		The Company	
	2015 $m	2014 $m	2015 $m	2014 $m
Coins, notes and cash at bank	1,716	1,487	1,045	1,005
Money at call, bills receivable and remittances in transit	1	6	1	1
Securities purchased under agreements to resell in less than three months	12,053	9,851	11,757	9,631
Balances with Central Banks	40,133	21,215	38,414	20,018
Total cash	53,903	32,559	51,217	30,655

11: Trading Securities

	Consolidated		The Company	
	2015 $m	2014 $m	2015 $m	2014 $m
Government securities	24,702	24,867	18,515	18,337
Corporate and financial institution securities	18,389	20,618	12,947	15,559
Equity and other securities	5,909	4,207	5,911	4,153
Total trading securities	49,000	49,692	37,373	38,049

12: Derivative Financial Instruments

Derivative financial instruments are contracts whose value is derived from one or more underlying variables or indices defined in the contract, require little or no initial net investment and are settled at a future date. Derivatives include contracts traded on registered exchanges and contracts agreed between counterparties. The use of derivatives and their sale to customers as risk management products is an integral part of the Group's trading and sales activities. Derivatives are also used to manage the Group's own exposure to fluctuations in foreign exchange and interest rates as part of its asset and liability management activities (balance sheet risk management).

Derivative financial instruments are subject to market and credit risk, and these risks are managed in a manner consistent with the risks arising on other financial instruments.

The Group's objectives and policies on managing risks that arise in connection with derivatives, including the policies for hedging, are outlined in note 19.

TYPES OF DERIVATIVE FINANCIAL INSTRUMENTS

The Group transacts principally in foreign exchange, interest rate, commodity and credit derivative contracts. The principal types of derivative contracts include swaps, forwards, futures and options contracts and agreements.

Derivatives, except for those that are specifically designated as effective hedging instruments, are classified as held for trading. The held for trading classification includes two categories of derivative financial instruments: those held as trading positions and those used in the Group's balance sheet risk management activities.

TRADING POSITIONS

Trading positions arise from both sales to customers and market making activities. Sales to customers include the structuring and marketing of derivative products which enable customers to manage their own risks. Market making activities consist of derivatives entered into principally for the purpose of generating profits from short-term fluctuations in prices or margins. Positions may be traded actively or held over a period of time to benefit from expected changes in market rates.

Trading derivatives are managed within the Group's market risk management policies, which are outlined in note 19.

Gains or losses, including any current period interest, from the change in fair value of trading positions are recognised in the income statement as 'other income' in the period in which they occur.

BALANCE SHEET RISK MANAGEMENT

The Group designates balance sheet risk management derivatives into hedging relationships in order to minimise income statement volatility. This volatility is created by differences in the timing of recognition of gains and losses between the derivative and the hedged item. Hedge accounting is not applied to all balance sheet risk management positions.

Gains or losses from the change in fair value of balance sheet risk management derivatives that form part of an effective hedging relationship are recognised in the income statement based on the hedging relationship. Any ineffectiveness is recognised in the income statement as 'other income' in the period in which it occurs.

Gains or losses, excluding any current period interest, from the change in fair value of balance sheet risk management positions that are not designated into hedging relationships are recognised in the income statement as 'other income' in the period in which they occur. Current period interest is included in interest income and expense.

The tables on the following pages provide an overview of the foreign exchange, interest rate, commodity and credit derivatives and include all trading and balance sheet risk management contracts. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market rates relative to the terms of the derivative. Further information on netting of derivative financial instruments is included in note 23. Notional principal amounts measure the amount of the underlying physical or financial commodity and represent the volume of outstanding transactions. They are not a measure of the risk associated with a derivative and are not recorded on the balance sheet.

12: Derivative Financial Instruments (continued)

		Fair Value									
		Trading		Hedging						Total	
				Fair value		Cash flow		Net investment			
Consolidated at 30 September 2015	Notional Principal Amount $m	Assets $m	Liabilities $m	Assets $m	Liabilities $m	Assets $m	Liabilities $m	Assets $m	Liabilities $m	Assets $m	Liabilities $m
Foreign exchange contracts											
Spot and forward contracts	1,267,164	15,200	(13,964)	–	–	–	–	8	–	15,208	(13,964)
Swap agreements	652,681	20,965	(20,257)	2	(4)	–	–	–	(9)	20,967	(20,270)
Options purchased	92,330	2,441	–	–	–	–	–	–	–	2,441	–
Options sold	110,956	–	(2,081)	–	–	–	–	–	–	–	(2,081)
	2,123,131	38,606	(36,302)	2	(4)	–	–	8	(9)	38,616	(36,315)
Commodity contracts											
Derivative contracts	43,869	2,750	(2,207)	–	–	–	–	–	–	2,750	(2,207)
Interest rate contracts											
Forward rate agreements	343,457	37	(51)	–	–	–	–	–	–	37	(51)
Swap agreements	3,665,593	39,278	(38,004)	2,329	(1,770)	1,360	(973)	–	–	42,967	(40,747)
Futures contracts	158,579	27	(79)	1	(17)	–	–	–	–	28	(96)
Options purchased	93,055	944	–	–	–	–	–	–	–	944	–
Options sold	72,462	–	(1,573)	–	–	–	–	–	–	–	(1,573)
	4,333,146	40,286	(39,707)	2,330	(1,787)	1,360	(973)	–	–	43,976	(42,467)
Credit default swaps											
Structured credit derivatives purchased	728	52	–	–	–	–	–	–	–	52	–
Other credit derivatives purchased	22,284	205	(194)	–	–	–	–	–	–	205	(194)
Total credit derivatives purchased	23,012	257	(194)	–	–	–	–	–	–	257	(194)
Structured credit derivatives sold	728	–	(67)	–	–	–	–	–	–	–	(67)
Other credit derivatives sold	21,474	26	(20)	–	–	–	–		–	26	(20)
Total credit derivatives sold	22,202	26	(87)	–	–	–	–	–	–	26	(87)
	45,214	283	(281)	–	–	–	–	–	–	283	(281)
Total	6,545,360	81,925	(78,497)	2,332	(1,791)	1,360	(973)	8	(9)	85,625	(81,270)

12: Derivative Financial Instruments (continued)

Consolidated at 30 September 2014	Notional Principal Amount $m	Fair Value: Trading Assets $m	Trading Liabilities $m	Hedging: Fair value Assets $m	Fair value Liabilities $m	Cash flow Assets $m	Cash flow Liabilities $m	Net investment Assets $m	Net investment Liabilities $m	Total Assets $m	Total Liabilities $m
Foreign exchange contracts											
Spot and forward contracts	746,023	10,264	(9,324)	–	–	–	–	–	(4)	10,264	(9,328)
Swap agreements	640,600	19,191	(19,003)	66	(40)	–	–	–	–	19,257	(19,043)
Options purchased	105,985	2,079	–	–	–	–	–	–	–	2,079	–
Options sold	139,062	–	(1,923)	–	–	–	–	–	–	–	(1,923)
	1,631,670	31,534	(30,250)	66	(40)	–	–	–	(4)	31,600	(30,294)
Commodity contracts											
Derivative contracts	33,886	1,612	(946)	–	–	–	–	–	–	1,612	(946)
Interest rate contracts											
Forward rate agreements	65,754	4	(10)	–	–	–	(1)	–	–	4	(11)
Swap agreements	2,837,264	19,768	(19,049)	1,808	(888)	765	(499)	–	–	22,341	(20,436)
Futures contracts	128,208	33	(75)	–	(14)	–	(4)	–	–	33	(93)
Options purchased	56,573	505	–	–	–	–	–	–	–	505	–
Options sold	47,827	–	(823)	–	–	–	–	–	–	–	(823)
	3,135,626	20,310	(19,957)	1,808	(902)	765	(504)	–	–	22,883	(21,363)
Credit default swaps											
Structured credit derivatives purchased	1,171	58	–	–	–	–	–	–	–	58	–
Other credit derivatives purchased	17,060	162	(224)	–	–	–	–	–	–	162	(224)
Total credit derivatives purchased	18,231	220	(224)	–	–	–	–	–	–	220	(224)
Structured credit derivatives sold	1,171	–	(80)	–	–	–	–	–	–	–	(80)
Other credit derivatives sold	17,359	54	(18)	–	–	–	–	–	–	54	(18)
Total credit derivatives sold	18,530	54	(98)	–	–	–	–	–	–	54	(98)
	36,761	274	(322)	–	–	–	–	–	–	274	(322)
Total	4,837,943	53,730	(51,475)	1,874	(942)	765	(504)	–	(4)	56,369	(52,925)

12: Derivative Financial Instruments (continued)

		Fair Value									
		Trading		Hedging						Total	
				Fair value		Cash flow		Net investment			
The Company at 30 September 2015	Notional Principal Amount $m	Assets $m	Liabilities $m	Assets $m	Liabilities $m	Assets $m	Liabilities $m	Assets $m	Liabilities $m	Assets $m	Liabilities $m
Foreign exchange contracts											
Spot and forward contracts	1,267,837	14,206	(13,352)	–	–	–	–	1	–	14,207	(13,352)
Swap agreements	630,805	20,554	(19,225)	2	(4)	–	–	–	(9)	20,556	(19,238)
Options purchased	90,683	2,392	–	–	–	–	–	–	–	2,392	–
Options sold	109,805	–	(2,066)	–	–	–	–	–	–	–	(2,066)
	2,099,130	37,152	(34,643)	2	(4)	–	–	1	(9)	37,155	(34,656)
Commodity contracts											
Derivative contracts	43,697	2,743	(2,205)	–	–	–	–	–	–	2,743	(2,205)
Interest rate contracts											
Forward rate agreements	334,992	45	(50)	–	–	–	–	–	–	45	(50)
Swap agreements	3,263,084	31,361	(30,833)	2,120	(1,526)	1,028	(640)	–	–	34,509	(32,999)
Futures contracts	117,310	16	(63)	1	(17)	–	–	–	–	17	(80)
Options purchased	93,515	942	–	–	–	–	–	–	–	942	–
Options sold	73,187	–	(1,574)	–	–	–	–	–	–	–	(1,574)
	3,882,088	32,364	(32,520)	2,121	(1,543)	1,028	(640)	–	–	35,513	(34,703)
Credit default swaps											
Structured credit derivatives purchased	728	52	–	–	–	–	–	–	–	52	–
Other credit derivatives purchased	22,284	205	(194)	–	–	–	–	–		205	(194)
Total credit derivatives purchased	23,012	257	(194)	–	–	–	–	–	–	257	(194)
Structured credit derivatives sold	728	–	(67)	–	–	–	–	–	–	–	(67)
Other credit derivatives sold	21,474	26	(19)	–	–	–	–	–	–	26	(19)
Total credit derivatives sold	22,202	26	(86)	–	–	–	–	–	–	26	(86)
	45,214	283	(280)	–	–	–	–	–	–	283	(280)
Total	6,070,129	72,542	(69,648)	2,123	(1,547)	1,028	(640)	1	(9)	75,694	(71,844)

12: Derivative Financial Instruments (continued)

The Company at 30 September 2014	Notional Principal Amount $m	Fair Value Trading Assets $m	Trading Liabilities $m	Hedging Fair value Assets $m	Fair value Liabilities $m	Cash flow Assets $m	Cash flow Liabilities $m	Net investment Assets $m	Net investment Liabilities $m	Total Assets $m	Total Liabilities $m
Foreign exchange contracts											
Spot and forward contracts	723,896	9,664	(8,880)	–	–	–	–	–	(4)	9,664	(8,884)
Swap agreements	636,477	18,552	(18,694)	66	(40)	–	–	–	–	18,618	(18,734)
Options purchased	104,919	2,061	–	–	–	–	–	–	–	2,061	–
Options sold	138,285	–	(1,915)	–	–	–	–	–	–	–	(1,915)
	1,603,577	30,277	(29,489)	66	(40)	–	–	–	(4)	30,343	(29,533)
Commodity contracts											
Derivative contracts	33,486	1,606	(925)	–	–	–	–	–	–	1,606	(925)
Interest rate contracts											
Forward rate agreements	61,699	4	(10)	–	–	–	(1)	–	–	4	(11)
Swap agreements	2,590,629	17,851	(17,561)	1,587	(807)	680	(403)	–	–	20,118	(18,771)
Futures contracts	112,227	31	(72)	–	(14)	–	(4)	–	–	31	(90)
Options purchased	55,969	506	–	–	–	–	–	–	–	506	–
Options sold	47,382	–	(822)	–	–	–	–	–	–	–	(822)
	2,867,906	18,392	(18,465)	1,587	(821)	680	(408)	–	–	20,659	(19,694)
Credit default swaps											
Structured credit derivatives purchased	1,171	58	–	–	–	–	–	–	–	58	–
Other credit derivatives purchased	17,060	162	(224)	–	–	–	–	–	–	162	(224)
Total credit derivatives purchased	18,231	220	(224)	–	–	–	–	–	–	220	(224)
Structured credit derivatives sold	1,171	–	(80)	–	–	–	–	–	–	–	(80)
Other credit derivatives sold	17,359	54	(18)	–	–	–	–	–	–	54	(18)
Total credit derivatives sold	18,530	54	(98)	–	–	–	–	–	–	54	(98)
	36,761	274	(322)	–	–	–	–	–	–	274	(322)
Total	4,541,730	50,549	(49,201)	1,653	(861)	680	(408)	–	(4)	52,882	(50,474)

HEDGING ACCOUNTING

There are three types of hedging accounting relationships: fair value hedges, cash flow hedges and hedges of a net investment in a foreign operation. Each type of hedging has specific requirements when accounting for the fair value changes in the hedging relationship. For details on the accounting treatment of each type of hedging relationship refer to note 1(E)(ii).

FAIR VALUE HEDGE ACCOUNTING

The risk being hedged in a fair value hedge is a change in the fair value of an asset or liability or unrecognised firm commitment that may affect the income statement. Changes in fair value might arise through changes in interest rates or foreign exchange rates. The Group's fair value hedges consist principally of interest rate swaps and cross currency swaps that are used to protect against changes in the fair value of fixed-rate long-term financial instruments due to movements in market interest rates and exchange rates.

The application of fair value hedge accounting results in the fair value adjustment on the hedged item attributable to the hedged risk being recognised in the income statement at the same time the hedging instrument impacts the income statement. If hedge relationships no longer meet the criteria for hedge accounting, hedge accounting is discontinued. The fair value adjustment to the hedged item continues to be recognised as part of the carrying amount of the item or group of items and is amortised to the income statement as a part of the effective yield over the period to maturity. Where the hedged item is derecognised from the Group's balance sheet, the fair value adjustment is included in the income statement as 'other income' as a part of the gain or loss on disposal.

	Consolidated 2015 $m	Consolidated 2014 $m	The Company 2015 $m	The Company 2014 $m
Gain/(loss) arising from fair value hedges				
Hedged item	158	(434)	14	(370)
Hedging Instrument	(146)	429	(2)	369

12: Derivative Financial Instruments (continued)

CASH FLOW HEDGE ACCOUNTING

The risk being hedged in a cash flow hedge is the potential variability in future cash flows that may affect the income statement. Variability in the future cash flows may result from changes in interest rates or exchange rates affecting recognised financial assets and liabilities and highly probable forecast transactions. The Group's cash flow hedges consist principally of interest rate swaps, forward rate agreements and cross currency swaps that are used to protect against exposures to variability in future cash flows on non-trading assets and liabilities which bear interest at variable rates or which are expected to be refunded or reinvested in the future. The Group primarily applies cash flow hedge accounting to its variable rate loan assets, variable rate liabilities and short-term re-issuances of fixed rate customer and wholesale deposit liabilities. The amounts and timing of future cash flows, representing both principal and interest flows, are projected for each portfolio of financial assets and liabilities on the basis of their forecast repricing profile. This forms the basis for identifying gains and losses on the effective portions of derivatives designated as cash flow hedges.

The effective portion of changes in the fair value of derivatives qualifying and designated as cash flow hedges is recognised initially in other comprehensive income. These are recognised in the income statement in the period during which the hedged forecast transactions take place. The ineffective portion of a designated cash flow hedge relationship is recognised immediately as other income in the income statement. The schedule below shows the movements in the hedging reserve:

	Consolidated		The Company	
	2015 $m	2014 $m	2015 $m	2014 $m
Opening	169	75	174	51
Item recorded in net interest income	(15)	(30)	–	8
Tax effect on items recorded in net interest income	4	8	–	(2)
Valuation gain taken to other comprehensive income	160	165	149	168
Tax effect on net gain on cash flow hedges	(49)	(49)	(46)	(51)
Closing Balance	269	169	277	174

The table below shows the breakdown of the hedging reserve attributable to each type of cash flow hedging relationship:

	Consolidated		The Company	
	2015 $m	2014 $m	2015 $m	2014 $m
Variable rate assets	799	407	628	433
Variable rate liabilities	(255)	(114)	(191)	(119)
Re-issuances of short term fixed rate liabilities	(275)	(124)	(160)	(140)
Total hedging reserve	269	169	277	174

All underlying hedged cash flows are expected to be recognised in the income statement in the period in which they occur which is anticipated to take place over the next 0–10 years (2014: 0–10 years).

All gains and losses associated with the ineffective portion of the hedging derivatives are recognised immediately as 'other income' in the income statement. Ineffectiveness recognised in the income statement in respect of cash flow hedges amounted to nil for the Group (2014: $10 million gain) and a $1 million gain for the Company (2014: $9 million gain).

HEDGES OF NET INVESTMENTS IN FOREIGN OPERATIONS

In a hedge of a net investment in a foreign operation, the risk being hedged is the exposure to exchange rate differences arising on consolidation of foreign operations with a functional currency other than the Australian Dollar. Hedging is undertaken using foreign exchange derivative contracts or by financing with borrowings in the same currency as the applicable foreign functional currency.

Ineffectiveness arising from hedges of net investments in foreign operations and recognised as 'other income' in the income statement amounted to nil (2014: nil).

13: Available-for-sale Assets

	Consolidated		The Company	
	2015 $m	2014 $m	2015 $m	2014 $m
Government securities	25,012	15,063	20,419	12,310
Corporate and Financial institution securities	14,506	11,341	13,381	10,267
Equity and other securities	4,149	4,513	3,812	3,574
Total available-for-sale assets	43,667	30,917	37,612	26,151

During the year net gains (before tax) recognised in the income statement in respect of available-for-sale assets amounted to $71 million for the Group (2014: $47 million net gain before tax) and $49 million for the Company (2014: $40 million net gain before tax).

AVAILABLE-FOR-SALE ASSETS BY MATURITY AT 30 SEPTEMBER 2015

	Less than 3 months $m	Between 3 and 12 months $m	Between 1 and 5 years $m	Between 5 and 10 years $m	After 10 years $m	No maturity specified $m	Total fair value $m
Government securities	4,878	2,712	6,238	10,248	936	–	25,012
Corporate and Financial institution securities	932	1,793	10,281	1,429	71	–	14,506
Equity and other securities	–	38	1,200	2,739	121	51	4,149
Total available-for-sale assets	5,810	4,543	17,719	14,416	1,128	51	43,667

AVAILABLE-FOR-SALE BY MATURITIES AT 30 SEPTEMBER 2014

	Less than 3 months $m	Between 3 and 12 months $m	Between 1 and 5 years $m	Between 5 and 10 years $m	After 10 years $m	No maturity specified $m	Total fair value $m
Government securities	3,106	2,541	4,299	3,686	1,431	–	15,063
Corporate and Financial institution securities	523	2,563	7,923	327	5	–	11,341
Other securities and equity securities	–	86	205	1,165	3,014	43	4,513
Total available-for-sale assets	3,629	5,190	12,427	5,178	4,450	43	30,917

14: Net Loans and Advances

	Consolidated		The Company	
	2015 $m	2014 $m	2015 $m	2014 $m
Overdrafts	8,955	8,629	7,472	7,078
Credit card outstandings	11,930	11,440	9,446	9,244
Term loans – housing	300,468	271,388	242,949	221,576
Term loans – non-housing	232,693	213,324	174,277	161,913
Hire purchase	1,971	2,238	1,048	1,409
Lease receivables	1,901	1,905	1,166	1,190
Commercial bills	14,201	15,027	13,982	14,766
Other	251	432	34	4
Total gross loans and advances	572,370	524,383	450,374	417,180
Less: Provision for credit impairment (refer to note 15)	(4,017)	(3,933)	(3,081)	(3,011)
Less: Unearned income	(739)	(892)	(438)	(657)
Add: Capitalised brokerage/mortgage origination fees[1]	1,253	1,043	944	837
Add: Customer liability for acceptances	1,371	1,151	649	717
Adjustments to gross loans and advances	(2,132)	(2,631)	(1,926)	(2,114)
Net loans and advances (including assets classified as held for sale)	570,238	521,752	448,448	415,066
Esanda dealer finance assets held for sale	(8,065)	–	(8,065)	–
Net loans and advances	562,173	521,752	440,383	415,066

1 Capitalised brokerage/mortgage origination fees are amortised over the term of the loan.

ASSETS CLASSIFIED AS HELD FOR SALE

On 4 May 2015, the Group announced its intention to sell the Esanda Dealer Finance business within the Australia Division. The assets classified as held for sale includes lending assets comprising retail point-of-sale finance and wholesale bailment facilities and other Esanda branded finance offered to motor vehicle dealers along with associated provisions and deferred acquisition costs. No impairment losses were recognised on reclassification as held for sale.

On 8 October the Group entered into an agreement to sell the Esanda Dealer Finance business to Macquarie Group Limited. The sale is expected to complete during the first half of 2016. The estimated sale price is $8.2 billion.

14: Net Loans and Advances (continued)

LEASE RECEIVABLES

	Consolidated		The Company	
	2015 $m	2014 $m	2015 $m	2014 $m
Lease receivables				
a) Finance lease receivables				
Gross finance lease receivables				
Less than 1 year	276	370	117	225
1 to 5 years	912	527	590	350
Later than 5 years	196	387	17	63
Total finance lease receivables	1,384	1,284	724	638
b) Operating lease receivables				
Gross operating lease receivables				
Less than 1 year	22	55	19	51
1 to 5 years	495	566	423	501
Later than 5 years	–	–	–	–
Total operating lease receivables	517	621	442	552
Total lease receivables	1,901	1,905	1,166	1,190
Less: unearned future finance income on finance leases	(142)	(154)	(36)	(98)
Net lease receivables	1,759	1,751	1,130	1,092

	Consolidated		The Company	
	2015 $m	2014 $m	2015 $m	2014 $m
Present value of net investment in finance lease receivables				
Less than 1 year	248	332	112	206
1 to 5 years	830	480	560	285
Later than 5 years	164	318	16	49
Total net investment in finance lease receivables	1,242	1,130	688	540
Add back: unearned future finance income on finance leases	142	154	36	98
Total finance lease receivables	1,384	1,284	724	638

HIRE PURCHASE

	Consolidated		The Company	
	2015 $m	2014 $m	2015 $m	2014 $m
Hire purchase				
Less than 1 year	678	758	310	456
1 to 5 years	1,282	1,466	727	939
Later than 5 years	11	14	11	14
Total hire purchase	1,971	2,238	1,048	1,409

15: Provision for Credit Impairment

Credit impairment charge analysis	Consolidated 2015 $m	Consolidated 2014 $m	The Company 2015 $m	The Company 2014 $m
New and increased provisions				
Australia	1,203	1,292	1,190	1,275
New Zealand	211	274	13	16
Asia Pacific, Europe & America	343	246	117	156
	1,757	1,812	1,320	1,447
Write-backs	(434)	(447)	(245)	(253)
	1,323	1,365	1,075	1,194
Recoveries of amounts previously written off	(239)	(224)	(193)	(174)
Individual credit impairment charge	1,084	1,141	882	1,020
Collective credit impairment charge/(release)	95	(155)	87	(46)
Credit impairment charge	1,179	986	969	974

MOVEMENT IN PROVISION FOR CREDIT IMPAIRMENT BY FINANCIAL ASSET CLASS

	Net loans and advances		Credit related commitments		Total provision	
Consolidated	2015 $m	2014 $m	2015 $m	2014 $m	2015 $m	2014 $m
Individual provision						
Balance at start of year	1,130	1,440	46	27	1,176	1,467
New and increased provisions	1,757	1,794	–	18	1,757	1,812
Adjustment for exchange rate fluctuations and transfers	63	7	(23)	1	40	8
Write-backs	(434)	(447)	–	–	(434)	(447)
Discount unwind	(54)	(65)	–	–	(54)	(65)
Bad debts written off	(1,424)	(1,599)	–	–	(1,424)	(1,599)
Total individual provision	1,038	1,130	23	46	1,061	1,176
Collective provision						
Balance at start of year	2,144	2,292	613	595	2,757	2,887
Adjustment for exchange rate fluctuations	67	8	37	17	104	25
Charge/(release) to income statement	68	(156)	27	1	95	(155)
Total collective provision	2,279	2,144	677	613	2,956	2,757
Total provision for credit impairment	3,317	3,274	700	659	4,017	3,933

	Consolidated 2015 %	Consolidated 2014 %
Ratios (as a percentage of total gross loans and advances)		
Individual provision	0.18	0.22
Collective provision	0.51	0.53
Bad debts written off	0.25	0.30

The table below contains a detailed analysis of the movements in individual provisions for net loans and advances by division.

	Australia		International and Institutional Banking		New Zealand		Other[1]		Total	
Consolidated	2015 $m	2014 $m	2015 $m	2014 $m	2015 $m	2014 $m	2015 $m	2014 $m	2015 $m	2014 $m
Individual provision										
Balance at start of year	630	747	310	417	187	242	3	34	1,130	1,440
New and increased provisions	1,103	1,114	463	418	190	260	1	2	1,757	1,794
Adjustment for exchange rate fluctuations and transfers	–	(2)	53	7	6	2	4	–	63	7
Write-backs	(194)	(202)	(128)	(79)	(110)	(163)	(2)	(3)	(434)	(447)
Discount unwind	(32)	(33)	(17)	(35)	(4)	3	(1)	–	(54)	(65)
Bad debts written off	(918)	(994)	(371)	(418)	(131)	(157)	(4)	(30)	(1,424)	(1,599)
Total individual provision	589	630	310	310	138	187	1	3	1,038	1,130

1 Other contains Global Wealth and GTSO and Group Centre.

15: Provision for Credit Impairment (continued)

The Company	Net loans and advances 2015 $m	Net loans and advances 2014 $m	Credit related commitments 2015 $m	Credit related commitments 2014 $m	Total provision 2015 $m	Total provision 2014 $m
Individual provision						
Balance at start of year	814	1,046	40	10	854	1,056
New and increased provisions	1,319	1,417	–	30	1,319	1,447
Adjustment for exchange rate fluctuations	45	4	(21)	–	24	4
Write-backs	(245)	(253)	–	–	(245)	(253)
Discount unwind	(45)	(60)	–	–	(45)	(60)
Bad debts written off	(1,148)	(1,340)	–	–	(1,148)	(1,340)
Total individual provision	740	814	19	40	759	854
Collective provision						
Balance at start of year	1,669	1,729	488	457	2,157	2,186
Adjustment for exchange rate fluctuations	43	5	35	12	78	17
Charge/(credit) to income statement	53	(65)	34	19	87	(46)
Total collective provision	1,765	1,669	557	488	2,322	2,157
Total provision for credit impairment	2,505	2,483	576	528	3,081	3,011

	The Company 2015 %	The Company 2014 %
Ratios (as a percentage of total gross loans and advances)		
Individual provision	0.17	0.20
Collective provision	0.52	0.52
Bad debts written off	0.25	0.32

IMPAIRED ASSETS

Presented below is a summary of impaired financial assets that are measured on the balance sheet at amortised cost. For these items, impairment losses are recorded through the provision for credit impairment. This contrasts to financial assets measured at fair value, for which any impairment loss is recognised as a component of the instrument's overall fair value.

Detailed information on impaired financial assets is provided in note 19.

	Consolidated 2015 $m	Consolidated 2014 $m	The Company 2015 $m	The Company 2014 $m
Summary of impaired financial assets				
Impaired loans	2,441	2,682	1,574	1,923
Restructured items[1]	184	67	94	26
Non-performing commitments and contingencies[2]	94	140	80	105
Gross impaired financial assets	2,719	2,889	1,748	2,054
Individual provisions				
Impaired loans	(1,038)	(1,130)	(740)	(814)
Non-performing commitments and contingencies	(23)	(46)	(19)	(40)
Net impaired financial assets	1,658	1,713	989	1,200
Accruing loans past due 90 days or more[3]				
These amounts are not classified as impaired assets as they are either 90 days or more past due and well secured, or are portfolio managed facilities that can be held on a productive basis for up to 180 days past due	2,378	1,982	2,127	1,778

1 Restructured items are facilities in which the original contractual terms have been modified for reasons related to the financial difficulties of the customer. Restructuring may consist of a reduction of interest, principal or other payments legally due, or an extension in maturity materially beyond those typically offered to new facilities with similar risk.

2 Includes impaired derivative financial instruments.

3 Includes unsecured credit card and personal loans 90 days past due accounts which are retained on a performing basis for up to 180 days past due amounting to $180 million (2014: $154 million) for the Group and $126 million (2014: $111 million) for the Company.

16: Deposits and Other Borrowings

	Consolidated 2015 $m	Consolidated 2014 $m	The Company 2015 $m	The Company 2014 $m
Certificates of deposit	63,446	52,755	62,980	51,634
Term Deposits	194,676	192,716	154,485	154,763
On demand and short term deposits	229,330	193,203	187,327	160,867
Deposits not bearing interest	19,013	16,404	9,970	8,688
Deposits from banks	38,985	38,193	38,448	37,339
Commercial Paper	22,988	15,152	18,477	9,753
Securities sold under repurchase agreements	778	256	344	128
Borrowing corporations[1]	1,578	1,400	–	–
Deposits and other borrowings	570,794	510,079	472,031	423,172

1 Included in this balance is debenture stock of nil (September 2014: $1 million) of Esanda Finance Corporation Limited (Esanda), together with accrued interest thereon, which is secured by a trust deed and collateral debentures, giving floating charges upon the undertaking and all the assets of the entity amounting to $42 million (September 2014: $43 million) other than land and buildings. All controlled entities of Esanda have guaranteed the payment of principal, interest and other monies in relation to all debenture stock and unsecured notes issued by Esanda. The only loans pledged as collateral are those in Esanda and its subsidiaries. Effective from 18 March 2009, Esanda ceased to write new debentures and since September 2009 stopped writing new loans. In addition, this balance also includes NZD1.7 billion (September 2014: NZD1.6 billion) of secured debenture stock of the consolidated subsidiary UDC Finance Limited (UDC) and the accrued interest thereon which are secured by a floating charge over all assets of UDC NZD2.6 billion (September 2014: NZD2.5 billion).

17: Debt Issuances

ANZ utilises a variety of established and flexible funding programmes to issue medium term notes featuring either senior or subordinated debt status (details of subordinated debt are presented in note 18). All risks associated with originating term funding are closely managed. Refer to description of ANZ risk management practices in note 19 in relation to market risks such as interest rate and foreign currency risks, as well as liquidity risk.

The table below presents debt issuances by currency of issue which broadly is representative of the investor base location.

		Consolidated 2015 $m	Consolidated 2014 $m	The Company 2015 $m	The Company 2014 $m
Debt issuances by currency					
USD	United States dollars	42,367	36,549	36,009	31,682
GBP	Great British pounds	6,317	3,068	5,744	2,576
AUD	Australian dollars	7,694	7,796	7,289	7,051
NZD	New Zealand dollars	4,947	4,683	1,639	1,647
JPY	Japanese yen	4,499	4,786	4,412	4,469
EUR	Euro	22,048	15,723	16,356	11,662
HKD	Hong Kong dollars	858	817	858	802
CHF	Swiss francs	3,063	3,882	1,450	1,659
CAD	Canadian dollar	430	984	430	984
NOK	Norwegian krone	465	609	465	609
SGD	Singapore dollars	202	254	70	75
TRY	Turkish lira	265	358	265	358
ZAR	South African rand	151	147	151	147
MXN	Mexico peso	255	255	255	255
CNH	Chinese yuan	186	185	186	185
Total Debt issuances		93,747	80,096	75,579	64,161

18: Subordinated Debt

Subordinated debt comprises perpetual and dated securities as follows (net of issue costs):

			Consolidated 2015 $m	Consolidated 2014 $m	The Company 2015 $m	The Company 2014 $m
Additional Tier 1 capital (perpetual subordinated securities)						
ANZ Convertible Preference Shares (ANZ CPS)[1]						
AUD	1969m	ANZ CPS2	1,969	1,967	1,969	1,967
AUD	1340m	ANZ CPS3	1,336	1,333	1,336	1,333
ANZ Capital Notes (ANZ CN)						
AUD	1120m	ANZ CN1	1,112	1,109	1,112	1,109
AUD	1610m	ANZ CN2	1,598	1595	1,598	1595
AUD	970m	ANZ CN3	959	–	959	–
ANZ NZ Capital Notes (ANZ NZ CN)						
NZD	500m	ANZ NZ Capital Notes	449	–	–	–
			7,423	6,004	6,974	6,004
Tier 2 capital						
Perpetual subordinated notes						
USD	300m	floating rate notes	429	343	429	343
NZD	835m	fixed rate notes[2]	759	744	–	–
			1,188	1,087	429	343
Dated subordinated notes						
EUR	750m	fixed rate notes due 2019	1,355	1,246	1,355	1,247
AUD	500m	floating rate notes due 2022[3]	499	499	500	500
AUD	1509m	floating rate notes due 2022[3]	1,504	1,501	1,506	1,502
USD	750m	fixed rate notes due 2022[3]	1,068	842	1,071	843
AUD	750m	floating rate notes due 2023[3]	748	748	750	749
AUD	750m	floating rate notes due 2024[3,4]	750	750	750	750
USD	800m	fixed rate notes due 2024[4]	1,222	930	1,226	932
CNY	2500m	fixed rate notes due 2025[3,4]	562	–	562	–
SGD	500m	fixed rate notes due 2027[3,4]	491	–	491	–
AUD	200m	fixed rate notes due 2027[3,4]	199	–	198	–
			8,398	6,516	8,409	6,523
Total subordinated debt			17,009	13,607	15,812	12,870
Subordinated debt by currency						
AUD	Australian dollars		10,674	9,502	10,678	9,505
NZD	New Zealand dollars		1,208	744	–	–
USD	United States dollars		2,719	2,115	2,726	2,118
CNY	Chinese renminbi		562	–	562	–
SGD	Singapore dollars		491	–	491	–
EUR	Euro		1,355	1,246	1,355	1,247
			17,009	13,607	15,812	12,870

1 Fully franked preference share dividend cash payments on ANZ CPS2 and ANZ CPS3 made during the years ended 30 September 2015 and 30 September 2014 (which are treated as interest expense):

	Consolidated 2015 $m	Consolidated 2014 $m	The Company 2015 $m	The Company 2014 $m
ANZ CPS2	77	79	77	79
ANZ CPS3	52	53	52	53

2 Rate reset on 18 April 2013 to the five year swap rate +2.00% until the call date on 18 April 2018, whereupon if not called, reverts to a floating rate at the three month forward rate agreement +3.00% and is callable on any interest payment date thereafter.

3 Callable five years prior to maturity.

4 The convertible subordinated notes convert into ANZ ordinary shares at the average market price of ANZ ordinary shares less a 1% discount subject to a maximum conversion number if the Company receives a notice of non-viability from APRA.

Subordinated debt is subordinated in right of payment to the claims of depositors and other creditors of the Company and its controlled entities which have issued the notes or preference shares.

As defined by APRA for capital adequacy purposes, ANZ CPS, ANZ CN, and ANZ NZ CN constitute Additional Tier 1 capital and all other subordinated notes constitute Tier 2 capital.

The ANZ CN and ANZ NZ CN are Basel 3 compliant instruments. APRA has granted ANZ transitional Basel 3 capital treatment for each of the ANZ CPS until their first conversion date.

The convertible subordinated notes are Basel 3 compliant instruments. APRA has granted transitional Basel 3 capital treatment for:

- all other term subordinated notes until their first call date;
- the USD300 million perpetual subordinated notes until the end of the transitional period (December 2021); and
- the NZD835 million perpetual subordinated notes until the April 2018 call date.

18: Subordinated Debt (continued)

ANZ CONVERTIBLE PREFERENCE SHARES (ANZ CPS)

- On 17 December 2009, the Company issued 19.7 million convertible preference shares ('ANZ CPS2') at $100 each, raising $1,969 million before issue costs.
- On 28 September 2011, the Company issued 13.4 million convertible preference shares ('ANZ CPS3') at $100 each raising $1,340 million before issue costs.

ANZ CPS are fully paid, mandatorily convertible preference shares. ANZ CPS are listed on the Australian Stock Exchange.

Dividends on ANZ CPS are non-cumulative and are payable quarterly in arrears in December, March, June and September (ANZ CPS2) and semi-annually in arrears in March and September (ANZ CPS3) in each year and will be franked in line with the franking applied to ANZ ordinary shares. The dividends will be based on a floating rate equal to the aggregate of the 90 day bank bill rate plus a 310 basis point margin (ANZ CPS2) and the 180 day bank bill rate plus 310 basis point margin (ANZ CPS3), multiplied by one minus the Australian Company tax rate. Should the dividend not be fully franked, the terms of the securities provide for a cash gross-up for the amount of the franking benefit not provided. Dividends are subject to the absolute discretion of the Board of Directors of the Company and certain payment tests (including APRA requirements and distributable profits being available). If dividends are not paid on ANZ CPS, the Company may not pay dividends or distributions, or return capital, on ANZ ordinary shares or (ANZ CPS2 only) any other share capital or security ranking equal or junior to the ANZ CPS for a specified period (subject to certain exceptions).

On 15 December 2016 (ANZ CPS2) or 1 September 2019 (ANZ CPS3) (each a 'conversion date'), or an earlier date under certain circumstances, the relevant ANZ CPS will mandatorily convert into a variable number of ANZ ordinary shares based on the average market price of ANZ ordinary shares less a 1.0% discount, subject to a maximum conversion number.

The mandatory conversion to ANZ ordinary shares is however deferred for a specified period if the conversion tests are not met.

In respect of ANZ CPS3 only, if a common equity capital trigger event occurs the ANZ CPS3 will immediately convert into ANZ ordinary shares, subject to a maximum conversion number. A common equity capital trigger event occurs if ANZ's Common Equity Tier 1 capital ratio is equal to or less than 5.125%.

In respect of ANZ CPS3 only, on 1 September 2017 and each subsequent semi annual Dividend Payment Date, subject to receiving APRA's prior approval and satisfying certain conditions, the Company has the right to redeem or convert into ANZ ordinary shares all or some ANZ CPS3 at its discretion on similar terms as mandatory conversion on a conversion date.

The ANZ CPS rank equally with each other and the ANZ Capital Notes. Except in limited circumstances, holders of ANZ CPS do not have any right to vote in general meetings of the Company.

ANZ CAPITAL NOTES

- On 7 August 2013, the Company issued 11.2 million convertible notes ('ANZ CN1') at $100 each, raising $1,120 million before issue costs.
- On 31 March 2014, the Company issued 16.1 million convertible notes ('ANZ CN2') at $100 each, raising $1,610 million before issue costs.
- On 5 March 2015, the Company acting through it's New Zealand Branch, issued 9.7 million convertible notes ("ANZ CN3") at $100 each raising $970 million before issue costs.

The ANZ Capital Notes are fully paid mandatorily convertible subordinated perpetual notes. The notes are listed on the Australian Stock Exchange.

Distributions on the notes are non-cumulative and payable semi annual in arrears in March and September in each year and will be franked in line with the franking applied to ANZ ordinary shares. The distributions will be based on a floating rate equal to the aggregate of the 180 day bank bill rate plus a 340 basis point margin (ANZ CN1), a 325 basis point margin (ANZ CN2) and a 360 basis point margin (ANZCN3) multiplied by one minus the Australian company tax rate. Should the distribution not be fully-franked, the terms of the notes provide for a cash gross-up for the amount of the franking benefit not provided. Distributions are subject to the Company's absolute discretion and certain payment conditions being satisfied (including APRA requirements). If distributions are not paid on the notes, the Company may not pay dividends or distributions, or return capital, on ANZ ordinary shares for a specified period (subject to certain exceptions).

On 1 September 2023 (ANZ CN1), 24 March 2024 (ANZ CN2) or 24 March 2025 (ANZ CN3) (each conversion date), or an earlier date under certain circumstances, the relevant notes will mandatorily convert into a variable number of ANZ ordinary shares based on the average market price of ordinary shares less a 1% discount, subject to a maximum conversion number. The mandatory conversion to ANZ ordinary shares is however deferred for a specified period if the conversion tests are not met.

If a common equity capital trigger event or a non-viability trigger event occurs the notes will immediately convert into ANZ ordinary shares, subject to a maximum conversion number. A common equity capital trigger event occurs if ANZ's Common Equity Tier 1 capital ratio is equal to or less than 5.125%. A non-viability trigger event occurs if 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.

On 1 September 2021 (ANZ CN1), 24 March 2022 (ANZ CN2) or 24 March 2023 (ANZ CN3) subject to receiving APRA's prior approval and satisfying certain conditions, the Company has the right to redeem or convert into ANZ ordinary shares all or some of the notes at its discretion on similar terms as mandatory conversion on a conversion date.

The notes rank equally with each of the ANZ CPS. Holders of the notes do not have any right to vote in general meetings of the Company.

ANZ NZ CAPITAL NOTES

On 31 March 2015, ANZ Bank New Zealand Limited ('ANZ NZ') issued 500 million convertible notes ('ANZ NZ CN') at NZ$1 each, raising NZ$500 million before issue costs.

ANZ NZ CNs are fully paid, mandatorily convertible subordinated perpetual notes. In certain circumstances the notes convert into ANZ ordinary shares. The notes are listed on the New Zealand Stock Exchange.

Interest on the notes is non-cumulative and payable quarterly in arrears in February, May, August and November in each year. The interest rate is fixed at 7.2% per annum until 25 May 2020, and thereafter will be based on a floating rate equal to the aggregate of the New Zealand 3 month bank bill rate plus a 350 basis point margin. Interest payments are subject to ANZ NZ's absolute discretion and certain payment conditions being satisfied (including APRA and Reserve Bank of New Zealand ('RBNZ') requirements). If interest is not paid on the notes, ANZ NZ may not pay dividends or return capital on ANZ NZ ordinary shares for a specified period (subject to certain exceptions).

18: Subordinated Debt (continued)

On 25 May 2022 (conversion date), or an earlier date under certain circumstances, the notes will mandatorily convert into a variable number of ANZ ordinary shares based on the average market price of ANZ ordinary shares less a 1% discount, subject to a maximum conversion number. The mandatory conversion to ANZ ordinary shares is however deferred for a specified period if the conversion tests are not met.

If a common equity capital trigger event or an APRA or RBNZ non-viability trigger event occurs the notes will immediately convert into ANZ ordinary shares, subject to a maximum conversion number.

A common equity capital trigger event occurs if ANZ's or ANZ NZ's Common Equity Tier 1 capital ratio is equal to or less than 5.125%.

An APRA non-viability trigger event occurs if 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. An RBNZ non-viability trigger event occurs if 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.

On 25 May 2020, ANZ NZ has the right to, subject to satisfying certain conditions, redeem (subject to receiving APRA's and RBNZ's prior approval), or convert into ANZ ordinary shares, all or some of the notes at its discretion on similar terms as mandatory conversion on a conversion date.

Holders of the notes do not have any right to vote in general meetings of the Company.

CONVERTIBLE SUBORDINATED NOTES

- On 19 March 2014, the Company issued subordinated notes with a minimum denomination of USD200,000 and any integral multiple of USD1,000 above that raising USD800 million before issue costs. Interest is cumulative and payable semi-annually in arrears in March and September in each year and is based on a fixed rate of 4.5% per annum.
- On 25 June 2014, the Company issued 750,000 subordinated notes at $1,000 each raising $750 million before issue costs. Interest is cumulative and payable quarterly in arrears in March, June, September and December in each year and is based on a floating rate equal to the aggregate of the 90 day bank bill rate plus a 193 basis point margin.
- On 30 January 2015, the Company issued subordinated notes with a minimum denomination of CNY1,000,000 and any integral multiple of CNY10,000 above that raising CNY2,500 million before issue costs. Interest is cumulative and payable semi-annually in arrears in January and July in each year and is based on a fixed rate of 4.75% per annum.
- On 23 March 2015, the Company issued subordinated notes with a minimum denomination of SGD 250,000 and any integral multiple of SGD 250,000 above that raising SGD 500 million before issue costs. Interest is cumulative and payable semi-annually in arrears in March and September in each year and is based on a fixed rate of 3.75% per annum.
- On 13 May 2015, the Company issued subordinated notes with a minimum denomination of $200,000 and any integral multiple of $2,000 above that raising $200 million before issue costs. Interest is cumulative and payable annually in arrears in May each year and is based on a fixed rate of 4.75% per annum.

If 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, the notes will immediately convert into ANZ ordinary shares based on the average market price of ANZ ordinary shares less a 1% discount, subject to a maximum conversion number.

19: Financial Risk Management

STRATEGY IN USING FINANCIAL INSTRUMENTS

Financial instruments are fundamental to the Group's business, constituting the core element of its operations. Accordingly, the risks associated with financial instruments are a significant component of the risks faced by the Group. Financial instruments create, modify or reduce the credit, market (including traded and non-traded interest rate and foreign currency related risks) and liquidity risks of the Group's balance sheet. These risks, and the Group's objectives, policies and processes for managing and measuring such risks are outlined below.

Credit Risk

Credit risk is the risk of financial loss resulting from the failure of ANZ's customers and counterparties to honour or perform fully the terms of a loan or contract. The Group assumes credit risk in a wide range of lending and other activities in diverse markets and in many jurisdictions. Credit risks arise not only from traditional lending to customers, but also from inter-bank, treasury, international trade and capital market activities around the world.

The Group has an overall objective of sound growth for appropriate returns. The credit risk principles of the Group have been set by the Board and are implemented and monitored within a tiered structure of delegated authority designed to oversee multiple facets of credit risk, including business writing strategies, credit policies/controls, portfolio monitoring and risk concentrations.

Credit Risk Management Overview

The credit risk management framework ensures a consistent approach is applied across the Group in measuring, monitoring and managing the credit risk appetite set by the Board.

The Board is assisted and advised by the Board Risk Committee in discharging its duty to oversee credit risk. The Board Risk Committee sets the credit risk appetite and credit strategies, as well as approving credit transactions beyond the discretion of executive management.

Responsibility for the oversight and control of the credit risk framework (including the risk appetite) resides with the Credit and Market Risk Committee (CMRC), which is an executive management committee comprising senior risk, business and Group executives, chaired by the Chief Risk Officer (CRO).

Central to the Group's management of credit risk is the existence of an independent credit risk management function that is staffed by risk specialists. Independence is achieved by having all credit risk staff ultimately report to the CRO, including where they are embedded in business units. The primary responsibility for prudent and profitable management of credit risk and customer relationships rests with the business units.

19: Financial Risk Management (continued)

The authority to make credit decisions is delegated by the Board to the CEO who in turn delegates authority to the CRO. The CRO in turn delegates some of his credit discretion to individuals as part of a 'cascade' of authority from senior to the most junior credit officers. Individuals must be suitably skilled and accredited in order to be granted and retain a credit discretion. Credit discretions are reviewed on an annual basis, and may be varied based on the holder's performance.

The Group has two main approaches to assessing credit risk arising from transactions:

- the larger and more complex credit transactions are assessed on a judgemental credit basis. Rating models provide a consistent and structured assessment, with judgement required around the use of out-of-model factors. Credit approval for judgemental lending is typically on a dual approval basis, jointly by the business writer in the business unit and an independent credit officer; and
- programmed credit assessment typically covers retail and some small business lending, and refers to the automated assessment of credit applications using a combination of scoring (application and behavioural), policy rules and external credit reporting information. Where an application does not meet the automated assessment criteria it will be referred out for manual assessment, with assessors considering the decision tool recommendation.

Central and divisional credit risk teams perform key roles in portfolio management such as the development and validation of credit risk measurement systems, loan asset quality reporting, stress testing, and the development of credit policies and requirements. Credit policies and requirements cover all aspects of the credit life cycle such as transaction structuring, risk grading, initial approval, ongoing management and problem debt management, as well as specialist policy topics.

The Group's credit grading system is fundamental to the management of credit risk, seeking to measure the probability of default (PD), the exposure at default (EAD) and the loss in the event of default (LGD) for all transactions.

From an operational perspective, the Group's credit grading system has two separate and distinct dimensions that:

- measure the PD, which is expressed by a 27-grade Customer Credit Rating (CCR), reflecting the ability to service and repay debt. Within the programmed credit assessment sphere, the CCR is typically expressed as a score which maps back to the PD; and
- measure the LGD, which is expressed by a Security Indicator (SI) ranging from A to G. The SI is calculated by reference to the percentage of the loan covered by security which can be realised in the event of default. The security-related SIs are supplemented with a range of other SIs to cover situations where ANZ's LGD research indicates certain transaction characteristics have different recovery outcomes. Within the programmed credit assessment sphere, exposures are grouped into large homogenous pools – and the LGD is assigned at the pool level.

The development and regular validation of rating models is undertaken by specialist central risk teams. The outputs from these models drive many day-to-day credit decisions, such as origination, pricing, approval levels, regulatory capital adequacy, economic capital allocation and provisioning. The risk grading process includes monitoring of model-generated results to ensure appropriate judgement is exercised (such as overrides to take into account any out-of-model factors).

Collateral management

Collateral is used to mitigate credit risk, as the secondary source of repayment in case the counterparty cannot meet its contractual repayment obligations.

ANZ credit principles specify to only lend when the counterparty has the capacity and ability to repay, and the Group sets limits on the acceptable level of credit risk. Acceptance of credit risk is firstly based on the counterparty's assessed capacity to meet contractual obligations (such as the scheduled repayment of principal and interest).

In certain cases, such as where the customer risk profile is considered very sound or by the nature of the product (for instance, small limit products such as credit cards), a transaction may not be supported by collateral. For some products, the collateral provided is fundamental to its structuring so is not strictly the secondary source of repayment. For example, lending secured by trade receivables is typically repaid by the collection of those receivables.

The most common types of collateral typically taken by ANZ include:

- collateral received in respect of derivative trading
- charges over cash deposits;
- security over real estate including residential, commercial, industrial or rural property; and
- other security includes charges over business assets, security over specific plant and equipment, charges over listed shares, bonds or securities and guarantees and pledges.

Credit policy requirements set out the acceptable types of collateral, as well as a process by which additional instruments and/or asset types can be considered for approval. ANZ's credit risk modelling approach uses historical internal loss data and other relevant external data to assist in determining the discount that each type of collateral would be expected to incur in a forced sale. This discounted value is used in the determination of the SI for LGD purposes.

In the event of customer default, any loan security is usually held as mortgagee in possession while the Group is actively seeking to realise it. Therefore the Group does not usually hold any real estate or other assets acquired through the enforcement of security.

The Group generally uses Master Agreements with its counterparties for derivatives activities. Generally, International Swaps and Derivatives Association (ISDA) Master Agreements will be used. Under the ISDA Master Agreement, if a default of a counterparty occurs, all contracts with the counterparty are terminated. They are then settled on a net basis at market levels current at the time of default.

In addition to the terms noted above, ANZ's preferred practice is to use a Credit Support Annex (CSA) to the ISDA Master Agreement. Under a CSA, 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 that is out of the money. Upon termination of the trade, payment is required only for the final daily mark-to-market movement rather than the mark-to-market movement since inception.

19: Financial Risk Management (continued)

Concentrations of credit risk

Concentrations of credit risk arise when a number of customers are engaged in similar business activities or activities within the same geographic region, or when they have similar risk characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

The Group monitors its portfolios, to identify and assess risk concentrations. The Group's strategy is to maintain well-diversified credit portfolios focused on achieving an acceptable risk-return balance. Credit risk portfolios are actively monitored and frequently reviewed to identify, assess and guard against unacceptable risk concentrations. Concentration analysis will typically include geography, industry, credit product and risk grade. The Group also applies single customer counterparty limits to protect against unacceptably large exposures to single name risk. These limits are established based on a combination of factors including the nature of counterparty, probability of default and collateral provided.

Concentrations of credit risk analysis

Composition of financial instruments that give rise to credit risk by industry:

	Cash, settlement balances owed to ANZ and collateral paid		Trading securities and AFS[1]		Derivatives		Loans and advances[2]		Other financial assets[3]		Credit related commitments[4]		Total	
Consolidated	2015 $m	2014 $m	2015 $m	2014 $m	2015 $m	2014 $m	2015 $m	2014 $m	2015 $m	2014 $m	2015 $m	2014 $m	2015 $m	2014 $m
Australia														
Agriculture, forestry, fishing and mining	–	21	60	21	691	225	15,192	13,970	119	95	9,713	10,753	25,775	25,085
Business services	4	12	–	3	108	46	6,254	5,658	49	38	3,365	3,679	9,780	9,436
Construction	–	–	23	3	20	94	5,516	5,688	43	38	4,568	4,353	10,170	10,176
Electricity, gas and water supply	–	–	99	237	837	692	3,462	4,000	27	27	2,388	2,895	6,813	7,851
Entertainment, leisure and tourism	–	–	37	1	323	89	8,908	8,087	70	55	2,494	2,751	11,832	10,983
Financial, investment and insurance	21,885	18,927	18,722	19,115	49,733	38,387	22,061	14,351	174	98	6,757	7,521	119,332	98,399
Government and official institutions	130	135	32,305	25,595	685	241	707	541	6	4	2,081	298	35,914	26,814
Manufacturing	4	4	1,382	1,528	2,535	1,057	6,844	7,129	54	48	7,815	7,537	18,634	17,303
Personal lending	–	–	–	–	–	–	252,242	231,807	1,983	1,569	48,282	44,950	302,507	278,326
Property services	–	–	79	48	677	433	27,034	26,234	212	178	10,199	11,774	38,201	38,667
Retail trade	2	2	50	6	221	153	11,273	10,225	89	69	3,639	4,645	15,274	15,100
Transport and storage	2	–	181	70	951	368	7,052	7,386	55	50	4,145	3,943	12,386	11,817
Wholesale trade	354	183	12	7	1,520	702	6,287	6,320	49	42	8,212	4,867	16,434	12,121
Other	30	21	251	208	453	258	10,397	9,426	82	64	5,878	5,501	17,091	15,478
	22,411	19,305	53,201	46,842	58,754	42,745	383,229	350,822	3,012	2,375	119,536	115,467	640,143	577,556
New Zealand														
Agriculture, forestry, fishing and mining	–	–	–	–	61	15	17,554	16,475	108	88	1,749	1,831	19,472	18,409
Business services	–	–	–	–	5	4	996	1,010	6	5	380	383	1,387	1,402
Construction	–	–	–	–	11	–	1,222	1,085	7	6	713	659	1,953	1,750
Electricity, gas and water supply	–	–	37	30	430	317	1,122	945	7	5	1,079	1,179	2,675	2,476
Entertainment, leisure and tourism	–	–	–	–	43	22	972	916	6	5	243	219	1,264	1,162
Financial, investment and insurance	2,217	1,444	6,322	4,925	10,118	5,627	1,132	865	9	4	874	688	20,672	13,553
Government and official institutions	1,679	1,167	5,884	6,111	1,216	562	1,052	1,120	6	6	664	665	10,501	9,631
Manufacturing	–	–	28	22	379	158	3,155	2,702	19	14	1,597	1,635	5,178	4,531
Personal lending	–	–	–	–	–	–	63,067	56,993	387	304	12,534	10,499	75,988	67,796
Property services	–	–	1	–	16	11	8,836	7,464	54	40	1,399	1,354	10,306	8,869
Retail trade	–	–	–	–	16	18	1,827	1,810	11	10	827	808	2,681	2,646
Transport and storage	–	–	5	11	55	28	1,489	1,323	9	7	688	670	2,246	2,039
Wholesale trade	–	–	–	–	15	13	1,334	1,233	8	7	1,132	1,160	2,489	2,413
Other	–	–	52	61	40	49	670	692	4	4	1,042	911	1,808	1,717
	3,896	2,611	12,329	11,160	12,405	6,824	104,428	94,633	641	505	24,921	22,661	158,620	138,394

1 Available–for–sale assets.
2 Excludes individual and collective provisions for credit impairment held in respect of credit related commitments, and includes Esanda dealer finance assets classified as held for sale.
3 Mainly comprises regulatory deposits, investments backing policy liabilities and accrued interest.
4 Credit related commitments comprise undrawn facilities and customer contingent liabilities.

19: Financial Risk Management (continued)

Concentrations of credit risk analysis (continued):

Composition of financial instruments that give rise to credit risk by industry (continued):

Consolidated	Cash, settlement balances owed to ANZ and collateral paid 2015 $m	2014 $m	Trading securities and AFS[1] 2015 $m	2014 $m	Derivatives 2015 $m	2014 $m	Loans and advances[2] 2015 $m	2014 $m	Other financial assets[3] 2015 $m	2014 $m	Credit related commitments[4] 2015 $m	2014 $m	Total 2015 $m	2014 $m
Overseas Markets														
Agriculture, forestry, fishing and mining	3	1	43	10	94	137	5,659	4,385	166	118	9,326	6,883	15,291	11,534
Business services	5	5	–	–	15	5	1,331	955	39	26	4,988	3,251	6,378	4,242
Construction	2	3	1	–	27	17	716	623	21	17	3,637	3,355	4,404	4,015
Electricity, gas and water supply	35	–	60	128	56	57	3,520	2,732	103	74	2,600	2,595	6,374	5,586
Entertainment, leisure and tourism	–	3	–	–	16	7	1,382	1,107	40	30	853	337	2,291	1,484
Financial, investment and insurance	54,079	34,741	17,666	14,717	12,661	5,926	13,534	19,658	397	530	13,703	10,986	112,040	86,558
Government and official institutions	1	4	8,083	6,445	281	59	475	524	14	14	928	869	9,782	7,915
Manufacturing	230	60	107	204	611	220	18,831	16,004	553	432	43,000	34,211	63,332	51,131
Personal lending	2	5	–	–	–	–	12,867	10,070	377	269	8,782	7,448	22,028	17,792
Property services	1	1	8	90	112	97	5,303	4,550	155	123	2,495	2,117	8,074	6,978
Retail trade	1	–	26	42	21	18	2,344	1,475	69	40	3,597	1,330	6,058	2,905
Transport and storage	–	1	87	107	81	31	4,679	3,796	137	102	2,575	1,506	7,559	5,543
Wholesale trade	64	28	60	30	437	186	12,084	11,332	354	306	27,006	18,786	40,005	30,668
Other	20	4	945	797	54	40	3,359	2,868	98	77	3,182	2,257	7,658	6,043
	54,443	34,856	27,086	22,570	14,466	6,800	86,084	80,079	2,523	2,158	126,672	95,931	311,274	242,394
Consolidated – aggregate														
Agriculture, forestry, fishing and mining	3	22	103	31	846	377	38,405	34,830	393	301	20,788	19,467	60,538	55,028
Business services	9	17	–	3	128	55	8,581	7,623	94	69	8,733	7,313	17,545	15,080
Construction	2	3	24	3	58	111	7,454	7,396	71	61	8,918	8,367	16,527	15,941
Electricity, gas and water supply	35	–	196	395	1,323	1,066	8,104	7,677	137	106	6,067	6,669	15,862	15,913
Entertainment, leisure and tourism	–	3	37	1	382	118	11,262	10,110	116	90	3,590	3,307	15,387	13,629
Financial, investment and insurance	78,181	55,112	42,710	38,757	72,512	49,940	36,727	34,874	580	632	21,334	19,195	252,044	198,510
Government and official institutions	1,810	1,306	46,272	38,151	2,182	862	2,234	2,185	26	24	3,673	1,832	56,197	44,360
Manufacturing	234	64	1,517	1,754	3,525	1,435	28,830	25,835	626	494	52,412	43,383	87,144	72,965
Personal lending	2	5	–	–	–	–	328,176	298,870	2,747	2,142	69,598	62,897	400,523	363,914
Property services	1	1	88	138	805	541	41,173	38,248	421	341	14,093	15,245	56,581	54,514
Retail trade	3	2	76	48	258	189	15,444	13,510	169	119	8,063	6,783	24,013	20,651
Transport and storage	2	1	273	188	1,087	427	13,220	12,505	201	159	7,408	6,119	22,191	19,399
Wholesale trade	418	211	72	37	1,972	901	19,705	18,885	411	355	36,350	24,813	58,928	45,202
Other	50	25	1,248	1,066	547	347	14,426	12,986	184	145	10,102	8,669	26,557	23,238
Gross Total	80,750	56,772	92,616	80,572	85,625	56,369	573,741	525,534	6,176	5,038	271,129	234,059	1,110,037	958,344
Individual provision for credit impairment	–	–	–	–	–	–	(1,038)	(1,130)	–	–	(23)	(46)	(1,061)	(1,176)
Collective provision for credit impairment	–	–	–	–	–	–	(2,279)	(2,144)	–	–	(677)	(613)	(2,956)	(2,757)
	80,750	56,772	92,616	80,572	85,625	56,369	570,424	522,260	6,176	5,038	270,429	233,400	1,106,020	954,411
Unearned income	–	–	–	–	–	–	(739)	(892)	–	–	–	–	(739)	(892)
Capitalised brokerage/ mortgage origination fees	–	–	–	–	–	–	1,253	1,043	–	–	–	–	1,253	1,043
	80,750	56,772	92,616	80,572	85,625	56,369	570,938	522,411	6,176	5,038	270,429	233,400	1,106,534	954,562
Excluded from analysis above[5]	1,716	1,487	51	37	–	–	–	–	34,820	33,579	–	–	36,587	35,103
Net Total	82,466	58,259	92,667	80,609	85,625	56,369	570,938	522,411	40,996	38,617	270,429	233,400	1,143,121	989,665

1 Available–for–sale assets.
2 Excludes individual and collective provisions for credit impairment held in respect of credit related commitments, and includes Esanda dealer finance assets classified as held for sale.
3 Mainly comprises regulatory deposits, investments backing policy liabilities and accrued interest.
4 Credit related commitments comprise undrawn facilities and customer contingent liabilities.
5 Comprises bank notes and cash at bank within cash, equity instruments within available-for-sale financial assets and investments relating to the insurance business where the credit risk is passed on to the policy holder.

19: Financial Risk Management (continued)

Concentrations of credit risk analysis (continued):

Composition of financial instruments that give rise to credit risk by industry (continued):

	Cash, settlement balances owed to ANZ and collateral paid		Trading securities and AFS[1]		Derivatives		Loans and advances[2]		Other financial assets[3]		Credit related commitments[4]		Total	
The Company	2015 $m	2014 $m	2015 $m	2014 $m	2015 $m	2014 $m	2015 $m	2014 $m	2015 $m	2014 $m	2015 $m	2014 $m	2015 $m	2014 $m
Australia														
Agriculture, forestry, fishing and mining	–	21	59	21	691	225	15,185	13,854	79	56	9,573	10,525	25,587	24,702
Business services	4	12	–	3	108	46	6,254	5,654	32	23	3,340	3,625	9,738	9,363
Construction	–	–	23	3	20	94	5,516	5,688	29	23	4,537	4,266	10,125	10,074
Electricity, gas and water supply	–	–	99	132	837	692	3,455	3,988	18	16	2,266	2,836	6,675	7,664
Entertainment, leisure and tourism	–	–	37	1	323	89	8,888	8,061	46	33	2,494	2,695	11,788	10,879
Financial, investment and insurance[5]	22,601	20,481	18,547	20,577	59,663	44,627	22,086	14,464	115	58	6,499	9,671	129,511	109,878
Government and official institutions	130	135	32,008	25,599	685	241	706	539	4	2	2,081	292	35,614	26,808
Manufacturing	4	4	1,369	1,528	2,535	1,057	6,844	7,129	36	29	7,333	7,387	18,121	17,134
Personal lending	–	–	–	–	–	–	251,707	231,114	1,306	931	48,282	44,038	301,295	276,083
Property services	–	–	78	48	677	433	26,991	26,171	140	106	10,194	11,535	38,080	38,293
Retail trade	2	2	50	6	221	153	11,269	10,211	59	41	3,567	4,559	15,168	14,972
Transport and storage	2	–	180	70	951	368	7,052	7,386	37	30	4,114	3,871	12,336	11,725
Wholesale trade	354	183	12	7	1,520	702	6,287	6,320	33	25	7,544	4,770	15,750	12,007
Other	30	21	248	208	453	258	10,374	9,396	54	38	5,693	5,389	16,852	15,310
	23,127	20,859	52,710	48,203	68,684	48,985	382,614	349,975	1,988	1,411	117,517	115,459	646,640	584,892
New Zealand														
Agriculture, forestry, fishing and mining	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Business services	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Construction	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Electricity, gas and water supply	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Entertainment, leisure and tourism	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Financial, investment and insurance[5]	–	–	–	–	64	9	–	–	–	–	–	–	64	9
Government and official institutions	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Manufacturing	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Personal lending	–	–	–	–	–	–	7,289	8,193	–	–	19	29	7,308	8,222
Property services	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Retail trade	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Transport and storage	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Wholesale trade	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Other	–	–	–	–	–	–	–	–	–	–	1	–	1	–
	–	–	–	–	64	9	7,289	8,193	–	–	20	29	7,373	8,231

1 Available–for–sale assets.
2 Excludes individual and collective provisions for credit impairment held in respect of credit related commitments, and includes Esanda dealer finance assets classified as held for sale.
3 Mainly comprises regulatory deposits, investments backing policy liabilities and accrued interest.
4 Credit related commitments comprise undrawn facilities and customer contingent liabilities.
5 Includes amounts due from other Group entities.

19: Financial Risk Management (continued)

Concentrations of credit risk analysis (continued):

Composition of financial instruments that give rise to credit risk by industry (continued):

The Company	Cash, settlement balances owed to ANZ and collateral paid 2015 $m	Cash, settlement balances owed to ANZ and collateral paid 2014 $m	Trading securities and AFS[1] 2015 $m	Trading securities and AFS[1] 2014 $m	Derivatives 2015 $m	Derivatives 2014 $m	Loans and advances[2] 2015 $m	Loans and advances[2] 2014 $m	Other financial assets[3] 2015 $m	Other financial assets[3] 2014 $m	Credit related commitments[4] 2015 $m	Credit related commitments[4] 2014 $m	Total 2015 $m	Total 2014 $m
Overseas Markets														
Agriculture, forestry, fishing and mining	–	1	42	8	47	83	4,839	3,829	84	50	8,174	6,025	13,186	9,996
Business services	5	2	–	–	7	3	1,073	770	19	10	4,436	2,697	5,540	3,482
Construction	2	3	1	–	14	10	519	432	9	6	3,047	3,147	3,592	3,598
Electricity, gas and water supply	34	–	28	83	20	28	2,948	2,309	51	30	2,170	2,250	5,251	4,700
Entertainment, leisure and tourism	–	–	–	–	8	4	1,165	874	20	11	677	243	1,870	1,132
Financial, investment and insurance[5]	51,586	31,770	15,566	11,427	6,216	3,455	9,687	16,616	168	219	11,785	9,050	95,008	72,537
Government and official institutions	1	1	5,586	3,474	145	36	446	417	8	5	919	820	7,105	4,753
Manufacturing	193	21	17	95	216	91	11,050	9,597	191	125	31,817	24,736	43,484	34,665
Personal lending	1	–	–	–	–	–	7,581	5,876	131	77	4,351	3,764	12,064	9,717
Property services	–	1	7	79	58	54	4,519	3,636	78	48	2,142	1,726	6,804	5,544
Retail trade	1	–	7	18	10	11	1,570	855	27	11	1,216	769	2,831	1,664
Transport and storage	–	1	84	93	27	18	3,832	3,008	66	39	1,947	1,036	5,956	4,195
Wholesale trade	37	11	24	3	155	73	9,505	9,366	165	122	22,672	15,402	32,558	24,977
Other	20	3	883	695	23	22	2,386	2,144	41	28	2,650	1,748	6,003	4,640
	51,880	31,814	22,245	15,975	6,946	3,888	61,120	59,729	1,058	781	98,003	73,413	241,252	185,560
The Company – aggregate														
Agriculture, forestry, fishing and mining	–	22	101	29	738	308	20,024	17,683	163	106	17,747	16,550	38,773	34,698
Business services	9	14	–	3	115	49	7,327	6,424	51	33	7,776	6,322	15,278	12,845
Construction	2	3	24	3	34	104	6,035	6,120	38	29	7,584	7,413	13,717	13,672
Electricity, gas and water supply	34	–	127	215	857	720	6,403	6,297	69	46	4,436	5,086	11,926	12,364
Entertainment, leisure and tourism	–	–	37	1	331	93	10,053	8,935	66	44	3,171	2,938	13,658	12,011
Financial, investment and insurance[5]	74,187	52,251	34,113	32,004	65,943	48,091	31,773	31,080	283	277	18,284	18,721	224,583	182,424
Government and official institutions	131	136	37,594	29,073	830	277	1,152	956	12	7	3,000	1,112	42,719	31,561
Manufacturing	197	25	1,386	1,623	2,751	1,148	17,894	16,726	227	154	39,150	32,123	61,605	51,799
Personal lending	1	–	–	–	–	–	266,577	245,183	1,437	1,008	52,652	47,831	320,667	294,022
Property services	–	1	85	127	735	487	31,510	29,807	218	154	12,336	13,261	44,884	43,837
Retail trade	3	2	57	24	231	164	12,839	11,066	86	52	4,783	5,328	17,999	16,636
Transport and storage	2	1	264	163	978	386	10,884	10,394	103	69	6,061	4,907	18,292	15,920
Wholesale trade	391	194	36	10	1,675	775	15,792	15,686	198	147	30,216	20,172	48,308	36,984
Other	50	24	1,131	903	476	280	12,760	11,540	95	66	8,344	7,137	22,856	19,950
Gross Total	75,007	52,673	74,955	64,178	75,694	52,882	451,023	417,897	3,046	2,192	215,540	188,901	895,265	778,723
Individual provision for credit impairment	–	–	–	–	–	–	(740)	(814)	–	–	(19)	(40)	(759)	(854)
Collective provision for credit impairment	–	–	–	–	–	–	(1,765)	(1,669)	–	–	(557)	(488)	(2,322)	(2,157)
	75,007	52,673	74,955	64,178	75,694	52,882	448,518	415,414	3,046	2,192	214,964	188,373	892,184	775,712
Unearned income	–	–	–	–	–	–	(438)	(657)	–	–	–	–	(438)	(657)
Capitalised brokerage/ mortgage origination fees	–	–	–	–	–	–	944	837	–	–	–	–	944	837
	75,007	52,673	74,955	64,178	75,694	52,882	449,024	415,594	3,046	2,192	214,964	188,373	892,690	775,892
Excluded from analysis above[6]	1,045	1,005	30	22	–	–	–	–	–	–	–	–	1,075	1,027
Net total	76,052	53,678	74,985	64,200	75,694	52,882	449,024	415,594	3,046	2,192	214,964	188,373	893,765	776,919

1 Available–for–sale assets.
2 Excludes individual and collective provisions for credit impairment held in respect of credit related commitments, and includes Esanda dealer finance assets classified as held for sale.
3 Mainly comprises regulatory deposits, investments backing policy liabilities and accrued interest.
4 Credit related commitments comprise undrawn facilities and customer contingent liabilities.
5 Includes amounts due from other Group entities.
6 Comprises bank notes and cash at bank within cash and equity instruments within available-for-sale financial assets.

19: Financial Risk Management (continued)

Credit quality

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 investments which are primarily subject to market risk, or bank notes and coins. For contingent exposures, the maximum exposure to credit risk is the maximum amount the Group would have to pay if the instrument is called upon. For undrawn facilities, the maximum exposure to credit risk is the full amount of the committed facilities.

The following tables present the maximum exposure to credit risk of on-balance sheet and off-balance sheet financial assets before taking account of any collateral held or other credit enhancements.

	Reported on Balance Sheet		Excluded[1]		Maximum exposure to credit risk	
Consolidated	2015 $m	2014 $m	2015 $m	2014 $m	2015 $m	2014 $m
On-balance sheet positions						
Cash	53,903	32,559	1,716	1,487	52,187	31,072
Settlement balances owed to ANZ	18,596	20,241	–	–	18,596	20,241
Collateral paid	9,967	5,459	–	–	9,967	5,459
Trading securities	49,000	49,692	–	–	49,000	49,692
Derivative financial instruments[2]	85,625	56,369	–	–	85,625	56,369
Available-for-sale assets	43,667	30,917	51	37	43,616	30,880
Net loans and advances[3]						
– Australia	313,164	287,350	–	–	313,164	287,350
– International and Institutional Banking	154,741	141,986	–	–	154,741	141,986
– New Zealand	95,211	86,063	–	–	95,211	86,063
– Global Wealth	7,122	6,353	–	–	7,122	6,353
Regulatory deposits	1,773	1,565	–	–	1,773	1,565
Investments backing policy liabilities	34,820	33,579	34,820	33,579	–	–
Other financial assets[4]	4,403	3,473	–	–	4,403	3,473
	871,992	755,606	36,587	35,103	835,405	720,103
Off-balance sheet positions						
Undrawn facilities	230,794	193,984	–	–	230,794	193,984
Contingent facilities	40,335	40,075	–	–	40,335	40,075
	271,129	234,059	–	–	271,129	234,059
Total	1,143,121	989,665	36,587	35,103	1,106,534	954,162

	Reported on balance Sheet		Excluded[1]		Maximum exposure to credit risk	
The Company	2015 $m	2014 $m	2015 $m	2014 $m	2015 $m	2014 $m
On-balance sheet positions						
Cash	51,217	30,655	1,045	1,005	50,172	29,650
Settlement balances owed to ANZ	16,601	18,150	–	–	16,601	18,150
Collateral paid	8,234	4,873	–	–	8,234	4,873
Trading securities	37,373	38,049	–	–	37,373	38,049
Derivative financial instruments[2]	75,694	52,882	–	–	75,694	52,882
Available-for-sale assets	37,612	26,151	30	22	37,582	26,129
Net loans and advances[3]	448,448	415,066	–	–	448,448	415,066
Regulatory deposits	557	434	–	–	557	434
Other financial assets[4]	2,489	1,758	–	–	2,489	1,758
	678,225	588,018	1,075	1,027	677,150	586,991
Off-balance sheet positions						
Undrawn facilities	180,847	153,985	–	–	180,847	153,985
Contingent facilities	34,693	34,916	–	–	34,693	34,916
	215,540	188,901	–	–	215,540	188,901
Total	893,765	776,919	1,075	1,027	892,690	775,892

1 Includes bank notes and coins and cash at bank within cash, equity instruments within available-for-sale financial assets and investments relating to the insurance business where the credit risk is passed onto the policy holder.
2 Derivative financial instruments are net of credit valuation adjustments.
3 Includes individual and collective provisions for credit impairment held in respect of credit related commitments, and includes Esanda dealer finance assets classified as held for sale.
4 Mainly comprises accrued interest.

19: Financial Risk Management (continued)

Distribution of financial assets by credit quality

The Group has a comprehensive rating system that is used to quantify credit risk. The use of masterscales ensures consistency across exposure types at the Group, providing a consistent framework for reporting and analysis.

All customers with whom ANZ has a credit relationship, including guarantors, are assigned a Customer Credit Rating (CCR) or score at origination either by programmed credit assessment or by judgemental assessment. In addition, the CCR or score is reviewed on an ongoing basis to ensure it accurately reflects the credit risk of the customer and the prevailing economic conditions.

The Group's risk grade profile therefore changes dynamically through new lending, repayment and/or existing counterparty movements in either risk or volume.

Restructured items

Restructured items are facilities in which the original contractual terms have been modified for reasons related to the financial difficulties of the customer. Restructuring may consist of reduction of interest, principal or other payments legally due or an extension in maturity materially beyond those typically offered to new facilities with similar risk.

	Neither past due nor impaired		Past due but not impaired		Restructured		Impaired		Total	
Consolidated	**2015 $m**	**2014 $m**	**2015 $m**	**2014 $m**	**2015 $m**	**2014 $m**	**2015 $m**	**2014 $m**	**2015 $m**	**2014 $m**
Cash	52,187	31,072	–	–	–	–	–	–	52,187	31,072
Settlement balances owed to ANZ	18,596	20,241	–	–	–	–	–	–	18,596	20,241
Collateral paid	9,967	5,459	–	–	–	–	–	–	9,967	5,459
Trading securities	49,000	49,692	–	–	–	–	–	–	49,000	49,692
Derivative financial instruments[1]	85,588	56,332	–	–	–	–	37	37	85,625	56,369
Available-for-sale assets	43,616	30,880	–	–	–	–	–	–	43,616	30,880
Net loans and advances[2]										
– Australia	302,307	277,325	10,485	9,626	5	–	586	607	313,383	287,558
– International and Institutional Banking	153,735	141,071	623	623	166	53	631	624	155,155	142,371
– New Zealand	93,342	83,885	1,739	1,912	13	14	182	315	95,276	86,126
– Global Wealth	7,009	6,259	111	91	–	–	4	6	7,124	6,356
Regulatory deposits	1,773	1,565	–	–	–	–	–	–	1,773	1,565
Other financial assets[3]	4,403	3,473	–	–	–	–	–	–	4,403	3,473
Credit related commitments[4]	270,395	233,343	–	–	–	–	34	57	270,429	233,400
Total	1,091,918	940,597	12,958	12,252	184	67	1,474	1,646	1,106,534	954,562

	Neither past due nor impaired		Past due but not impaired		Restructured		Impaired		Total	
The Company	**2015 $m**	**2014 $m**	**2015 $m**	**2014 $m**	**2015 $m**	**2014 $m**	**2015 $m**	**2014 $m**	**2015 $m**	**2014 $m**
Cash	50,172	29,650	–	–	–	–	–	–	50,172	29,650
Settlement balances owed to ANZ	16,601	18,150	–	–	–	–	–	–	16,601	18,150
Collateral paid	8,234	4,873	–	–	–	–	–	–	8,234	4,873
Trading securities	37,373	38,049	–	–	–	–	–	–	37,373	38,049
Derivative financial instruments[1]	75,657	52,845	–	–	–	–	37	37	75,694	52,882
Available-for-sale assets	37,582	26,129	–	–	–	–	–	–	37,582	26,129
Net loans and advances[2]	437,153	404,611	10,943	9,849	94	26	834	1,108	449,024	415,594
Regulatory deposits	557	434	–	–	–	–	–	–	557	434
Other financial assets[3]	2,489	1,758	–	–	–	–	–	–	2,489	1,758
Credit related commitments[4]	214,940	188,344	–	–	–	–	24	29	214,964	188,373
Total	880,758	764,843	10,943	9,849	94	26	895	1,174	892,690	775,892

1 Derivative financial instruments are net of credit valuation adjustments.
2 Includes Esanda dealer finance assets classified as held for sale. Individual and collective provisions for credit impairment held in respect of credit related commitments have been reallocated to credit related commitments in this table.
3 Mainly comprises accrued interest.
4 Credit related commitments comprise undrawn facilities and customer contingent liabilities net of collective and individual provisions.

19: Financial Risk Management (continued)

Credit quality of financial assets neither past due nor impaired

The credit quality of financial assets is managed by the Group using internal CCRs based on their current probability of default. The Group's masterscales are mapped to external rating agency scales, to enable wider comparisons.

Internal rating	
Strong credit profile	Customers that have demonstrated superior stability in their operating and financial performance over the long-term, and whose debt servicing capacity is not significantly vulnerable to foreseeable events. This rating broadly corresponds to ratings 'Aaa' to 'Baa3' and 'AAA' to 'BBB-' of Moody's and Standard & Poor's respectively.
Satisfactory risk	Customers that have consistently 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. This rating broadly corresponds to ratings 'Ba2' to 'Ba3' and 'BB' to 'BB-' of Moody's and Standard & Poor's respectively.
Sub-standard but not past due or impaired	Customers that have demonstrated some operational and financial instability, with variability and uncertainty in profitability and liquidity projected to continue over the short and possibly medium term. This rating broadly corresponds to ratings 'B1' to 'Caa' and 'B+' to 'CCC' of Moody's and Standard & Poor's respectively.

	Strong credit profile		Satisfactory risk		Sub-standard but not past due or impaired		Total	
Consolidated	2015 $m	2014 $m	2015 $m	2014 $m	2015 $m	2014 $m	2015 $m	2014 $m
Cash	52,139	30,907	48	148	–	17	52,187	31,072
Settlement balances owed to ANZ	17,845	19,671	665	422	86	148	18,596	20,241
Collateral paid	9,957	5,417	6	42	4	–	9,967	5,459
Trading securities	48,898	49,372	79	296	23	24	49,000	49,692
Derivative financial instruments[1]	84,074	55,390	1,351	831	163	111	85,588	56,332
Available-for-sale assets	42,097	29,319	1,519	1,530	–	31	43,616	30,880
Net loans and advances[2]								
– Australia	227,465	208,070	60,154	55,771	14,688	13,484	302,307	277,325
– International and Institutional Banking	125,603	115,138	25,163	23,875	2,969	2,058	153,735	141,071
– New Zealand	65,563	58,167	25,602	23,857	2,177	1,861	93,342	83,885
– Global Wealth	4,941	4,112	1,903	2,122	165	25	7,009	6,259
Regulatory deposits	1,083	1,010	657	509	33	46	1,773	1,565
Other financial assets[3]	3,948	3,104	404	319	51	50	4,403	3,473
Credit related commitments[4]	220,815	196,558	46,681	34,425	2,899	2,360	270,395	233,343
Total	904,428	776,235	164,232	144,147	23,258	20,215	1,091,918	940,597

	Strong credit profile		Satisfactory risk		Sub-standard but not past due or impaired		Total	
The Company	2015 $m	2014 $m	2015 $m	2014 $m	2015 $m	2014 $m	2015 $m	2014 $m
Cash	50,126	29,612	46	38	–	–	50,172	29,650
Settlement balances owed to ANZ	16,253	17,937	277	90	71	123	16,601	18,150
Collateral paid	8,224	4,831	6	42	4	–	8,234	4,873
Trading securities	37,322	37,928	28	98	23	23	37,373	38,049
Derivative financial instruments[1]	74,394	52,741	1,114	73	149	31	75,657	52,845
Available-for-sale assets	37,567	25,331	15	692	–	106	37,582	26,129
Net loans and advances[2]	339,549	313,681	80,488	75,964	17,116	14,966	437,153	404,611
Regulatory deposits	393	300	145	118	19	16	557	434
Other financial assets[3]	2,159	1,520	293	201	37	37	2,489	1,758
Credit related commitments[4]	177,997	162,260	35,132	24,159	2,485	1,925	215,614	188,344
Total	743,984	646,141	117,544	101,475	19,904	17,227	881,432	764,843

1 Derivative financial instruments are net of credit valuation adjustments.
2 Includes Esanda dealer finance assets classified as held for sale. Individual and collective provisions for credit impairment held in respect of credit related commitments have been reallocated to credit related commitments in this table.
3 Mainly comprises accrued interest.
4 Credit related commitments comprise undrawn facilities and customer contingent liabilities net of collective and individual provisions.

19: Financial Risk Management (continued)

Ageing analysis of financial assets that are past due but not impaired

Ageing analysis of past due loans is used by the Group to measure and manage emerging credit risks. Financial assets that are past due but not impaired include those which are assessed, approved and managed on a portfolio basis within a centralised environment (for example credit cards and personal loans) that can be held on a productive basis until they are 180 days past due, as well as those which are managed on an individual basis.

A large portion of retail credit exposures, such as residential mortgages, are generally well secured. That is, the value of associated security is sufficient to cover amounts outstanding.

	Consolidated						The Company					
As at 30 Sep 15	1–5 days $m	6–29 days $m	30–59 days $m	60–89 days $m	>90 days $m	Total $m	1–5 days $m	6–29 days $m	30–59 days $m	60–89 days $m	>90 days $m	Total $m
Net loans and advances[1]												
– Australia	1,813	4,359	1,426	813	2,074	10,485	1,831	4,646	1,461	878	2,127	10,943
– International and Institutional Banking	14	387	8	117	97	623	–	–	–	–	–	–
– New Zealand	781	407	235	115	201	1,739	–	–	–	–	–	–
– Global Wealth	13	82	5	5	6	111	–	–	–	–	–	–
Total	2,621	5,235	1,674	1,050	2,378	12,958	1,831	4,646	1,461	878	2,127	10,943

	Consolidated						The Company					
As at 30 Sep 14	1–5 days $m	6–29 days $m	30–59 days $m	60–89 days $m	>90 days $m	Total $m	1–5 days $m	6–29 days $m	30–59 days $m	60–89 days $m	>90 days $m	Total $m
Net loans and advances[1]												
– Australia	2,119	3,701	1,335	743	1,728	9,626	2,141	3,805	1,366	759	1,778	9,849
– International and Institutional Banking	52	383	1	91	96	623	–	–	–	–	–	–
– New Zealand	893	442	287	136	154	1,912	–	–	–	–	–	–
– Global Wealth	18	33	1	35	4	91	–	–	–	–	–	–
Total	3,082	4,559	1,624	1,005	1,982	12,252	2,141	3,805	1,366	759	1,778	9,849

1 Includes Esanda dealer finance assets classified as held for sale. Individual and collective provisions for credit impairment held in respect of credit related commitments have been reallocated to credit related commitments in this table.

Estimated value of collateral for all financial assets

	Total value of collateral		Credit exposure		Unsecured portion of credit exposure	
Consolidated	2015 $m	2014 $m	2015 $m	2014 $m	2015 $m	2014 $m
Cash	11,770	13,711	52,187	31,072	40,417	17,361
Settlement balances owed to ANZ	300	184	18,596	20,241	18,296	20,057
Collateral paid	–	–	9,967	5,459	9,967	5,459
Trading securities	1,081	991	49,000	49,692	47,919	48,701
Derivative financial instruments	7,829	5,599	85,625	56,369	77,796	50,770
Available-for-sale assets	1,603	887	43,616	30,880	42,013	29,993
Net loans and advances[1,2]						
– Australia	283,392	258,854	313,383	287,558	29,991	28,704
– International and Institutional Banking	53,887	46,162	155,155	142,371	101,268	96,209
– New Zealand	89,033	80,323	95,276	86,126	6,243	5,803
– Global Wealth	6,421	5,415	7,124	6,356	703	941
Regulatory deposits	–	–	1,773	1,565	1,773	1,565
Other financial assets[3]	1,351	1,308	4,403	3,473	3,052	2,165
Credit related commitments[4]	50,401	49,014	270,429	233,400	220,028	184,386
Total	507,068	462,448	1,106,534	954,562	599,466	492,114

1 Individual and collective provisions for credit impairment held in respect of credit related commitments have been reallocated to credit related commitments in this table.
2 Includes Esanda dealer finance assets classified as held for sale. Individual and collective provisions for credit impairment held in respect of credit related commitments have been reallocated to credit related commitments in this table.
3 Mainly comprises accrued interest.
4 Credit related commitments comprise undrawn facilities and customer contingent liabilities net of collective and individual provisions.

19: Financial Risk Management (continued)

Estimated value of collateral for all financial assets

The Company	Total value of collateral 2015 $m	Total value of collateral 2014 $m	Credit exposure 2015 $m	Credit exposure 2014 $m	Unsecured portion of credit exposure 2015 $m	Unsecured portion of credit exposure 2014 $m
Cash	11,479	13,349	50,172	29,650	38,693	16,301
Settlement balances owed to ANZ	271	163	16,601	18,150	16,330	17,987
Collateral paid	–	–	8,234	4,873	8,234	4,873
Trading securities	838	660	37,373	38,049	36,535	37,389
Derivative financial instruments	6,886	4,886	75,694	52,882	68,808	47,996
Available-for-sale assets	1,603	778	37,582	26,129	35,979	25,351
Net loans and advances[1]	340,139	309,407	449,024	415,594	108,885	106,187
Regulatory deposits	–	–	557	434	557	434
Other financial assets[2]	1,000	930	2,489	1,758	1,489	828
Credit related commitments[3]	35,414	32,965	214,964	188,373	179,550	155,408
Total	397,630	363,138	892,690	775,892	495,060	412,754

1 Includes Esanda dealer finance assets classified as held for sale. Individual and collective provisions for credit impairment held in respect of credit related commitments have been reallocated to credit related commitments in this table.
2 Mainly comprises accrued interest.
3 Credit related commitments comprise undrawn facilities and customer contingent liabilities net of collective and individual provisions.

Financial assets that are individually impaired

	Consolidated				The Company			
	Impaired assets[1]		Individual provision balance		Impaired assets[1]		Individual provision balance	
	2015 $m	2014 $m	2015 $m	2014 $m	2015 $m	2014 $m	2015 $m	2014 $m
Australia								
Derivative financial instruments	33	29	–	–	33	29	–	–
Loans and advances	1,446	1,632	679	700	1,356	1,572	667	671
Credit related commitments[2]	44	70	19	40	43	70	19	40
Subtotal	1,523	1,731	698	740	1,432	1,671	686	711
New Zealand								
Derivative financial instruments	–	2	–	–	–	–	–	–
Loans and advances	354	582	143	194	20	30	7	9
Credit related commitments[2]	13	33	4	6	–	–	–	–
Subtotal	367	617	147	200	20	30	7	9
Asia Pacific, Europe & America								
Derivative financial instruments	4	6	–	–	4	6	–	–
Loans and advances	641	468	216	236	198	321	66	134
Credit related commitments[2]	–	–	–	–	–	–	–	–
Subtotal	645	474	216	236	202	327	66	134
Aggregate								
Derivative financial instruments	37	37	–	–	37	35	–	–
Loans and advances	2,441	2,682	1,038	1,130	1,574	1,923	740	814
Credit related commitments[2]	57	103	23	46	43	70	19	40
Total	2,535	2,822	1,061	1,176	1,654	2,028	759	854

1 Excludes restructured items.
2 Credit related commitments comprise undrawn facilities and customer contingent liabilities.

19: Financial Risk Management (continued)

Market risk (excludes insurance and funds management)

Market risk is the risk to the Group's earnings arising from changes in interest rates, currency exchange rates, credit spreads, or from fluctuations in bond, commodity or equity prices.

Market risk arises when changes in market rates, prices and volatilities lead to a decline in the value of assets and liabilities, including financial derivatives. Market risk is generated through both trading and banking book activities.

ANZ conducts trading operations in interest rates, foreign exchange, commodities and securities.

ANZ has a detailed risk management and control framework to support its trading and balance sheet activities. The framework incorporates a risk measurement approach to quantify the magnitude of market risk within trading and balance sheet portfolios. This approach and related analysis identifies the range of possible outcomes that can be expected over a given period of time, establishes the relative likelihood of those outcomes and allocates an appropriate amount of capital to support these activities.

Group-wide responsibility for the strategies and policies relating to the management of market risk lies with the Board Risk Committee. Responsibility for day to day management of both market risks and compliance with market risk policy is delegated by the Risk Committee to the Credit and Market Risk Committee (CMRC) and the Group Asset & Liability Committee (GALCO). The CMRC, chaired by the Chief Risk Officer, is responsible for the oversight of market risk. All committees receive regular reporting on the range of trading and balance sheet market risks that ANZ incurs.

Within overall strategies and policies, the control of market risk at the Group level is the joint responsibility of Business Units and Risk Management, with the delegation of market risk limits from the Board and CMRC allocated to both Risk Management and the Business Units.

The management of Risk Management is supported by a comprehensive limit and policy framework to control the amount of risk that the Group will accept. Market risk limits are allocated at various levels and are reported and monitored by Market Risk on a daily basis. The detailed limit framework allocates individual limits to manage and control asset classes (e.g. interest rates, equities), risk factors (e.g. interest rates, volatilities) and profit and loss limits (to monitor and manage the performance of the trading portfolios).

Market risk management and control responsibilities

To facilitate the management, measurement and reporting of market risk, ANZ has grouped market risk into two broad categories:

a) Traded market risk

This is the risk of loss from changes in the value of financial instruments due to movements in price factors for both physical and derivative trading positions. Trading positions arise from transactions where ANZ acts as principal with customers, financial exchanges or interbank counterparties.

The principal risk categories monitored are:

- Currency risk is the potential loss arising from the decline in the value of a financial instrument due to changes in foreign exchange rates or their implied volatilities.
- Interest rate risk is the potential loss arising from the change in the value of a financial instrument due to changes in market interest rates or their implied volatilities.
- Credit spread risk is the potential loss arising from a change in value of an instrument due to a movement of its margin or spread relative to a benchmark.
- Commodity risk is the potential loss arising from the decline in the value of a financial instrument due to changes in commodity prices or their implied volatilities.
- Equity risk is the potential loss arising from the decline in the value of a financial instrument due to changes in equity prices or their implied volatilities.

b) Non-traded market risk (or balance sheet risk)

This comprises the management of non-traded interest rate risk, liquidity, and the risk to the Australian dollar denominated value of the Group's capital and earnings as a result of foreign exchange rate movements.

Some instruments do not fall into either category that also expose ANZ to market risk. These include equity securities classified as available-for-sale financial assets.

Value at Risk (VaR) measure

A key measure of market risk is Value at Risk (VaR). VaR is a statistical estimate of the possible daily loss and is based on historical market movements.

ANZ measures VaR at a 99% confidence interval. This means that there is a 99% chance that the loss will not exceed the VaR estimate on any given day.

The Group's standard VaR approach for both traded and non-traded risk is historical simulation. The Group calculates VaR using historical changes in market rates, prices and volatilities over the previous 500 business days. Traded and non-traded VaR is calculated using a one-day holding period.

It should be noted that because VaR is driven by actual historical observations, it is not an estimate of the maximum loss that the Group could experience from an extreme market event. As a result of this limitation, the Group utilises a number of other risk measures (e.g. stress testing) and risk sensitivity limits to measure and manage market risk.

19: Financial Risk Management (continued)

Traded Market Risk

Below are the aggregate Value at Risk (VaR) exposures at a 99% confidence level covering both physical and derivatives trading positions for the Bank's principal trading centres.

	30 September 2015				30 September 2014			
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
Value at risk at 99% confidence								
Foreign exchange	5.0	18.2	2.8	7.9	11.9	18.5	1.7	8.9
Interest rate	10.1	20.2	4.8	9.3	10.4	16.6	3.8	8.1
Credit	3.5	5.4	2.9	3.8	5.8	5.8	2.7	3.8
Commodity	1.6	3.6	1.3	2.4	2.0	2.8	0.9	1.4
Equity	2.5	6.3	0.1	1.1	1.3	2.5	0.4	1.0
Diversification benefit	(6)	n/a	n/a	(13.2)	(18.6)	n/a	n/a	(10.5)
	16.7	19.7	6.9	11.3	12.8	22.9	5.5	12.7

	30 September 2015				30 September 2014			
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
Value at risk at 99% confidence								
Foreign exchange	5.2	18.3	2.8	8.0	12.0	18.3	1.7	8.8
Interest rate	8.5	19.7	4.7	8.8	10.0	15.4	3.8	7.7
Credit	3.1	4.7	2.6	3.6	6.0	6.0	2.5	3.6
Commodity	1.6	3.6	1.3	2.4	2.0	2.8	0.9	1.4
Equity	2.5	6.3	0.1	1.1	1.3	2.5	0.4	1.0
Diversification benefit	(5.8)	n/a	n/a	(12.8)	(18.9)	n/a	n/a	(10.3)
	15.1	19.3	6.7	11.1	12.4	21.0	5.3	12.2

VaR is calculated separately for foreign exchange, interest rate, credit, commodity and equities and for the Group. The diversification benefit reflects the historical correlation between these products. Electricity commodities risk is measured under the standard approach for regulatory purposes.

To supplement the VaR methodology, ANZ applies a wide range of stress tests, both on individual portfolios and at a Group level. ANZ's stress-testing regime provides senior management with an assessment of the financial impact of identified extreme events on market risk exposures of ANZ. Standard stress tests are applied on a daily basis and measure the potential loss arising from applying extreme market movements to individual and groups of individual price factors. Extraordinary stress tests are applied monthly and measure the potential loss arising as a result of scenarios generated from major financial market events.

Non-traded Market Risk (Balance Sheet Risk)

The principal objectives of balance sheet 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.

19: Financial Risk Management (continued)

Interest rate risk

The objective of balance sheet interest rate risk management is to secure stable and optimal net interest income over both the short (next 12 months) and long-term. 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: mismatches between the repricing dates of interest bearing assets and liabilities; and the investment of capital and other non-interest bearing liabilities in interest bearing assets. Interest rate risk is reported using various techniques including: VaR and scenario analysis (to a 1% shock).

a) VaR non-traded interest rate risk

The repricing assumptions used to determine the VaR and 1% rate shock have been independently validated. Below are aggregate VaR figures covering non-traded interest rate risk.

	30 September 2015				30 September 2014			
Consolidated	As at $m	High for year $m	Low for year $m	Avg for year $m	As at $m	High for year $m	Low for year $m	Avg for year $m
Value at risk at 99% confidence								
Australia	25.4	38.5	21.2	27.2	41.8	64.5	39.1	50.1
New Zealand	9.7	11.4	8.9	10.2	8.9	11.4	8.9	10.4
Asia Pacific, Europe & America	14.4	14.4	7.9	10.4	9.1	10.6	8.9	9.8
Diversification benefit	(16.8)	n/a	n/a	(14.8)	(13.4)	n/a	n/a	(13.7)
	32.7	37.4	28.6	33.0	46.4	76.3	43.3	56.6

	30 September 2015				30 September 2014			
The Company	As at $m	High for year $m	Low for year $m	Avg for year $m	As at $m	High for year $m	Low for year $m	Avg for year $m
Value at risk at 99% confidence								
Australia	25.4	38.5	21.2	27.2	41.8	64.5	39.1	50.1
New Zealand	0.0	0.2	0.0	0.1	0.1	0.3	0.0	0.1
Asia Pacific, Europe & America	13.9	13.9	6.8	9.9	8.3	10.0	8.3	9.2
Diversification benefit	(11.2)	n/a	n/a	(7.9)	(4.2)	n/a	n/a	(0.9)
	28.1	39.2	21.3	29.3	46.0	71.6	42.0	58.5

VaR is calculated separately for the Australia, New Zealand and APEA geographies, as well as for the Group.

To supplement the VaR methodology, ANZ applies a wide range of stress tests, both on individual portfolios and at Group level. ANZ's stress testing regime provides senior management with an assessment of the financial impact of identified extreme events on market risk exposures of ANZ.

b) Scenario Analysis – a 1% shock on the next 12 months' net interest income

A 1% overnight parallel positive shift in the yield curve is modelled to determine the potential impact on net interest income over the succeeding 12 months. This is a standard risk measure which assumes the parallel shift is reflected in all wholesale and customer rates.

The figures in the table below indicate the outcome of this risk measure for the current and previous financial years – expressed as a percentage of reported net interest income. The sign indicates the nature of the rate sensitivity with a positive number signifying that a rate increase is positive for net interest income over the next 12 months.

	Consolidated		The Company	
	2015	2014	2015	2014
Impact of 1% rate shock				
As at period end	0.61%	0.97%	0.86%	1.06%
Maximum exposure	1.36%	1.48%	1.74%	1.68%
Minimum exposure	0.45%	0.74%	0.86%	0.68%
Average exposure (in absolute terms)	0.93%	1.12%	1.19%	1.22%

The extent of mismatching between the repricing characteristics and timing of interest bearing assets and liabilities at any point has implications for future net interest income. On a global basis, the Group quantifies the potential variation in future net interest income as a result of these repricing mismatches.

The repricing gaps themselves are constructed based on contractual repricing information. However, for those assets and liabilities where the contractual term to repricing is not considered to be reflective of the actual interest rate sensitivity (for example, products priced at the Group's discretion), a profile based on historically observed and/or anticipated rate sensitivity is used. This treatment excludes the effect of basis risk between customer pricing and wholesale market pricing.

19: Financial Risk Management (continued)

Equity securities classified as available-for-sale

The portfolio of financial assets, classified as available-for-sale for measurement and financial reporting purposes, also contains equity investment holdings which predominantly comprise investments held for longer term strategic intentions. These equity investments are also subject to market risk which is not captured by the VaR measures for traded and non-traded market risks. Regular reviews are performed to substantiate valuation of the investments within the portfolio and the equity investments are regularly reviewed by management for impairment. The fair value of the equity securities can fluctuate.

The balance of available-for-sale equity securities for the Group amounts to $51 million (2014: $37 million) and $30 million (2014: $22 million) for the Company. Consequently any variation in value is unlikely to have a material impact on the Group.

Foreign currency risk – structural exposures

The investment of capital in foreign operations, such as branches, subsidiaries or associates with functional currencies other than the Australian dollar, exposes the Group to the risk of changes in foreign exchange rates.

The main operating (or functional) currencies of Group entities are the Australian dollar, the New Zealand dollar and the US dollar, with a number of overseas undertakings operating in various other currencies. The Group presents its consolidated financial statements in Australian dollars, as the Australian dollar is the dominant currency. The Group's consolidated balance sheet is therefore affected by exchange differences between the Australian dollar and functional currencies of foreign operations. Variations in the value of these overseas operations arising as a result of exchange differences are reflected in the foreign currency translation reserve in equity.

The Group routinely monitors this risk and conducts hedging, where it is expected to add shareholder value, in accordance with approved policies. The Group's exposures to structural foreign currency risks are managed with the primary objective of ensuring, where practical, that the consolidated capital ratios are neutral to the effect of changes in exchange rates.

Selective hedges were in place during the 2015 and 2014 financial years. For details on the hedging instruments used and effectiveness of hedges of net investments in foreign operations, refer to note 12 to these financial statements. The Group's economic hedges against New Zealand Dollar and US Dollar revenue streams are included within 'Trading derivatives' at note 12.

Liquidity Risk (Excludes Insurance and Funds Management)

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

The Group's liquidity and funding risks are governed by a set of principles which are approved by the ANZ Board Risk Committee. In response to the impact of the global financial crisis, the framework has been reviewed and updated. The following key components underpin the overall framework:

- 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;
- Limiting the potential earnings at risk implications associated with unexpected increases in funding costs or the liquidation of assets under stress;
- Ensuring the liquidity management framework is compatible with local regulatory requirements;
- Preparation of daily liquidity reports and scenario analysis, quantifying the Group's positions;
- Targeting a diversified funding base, avoiding 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.

Management of liquidity and funding risks are overseen by the Group Asset and Liability Committee (GALCO).

19: Financial Risk Management (continued)

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

Scenario Modelling

ANZ's liquidity risk appetite is defined by the ability to meet 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. This framework:

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

A key component of this framework is the Liquidity Coverage Ratio (LCR) which was implemented in Australia on 1 January 2015. The LCR is a severe short term liquidity stress scenario, introduced as part of the Basel 3 international framework for liquidity risk measurement, standards and monitoring. As part of meeting the LCR requirements, ANZ has a Committed Liquidity Facility (CLF) with the Reserve Bank of Australia (RBA). The CLF has been established as a solution to a High Quality Liquid Asset (HQLA) shortfall in the Australian marketplace and provides an alternative form of RBA-qualifying liquid assets. The total amount of the CLF available to a qualifying ADI is set annually by APRA.

Liquid Assets

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

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

The Group monitors and manages the composition of liquid assets to ensure diversification by asset class, counterparty, currency and tenor. Minimum levels of liquid assets held are set annually based on a range of ANZ specific and general market liquidity stress scenarios such that potential cash flow obligations can be met over the short to medium term, and holdings are appropriate to existing and future business activities, regulatory requirements and in line with the approved risk appetite.

	2015 $b	2014 $b
Market Values Post Discount[1]		
HQLA1[2]	115.4	81.0
HQLA2	3.2	2.7
Internal Residential Mortgage Backed Securities (Australia)	43.5	43.5
Internal Residential Mortgage Backed Securities (New Zealand)	5.5	5.1
Other ALA[3]	16.9	17.3
Total Liquid Assets	184.5	149.6
Cash flows modelled under stress scenario		
Cash outflows[2,4]	175.2	157.1
Cash inflows[4]	24.4	22.4
Net cash outflows	150.8	134.7
Liquidity Coverage Ratio (%)[5]	122%	111%

1 Market value post discount as defined in APRA Prudential Standard APS 210 Liquidity.
2 RBA open-repo arrangement netted down by exchange settlement account cash balance.
3 Comprises assets qualifying as collateral for the Committed Liquidity Facility (CLF), excluding internal RMBS, up to approved facility limit; and any liquid assets contained in the RBNZ's Liquidity Policy – Annex: Liquidity Assets – Prudential Supervision Department Document BS13A12.
4 Derivative cash flows are included on a net basis.
5 All currency Group LCR.

19: Financial Risk Management (continued)

Liquidity Crisis Contingency Planning

The Group maintains APRA-endorsed liquidity crisis contingency plans defining an approach for analysing and responding to a liquidity threatening event at a country and Group-wide level. To align with the enhanced liquidity scenario analysis framework, crisis management strategies are assessed against the Group's crisis stress scenarios.

The framework is compliant with APRA's key liquidity contingency crisis planning requirements and guidelines and includes:

- The establishment of crisis severity/stress levels;
- Clearly assigned crisis roles and responsibilities;
- Early warning signals indicative of an approaching crisis, and mechanisms to monitor and report these signals;
- Crisis Declaration Assessment processes, and related escalation triggers set against early warning signals;
- Outlined action plans, and courses of action for altering asset and liability behaviour;
- Procedures for crisis management reporting, and making up cash-flow shortfalls;
- Guidelines determining the priority of customer relationships in the event of liquidity problems; and
- Assigned responsibilities for internal and external communications.

Regulatory Change

The Basel 3 Liquidity changes include the introduction of two liquidity ratios to measure liquidity risk; (i) the Liquidity Coverage Ratio (LCR) which went live on 1st January 2015 and (ii) the Net Stable Funding Ratio (NSFR).

The final Basel 3 revised NSFR standard was released in October 2014, and is broadly consistent with the previous version. It will become the minimum Basel standard on 1st January 2018, and it is expected APRA will adopt the same timeline. As part of managing future liquidity requirements, ANZ monitors the NSFR ratio in its internal reporting and is well placed to meet this requirement.

Group Funding

ANZ manages its funding profile using a range of funding metrics and balance sheet disciplines. This approach is designed to ensure that an appropriate proportion of the Group's assets are funded by stable funding sources including core customer deposits, longer-dated wholesale funding (with a remaining term exceeding one year) and equity.

The Group's global wholesale funding strategy is designed to deliver a sustainable portfolio of wholesale funds that balances cost efficiency against prudent diversification and duration.

Funding plans and performance relative to those plans are reported regularly to senior management via the Group Asset and Liability Committee (GALCO). These plans address customer balance sheet growth and changes in wholesale funding including, targeted funding volumes, markets, investors, tenors and currencies for senior, secured, subordinated and hybrid transactions. Plans are supplemented with a monthly forecasting process which reviews the funding position to-date in light of market conditions and balance sheet requirements.

Funding plans are generated through the three-year strategic planning process and further refined by the annual funding plan and approved by the Board. Asset and deposit plans are submitted at the business segment level with the wholesale funding requirements then derived at the geographic level. To the extent that asset growth exceeds funding generated from customer deposits, additional wholesale funds are sourced.

Short-term wholesale funding requirements, with a contractual maturity of less than one year, are managed through Group Treasury and local Markets operations. Long-term wholesale funding is managed and executed through Group Treasury operations in Australia and New Zealand.

Funding Position 2015

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

$18.8 billion of term wholesale debt (with a remaining term greater than one year as at 30 September 2015) was issued during the financial year ending 30 September 2015 (2014: $23.9 billion). The weighted average tenor of new term debt was 4.9 years (2014: 4.9 years). Furthermore, a $3.2 billion institutional share placement and retail share purchase plan and $1.4 billion of Additional Tier 1 Capital issuance took place during the financial year.

19: Financial Risk Management (continued)

The following tables show the Group's funding composition:

Funding composition	2015 $m	2014 $m
Customer deposits and other liabilities[1]		
Australia	169,280	160,683
International & Institutional Banking	202,495	183,126
New Zealand	59,703	51,360
Global Wealth	18,467	13,844
GTSO and Group Centre	(5,361)	(5,294)
Customer deposits	444,584	403,719
Other Funding liabilities[2]	14,346	14,502
Total customer liabilities (funding)	458,930	418,221
Wholesale funding[3]		
Debt issuances[4]	93,347	79,291
Subordinated debt	17,009	13,607
Certificates of deposit	63,446	52,754
Commercial paper	22,989	15,152
Other wholesale borrowings[5, 6]	44,556	42,460
Total wholesale funding	241,347	203,264
Shareholders' equity (excl preference shares)	57,353	48,413
Total Funding	757,630	669,898

	2015 $m	2014 $m
Funded Assets		
Other short term assets & trade finance assets[7]	78,879	74,925
Liquids[6]	135,496	100,951
Short term funded assets	214,375	175,876
Lending & fixed assets[8]	543,255	494,022
Total Funded Assets	757,630	669,898
Funding Liabilities[3,4,6]		
Other short term liabilities	27,863	22,676
Short term funding	59,850	46,466
Term funding < 12 months	41,549	23,888
Other customer deposits[1,9]	88,288	89,825
Total short term funding liabilities	217,550	182,855
Stable customer deposits[1,10]	387,988	347,237
Term funding > 12 months	87,316	84,519
Shareholders' equity and hybrid debt	64,776	55,287
Total Stable Funding	540,080	487,043
Total Funding	757,630	669,898

1 Includes term deposits, other deposits and an adjustment recognised in Group Centre to eliminate Global Wealth investments in ANZ deposit products.
2 Includes interest accruals, payables and other liabilities, provisions and net tax provisions, excluding other liabilities in Global Wealth.
3 Excludes liability for acceptances as they do not provide net funding.
4 Excludes term debt issued externally by Global Wealth.
5 Includes borrowings from banks, net derivative balances, special purpose vehicles, other borrowings and Euro Trust securities (preference shares). The Euro Trust Securities were bought back by ANZ for cash at face value and cancelled on 15 December 2014.
6 RBA open-repo arrangement netted down by the exchange settlement account cash balance.
7 Includes short-dated assets such as trading securities, available-for-sale securities, trade dated assets and trade finance loans.
8 Excludes trade finance loans.
9 Total customer liabilities (funding) plus Central Bank deposits less Stable customer deposits.
10 Stable customer deposits represent operational type deposits or those sourced from retail / business / corporate customers and the stable component of Other funding liabilities.

19: Financial Risk Management (continued)

Contractual maturity analysis of the Group's liabilities

The table below analyses the Group and Company's contractual liabilities, within relevant maturity groupings based on the earliest date on which the Group or Company may be required to pay. The amounts represent principal and interest cash flows and hence may differ compared to the amounts reported on the balance sheet.

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

Contractual maturity analysis of financial liabilities at 30 September:

Consolidated at 30 September 2015	Less than 3 months[1] $m	3 to 12 months $m	1 to 5 years $m	After 5 years $m	No maturity specified[2] $m	Total $m
Collateral received	7,829	–	–	–	–	7,829
Settlement balances owed by ANZ	11,250	–	–	–	–	11,250
Deposits and other borrowings						
Deposits from banks	35,422	3,591	36	–	–	39,049
Certificates of deposit	31,333	16,515	16,551	95	–	64,494
Term deposits	142,342	47,843	7,105	48	–	197,338
Other deposits interest bearing	227,685	404	1,246	–	–	229,335
Deposits not bearing interest	19,014	–	–	–	–	19,014
Commercial paper	13,130	9,868	–	–	–	22,998
Borrowing corporations' debt	571	782	300	–	–	1,653
Other borrowing	790	–	–	–	–	790
Liability for acceptances	1,371	–	–	–	–	1,371
Debt issuances[3]	8,119	22,796	57,936	10,653	–	99,504
Subordinated debt[3,4]	70	296	8,456	9,064	1,188	19,074
Policyholder liabilities	34,965	3	40	21	372	35,401
External unit holder liabilities (life insurance funds)	3,291	–	–	–	–	3,291
Derivative liabilities (trading)[5]	68,309	–	–	–	–	68,309
Derivative assets and liabilities (balance sheet management)						
– funding						
Receive leg	(24,585)	(35,207)	(95,440)	(19,556)	–	(174,788)
Pay leg	22,439	31,710	85,900	18,179	–	158,228
– other balance sheet management						
Receive leg	(8,445)	(8,456)	(11,667)	(4,654)	–	(33,222)
Pay leg	8,512	8,882	12,944	5,956	–	36,294

Consolidated at 30 September 2014	Less than 3 months[1] $m	3 to 12 months $m	1 to 5 years $m	After 5 years $m	No maturity specified[2] $m	Total $m
Collateral received	5,599	–	–	–	–	5,599
Settlement balances owed by ANZ	10,114	–	–	–	–	10,114
Deposits and other borrowings						
Deposits from banks	35,483	2,715	32	–	–	38,230
Certificates of deposit	29,775	9,478	14,972	100	–	54,325
Term deposits	139,549	47,877	6,919	130	–	194,475
Other deposits interest bearing	193,220	–	–	–	–	193,220
Deposits not bearing interest	16,404	–	–	–	–	16,404
Commercial paper	5,803	9,351	–	–	–	15,154
Borrowing corporations' debt	521	572	306	–	–	1,399
Other borrowing	260	–	–	–	–	260
Liability for acceptances	1,151	–	–	–	–	1,151
Debt issuances[3]	4,585	12,268	55,049	12,989	–	84,891
Subordinated debt[3,4]	45	228	6,868	7,129	1,087	15,357
Policyholder liabilities	34,038	–	–	–	516	34,554
External unit holder liabilities (life insurance funds)	3,181	–	–	–	–	3,181
Derivative liabilities (trading)[5]	46,831	–	–	–	–	46,831
Derivative assets and liabilities (balance sheet management)						
– funding						
Receive leg	(21,655)	(23,313)	(81,464)	(26,370)	–	(152,802)
Pay leg	21,433	23,696	80,951	24,976	–	151,056
– other balance sheet management						
Receive leg	(10,663)	(10,793)	(16,258)	(7,041)	–	(44,755)
Pay leg	10,691	10,994	16,337	7,270	–	45,292

1 Includes at call instruments.
2 Includes perpetual investments brought in at face value only.
3 Any callable wholesale debt instruments have been included at their next call date.
4 Includes instruments that may be settled in cash or in equity, at the option of the Company.
5 The full mark-to-market of derivative liabilities held for trading purposes has been included in the 'less than 3 months' category.

19: Financial Risk Management (continued)

The Company at 30 September 2015	Less than 3 months[1] $m	3 to 12 months $m	1 to 5 years $m	After 5 years $m	No maturity specified[2] $m	Total $m
Collateral received	6,886	–	–	–	–	6,886
Settlement balances owed by ANZ	9,901	–	–	–	–	9,901
Deposits and other borrowings						
Deposits from banks	34,981	3,506	23	–	–	38,510
Certificates of deposit	30,967	16,395	16,576	95	–	64,033
Term deposits	122,123	29,927	3,640	49	–	155,739
Other deposits interest bearing	186,387	311	644	–	–	187,342
Deposits not bearing interest	9,971	–	–	–	–	9,971
Commercial paper	10,419	8,063	–	–	–	18,482
Other borrowing	344	–	–	–	–	344
Liability for acceptances	649	–	–	–	–	649
Debt issuances[3]	5,457	19,871	45,619	9,385	–	80,332
Subordinated debt[3,4]	42	210	7,604	8,946	429	17,231
Derivative liabilities (trading)[5]	61,853	–	–	–	–	61,853
Derivative assets and liabilities (balance sheet management)						
– funding						
Receive leg	(16,618)	(25,127)	(66,311)	(15,707)	–	(123,763)
Pay leg	14,935	22,118	58,353	14,527	–	109,933
– other balance sheet management						
Receive leg	(6,820)	(4,962)	(6,673)	(3,876)	–	(22,331)
Pay leg	6,885	5,204	7,611	5,163	–	24,863

The Company at 30 September 2014	Less than 3 months[1] $m	3 to 12 months $m	1 to 5 years $m	After 5 years $m	No maturity specified[2] $m	Total $m
Collateral received	4,886	–	–	–	–	4,886
Settlement balances owed by ANZ	8,189	–	–	–	–	8,189
Deposits and other borrowings						
Deposits from banks	34,637	2,715	21	–	–	37,373
Certificates of deposit	28,801	9,331	14,972	100	–	53,204
Term deposits	120,289	32,237	3,781	71	–	156,378
Other deposits interest bearing	160,889	–	–	–	–	160,889
Deposits not bearing interest	8,688	–	–	–	–	8,688
Commercial paper	3,669	6,086	–	–	–	9,755
Other borrowing	128	–	–	–	–	128
Liability for acceptances	717	–	–	–	–	717
Debt issuances[3]	2,903	9,671	43,935	12,447	–	68,956
Subordinated debt[3,4]	45	228	6,868	7,139	343	14,623
Derivative liabilities (trading)[5]	45,598	–	–	–	–	45,598
Derivative assets and liabilities (balance sheet management)						
– funding						
Receive leg	(14,664)	(15,732)	(65,771)	(25,616)	–	(121,783)
Pay leg	14,883	15,585	64,875	24,219	–	119,562
– other balance sheet management						
Receive leg	(9,182)	(8,001)	(10,517)	(6,274)	–	(33,974)
Pay leg	9,227	8,174	10,573	6,503	–	34,477

1 Includes at call instruments.
2 Includes perpetual investments brought in at face value only.
3 Any callable wholesale debt instruments have been included at their next call date.
4 Includes instruments that may be settled in cash or in equity, at the option of the Company.
5 The full mark-to-market of derivative liabilities held for trading purposes has been included in the 'less than 3 months' category.

Credit related contingencies

Undrawn facilities and issued guarantees comprise the nominal principal amounts of commitments, contingencies and other undrawn facilities and represents the maximum liquidity at risk position should all facilities extended be drawn.

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 partially used, whereas others may never be required to be drawn upon. As such, the total of the nominal principal amounts is not necessarily representative of future liquidity risks or future cash requirements.

19: Financial Risk Management (continued)

The tables below analyse the Group's and Company's undrawn facilities and issued guarantees into relevant maturity groupings based on the earliest date on which ANZ may be required to pay.

	Consolidated			The Company		
30 September 2015	Less than 1 year $m	More than 1 year $m	Total $m	Less than 1 year $m	More than 1 year $m	Total $m
Undrawn facilities	230,794	–	230,794	180,847	–	180,847
Issued guarantees	40,335	–	40,335	34,693	–	34,693

	Consolidated			The Company		
30 September 2014	Less than 1 year $m	More than 1 year $m	Total $m	Less than 1 year $m	More than 1 year $m	Total $m
Undrawn facilities	193,984	–	193,984	153,985	–	153,985
Issued guarantees	40,075	–	40,075	34,916	–	34,916

Life insurance risk

Although not a significant contributor to the Group's balance sheet, the Group's insurance businesses give rise to unique risks which are managed separately from the Group's banking businesses. The nature of these risks and the manner in which they are managed is set out in note 38.

Operational risk management

Within ANZ, operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, and the risk of reputational loss or damage arising from inadequate or failed internal processes, people and systems, but excludes strategic risk.

The ANZ Board has delegated its powers to the Risk Committee to approve the ANZ Operational Risk Framework which is in accordance with Australian Prudential Standard APS 115 Capital Adequacy: Advanced Measurement Approaches to Operational Risk. OREC is the primary senior executive management forum responsible for the oversight of operational risk and the compliance risk control environment. OREC supports the Risk Committee in relation to the carrying out of its role in connection with operational risk and compliance.

OREC monitors the state of operational risk and compliance management and will instigate any necessary corrective actions. Key responsibilities of OREC include:

- Ensuring the execution of ANZ's Operational Risk Measurement and Management Framework and Compliance Framework
- Ensuring the execution of Board approved Operational Risk and Compliance Policies
- Monitor and approve the treatment plans for Extreme rated risks
- Review material (actual, potential and near miss) operational risk and compliance events

Membership of OREC comprises senior executives and the committee is chaired by the Chief Risk Officer.

ANZ's Operational Risk Measurement and Management Framework (ORMMF) outlines the approach to managing operational risk. It specifically covers the minimum requirements that divisions/business units must undertake to identify, assess, measure, monitor, control and manage operational risk in accordance to the Board approved risk appetite. ANZ does not expect to eliminate all risks, but to ensure that the residual risk exposure is managed as low as reasonably practical based on a sound risk/reward analysis in the context of an international financial institution. ANZ's ORMMF is supported by specific policies and procedures with the effectiveness of the framework assessed through a series of governance and assurance reviews. This is supplemented by an independent review programme by Internal Audit.

Divisional Risk Committees and Business Unit Risk Forums manage and maintain oversight of operational and compliance risks supported by thresholds for escalation and monitoring which is used to inform and support senior management strategic business decision making. Day to day management of operational and compliance risk is the accountability of every employee. Business Units undertake operational risk activities as part of this accountability. Divisional risk personnel provide oversight of operational risk undertaken in the Business Units.

Enterprise Operational Risk is responsible for exercising governance over operational risk through the management of the operational risk frameworks, policy development, framework assurance, operational risk measurement and capital allocations and reporting of operational risk issues to executive committees.

Group Compliance has global oversight responsibility for the ANZ Compliance Framework, and each division has responsibility for embedding the framework into its business operations, identifying applicable regulatory compliance obligations, and escalating when breaches occur. The Compliance Framework fosters an integrated approach where staff are responsible and accountable for compliance, either within their job role, or within their area of influence.

The integration of the Operational Risk Measurement and Management and Compliance Frameworks, supported by common policies, procedures and tools allows for a simple and consistent way to identify, assess, measure and monitor risks across ANZ.

In line with industry practice, ANZ obtains insurance cover from third party and captive providers to cover those operational risks where cost-effective premiums can be obtained. In conducting their business, Business Units are advised to act as if uninsured and not to use insurance as a guaranteed mitigation for operational risk. Business disruption is a critical risk to a bank's ability to operate, so ANZ has comprehensive business continuity, recovery and crisis management plans. The intention of the business continuity and recovery plans is to ensure critical business functions can be maintained, or restored in a timely fashion, in the event of material disruptions arising from internal or external events.

Enterprise Operational Risk is responsible for maintaining ANZ's Advanced Measurement Approach (AMA) for operational risk. Operational risk capital is held to protect depositors and shareholders of the bank from rare and severe unexpected losses. ANZ maintains and calculates operational risk capital (including regulatory and economic capital), on at least a six monthly basis. The capital is calculated using scaled external loss data, internal loss data and scenarios as a direct input and risk registers as an indirect input.

20: Fair value of financial assets and financial liabilities

A significant number of financial instruments are carried on the balance sheet at fair value. The following disclosures set out the classification of financial assets and financial liabilities and in respect of the fair value either recognised or disclosed, the various levels within which fair value measurements are categorised, and the valuation methodologies and techniques used. The fair value disclosure does not cover those instruments that are not considered financial instruments from an accounting perspective, such as intangible assets.

Fair value is 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. The determination of the fair value of financial instruments is fundamental to the financial reporting framework as all financial instruments are recognised initially at fair value and, with the exception of those financial instruments carried at amortised cost, are remeasured at fair value in subsequent periods.

On initial recognition, the best evidence of a financial instrument's fair value is the transaction price. However, in certain circumstances the initial fair value may be based on other observable current market transactions in the same instrument, without modification or repackaging, or on a valuation technique whose variables include only data from observable markets. For those financial instruments where the fair value at initial recognition would be based on unobservable inputs, the difference between the transaction price and the amount which would have been determined using a valuation technique (being the day one gain or loss) is not immediately recognised in the income statement.

Subsequent to initial recognition, the fair value of financial instruments measured at fair value is based on quoted market prices, where available. In cases where quoted market prices are not available, fair value is determined using market accepted valuation techniques that employ observable data. In limited cases where observable market data is not available, the input is estimated based on other observable market data, historical trends and other factors that may be relevant.

In the tables below, financial instruments have been allocated based on their accounting classification. The significant accounting policies in note 1 describe how the categories of financial assets and financial liabilities are measured and how income and expenses, including fair value gains and losses, are recognised.

(i) CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

	At amortised cost	At fair value through profit or loss			Hedging	Available-for-sale assets	Total
Consolidated 30 September 2015	$m	Designated on initial recognition $m	Held for trading $m	Sub-total $m	$m	$m	$m
Financial assets							
Cash	53,903	–	–	–	–	–	53,903
Settlement balances owed to ANZ	18,596	–	–	–	–	–	18,596
Collateral paid	9,967	–	–	–	–	–	9,967
Trading securities	–	–	49,000	49,000	–	–	49,000
Derivative financial instruments[1]	–	–	81,925	81,925	3,700	–	85,625
Available-for-sale assets	–	–	–	–	–	43,667	43,667
Net loans and advances[2,3]	569,539	683	16	699	–	–	570,238
Regulatory deposits	1,773	–	–	–	–	–	1,773
Investments backing policy liabilities	–	34,820	–	34,820	–	–	34,820
Other financial assets	5,137	–	–	–	–	–	5,137
	658,915	35,503	130,941	166,444	3,700	43,667	872,726
Financial liabilities							
Settlement balances owed by ANZ	11,250	–	–	–	–	n/a	11,250
Collateral received	7,829	–	–	–	–	n/a	7,829
Deposits and other borrowings	566,218	4,576	–	4,576	–	n/a	570,794
Derivative financial instruments[1]	–	–	78,497	78,497	2,773	n/a	81,270
Policy liabilities[4]	372	35,029	–	35,029	–	n/a	35,401
External unit holder liabilities (life insurance funds)	–	3,291	–	3,291	–	n/a	3,291
Payables and other liabilities	7,798	–	2,568	2,568	–	n/a	10,366
Debt issuances	90,582	3,165	–	3,165	–	n/a	93,747
Subordinated debt	17,009	–	–	–	–	n/a	17,009
	701,058	46,061	81,065	127,126	2,773	n/a	830,957

1 Derivative financial instruments classified as 'held for trading' include derivatives entered into as economic hedges which are not designated as accounting hedges.
2 Fair value hedging is applied to financial assets within net loans and advances. The resulting fair value adjustments mean that the carrying value differs from the amortised cost.
3 Net loans and advances includes Esanda dealer finance assets classified as held for sale (refer note 14).
4 Includes life insurance contract liabilities of $372 million (2014: $516 million) measured in accordance with AASB 1038 and life investment contract liabilities of $35,029 million (2014: $34,038 million) which have been designated at fair value through profit or loss under AASB 139. None of the fair value is attributable to changes in the credit risk of the life investment contract liabilities.

20: Fair value of financial assets and financial liabilities (continued)

Consolidated 30 September 2014	At amortised cost $m	At fair value through profit or loss: Designated on initial recognition $m	Held for trading $m	Sub-total $m	Hedging $m	Available-for-sale assets $m	Total $m
Financial assets							
Cash	32,559	–	–	–	–	–	32,559
Settlement balances owed to ANZ	20,241	–	–	–	–	–	20,241
Collateral paid	5,459	–	–	–	–	–	5,459
Trading securities	–	–	49,692	49,692	–	–	49,692
Derivative financial instruments[1]	–	–	53,730	53,730	2,639	–	56,369
Available-for-sale assets	–	–	–	–	–	30,917	30,917
Net loans and advances[2]	521,384	368	–	368	–	–	521,752
Regulatory deposits	1,565	–	–	–	–	–	1,565
Investments backing policy liabilities	–	33,579	–	33,579	–	–	33,579
Other assets	3,473	–	–	–	–	–	3,473
	584,681	33,947	103,422	137,369	2,639	30,917	755,606
Financial liabilities							
Settlement balances owed by ANZ	10,114	–	–	–	–	n/a	10,114
Collateral received	5,599	–	–	–	–	n/a	5,599
Deposits and other borrowings	504,585	5,494	–	5,494	–	n/a	510,079
Derivative financial instruments[1]	–	–	51,475	51,475	1,450	n/a	52,925
Policy liabilities[3]	516	34,038	–	34,038	–	n/a	34,554
External unit holder liabilities (life insurance funds)	–	3,181	–	3,181	–	n/a	3,181
Payables and other liabilities	7,075	–	3,870	3,870	–	n/a	10,945
Debt issuances	76,655	3,441	–	3,441	–	n/a	80,096
Subordinated debt	13,607	–	–	–	–	n/a	13,607
	618,151	46,154	55,345	101,499	1,450	n/a	721,100

1 Derivative financial instruments classified as 'held for trading' include derivatives entered into as economic hedges which are not designated as accounting hedges.
2 Fair value hedging is applied to financial assets within net loans and advances. The resulting fair value adjustments mean that the carrying value differs from the amortised cost.
3 Includes life insurance contract liabilities of $372 million (2014: $516 million) measured in accordance with AASB 1038 and life investment contract liabilities of $35,029 million (2014: $34,038 million) which have been designated at fair value through profit or loss under AASB 139. None of the fair value is attributable to changes in the credit risk of the life investment contract liabilities.

The Company 30 September 2015	At amortised cost $m	At fair value through profit or loss: Designated on initial recognition $m	Held for trading $m	Sub-total $m	Hedging $m	Available-for-sale assets $m	Total $m
Financial assets							
Cash	51,217	–	–	–	–	–	51,217
Settlement balances owed to ANZ	16,601	–	–	–	–	–	16,601
Collateral paid	8,234	–	–	–	–	–	8,234
Trading securities	–	–	37,373	37,373	–	–	37,373
Derivative financial instruments[1]	–	–	72,542	72,542	3,152	–	75,694
Available-for-sale assets	–	–	–	–	–	37,612	37,612
Net loans and advances[2,3]	448,288	144	16	160	–	–	448,448
Regulatory deposits	557	–	–	–	–	–	557
Due from controlled entities	109,920	–	–	–	–	–	109,920
Other financial assets	2,489	–	–	–	–	–	2,489
	637,306	144	109,931	110,075	3,152	37,612	788,145
Financial liabilities							
Settlement balances owed by ANZ	9,901	–	–	–	–	n/a	9,901
Collateral received	6,886	–	–	–	–	n/a	6,886
Deposits and other borrowings	471,966	65	–	65	–	n/a	472,031
Derivative financial instruments[1]	–	–	69,648	69,648	2,196	n/a	71,844
Due to controlled entities	105,079	–	–	–	–	n/a	105,079
Payables and other liabilities	4,316	–	1,978	1,978	–	n/a	6,294
Debt issuances	72,414	3,165	–	3,165	–	n/a	75,579
Subordinated debt	15,812	–	–	–	–	n/a	15,812
	686,374	3,230	71,626	74,856	2,196	n/a	763,426

1 Derivative financial instruments classified as 'held for trading' include derivatives entered into as economic hedges which are not designated as accounting hedges.
2 Fair value hedging is applied to financial assets within net loans and advances. The resulting fair value adjustments mean that the carrying value differs from the amortised cost.
3 Net loans and advances includes Esanda dealer finance assets classified as held for sale (refer note 14).

20: Fair value of financial assets and financial liabilities (continued)

The Company 30 September 2014	At amortised cost	At fair value through profit or loss			Hedging	Available-for-sale assets	Total
		Designated on initial recognition	Held for trading	Sub-total			
	$m	$m	$m	$m	$m	$m	$m
Financial assets							
Cash	30,655	–	–	–	–	–	30,655
Settlement balances owed to ANZ	18,150	–	–	–	–	–	18,150
Collateral paid	4,873	–	–	–	–	–	4,873
Trading securities	–	–	38,049	38,049	–	–	38,049
Derivative financial instruments[1]	–	–	50,549	50,549	2,333	–	52,882
Available-for-sale assets	–	–	–	–	–	26,151	26,151
Net loans and advances[2]	414,989	77	–	77	–	–	415,066
Regulatory deposits	434	–	–	–	–	–	434
Due from controlled entities	99,194	–	–	–	–	–	99,194
Other financial assets	1,758	–	–	–	–	–	1,758
	570,053	77	88,598	88,675	2,333	26,151	687,212
Financial liabilities							
Settlement balances owed by ANZ	8,189	–	–	–	–	n/a	8,189
Collateral received	4,886	–	–	–	–	n/a	4,886
Deposits and other borrowings	423,076	96	–	96	–	n/a	423,172
Derivative financial instruments[1]	–	–	49,201	49,201	1,273	n/a	50,474
Due to controlled entities	93,796	–	–	–	–	n/a	93,796
Payables and other liabilities	4,111	–	3,556	3,556	–	n/a	7,667
Debt issuances	61,531	2,630	–	2,630	–	n/a	64,161
Subordinated debt	12,870	–	–	–	–	n/a	12,870
	608,459	2,726	52,757	55,483	1,273	n/a	665,215

1 Derivative financial instruments classified as 'held for trading' include derivatives entered into as economic hedges which are not designated as accounting hedges.
2 Fair value hedging is applied to financial assets within net loans and advances. The resulting fair value adjustments mean that the carrying value differs from the amortised cost.

(ii) MEASUREMENT OF FAIR VALUE

(a) Valuation methodologies

ANZ has an established control framework that ensures fair value is either determined or validated by a function independent of the party that undertakes the transaction. The control framework ensures that all models are calibrated periodically to test that outputs reflect prices from observable current market transactions in the same instrument or other available observable market data.

Where quoted market prices are used, prices are independently verified from other sources. For fair values determined using a valuation model, the control framework may include, as applicable, independent development or validation of valuation models, any inputs to those models, any adjustments required outside of the valuation model and, where possible, independent validation of model outputs. In this way, continued appropriateness of the valuations is ensured.

In instances where the Group holds offsetting risk positions, the Group uses the portfolio exemption in AASB 13 to measure the fair value of such groups of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (that is, an asset) for a particular risk exposure or to transfer a net short position (that is, a liability) for a particular risk exposure.

The Group categorises its fair value measurements on the basis of inputs used in measuring fair value using the fair value hierarchy below:

- Level 1 – Financial instruments that have been valued by reference to unadjusted quoted prices in active markets for identical financial instruments. This category includes financial instruments valued using quoted yields where available for specific debt securities.
- Level 2 – Financial instruments that have been valued through valuation techniques incorporating inputs other than quoted prices within Level 1 that are observable for a similar financial asset or liability, either directly or indirectly.
- Level 3 – Financial instruments that have been valued using valuation techniques which incorporate significant inputs that are not based on observable market data (unobservable inputs).

20: Fair value of financial assets and financial liabilities (continued)

(b) Valuation techniques and inputs used

In the event that there is no quoted market price for the instrument, fair value is based on valuation techniques. The valuation models incorporate the impact of bid/ask spreads, counterparty credit spreads, funding costs and other factors that would influence the fair value determined by market participants.

The majority of valuation techniques employ only observable market data. However, for certain financial instruments the valuation technique may employ some data (valuation inputs or components) which is not readily observable in the current market. In these cases valuation inputs (or components of the overall value) are derived and extrapolated from other relevant market data and tested against historic transactions and observed market trends. To the extent that valuation is based on models or inputs that are not observable in the market, the determination of fair value can be more subjective, dependent on the significance of the unobservable input to the overall valuation.

The following valuation techniques have been applied to determine the fair values of financial instruments where there is no quoted price for the instrument:

- For instruments classified as Trading security assets and Securities short sold, Derivative financial assets and liabilities, Available-for-sale financial assets, and Investments backing policy liabilities, fair value measurements are derived by using modelled valuations techniques (including discounted cash flow models) that incorporate market prices/yields for securities with similar credit risk, maturity and yield characteristics; and/or current market yields for similar instruments.
- For Net loans and advances, Deposits and other borrowings and Debt issuances, discounted cash flow techniques are used where contractual future cash flows of the instrument are discounted using discount rates incorporating wholesale market rates or market borrowing rates of debt with similar maturities or a yield curve appropriate for the remaining term to maturity.
- The fair value of external unit holder liabilities (life insurance funds) represents the external unit holder's share of the net assets of the consolidated investment funds, which are carried at fair value. The fair value of policy liabilities being liabilities of the insurance business is directly linked to the performance and value of the assets backing the liabilities. These liabilities are carried at fair value using observable inputs.

Further details of valuation techniques and significant unobservable inputs used in measuring fair values are described in (iii)(a) below.

There have been no substantial changes in the valuation techniques applied to different classes of financial instruments during the year.

(iii) FINANCIAL ASSETS AND FINANCIAL LIABILITIES THAT ARE MEASURED AT FAIR VALUE IN THE BALANCE SHEET

The table below provides an analysis of financial instruments carried at fair value at reporting date categorised according to the lowest level input into a valuation model or a valuation component that is significant to the reported fair value. The significance of the input is assessed against the reported fair value of the financial instrument and considers various factors specific to the financial instrument. The fair value has been allocated in full to the category in the fair value hierarchy which most appropriately reflects the determination of the fair value.

	Fair value measurements							
	Quoted market price (Level 1)		Using observable inputs (Level 2)		With significant non-observable inputs (Level 3)		Total	
Consolidated	2015 $m	2014 $m	2015 $m	2014 $m	2015 $m	2014 $m	2015 $m	2014 $m
Financial assets								
Trading securities[1]	45,227	45,857	3,769	3,835	4	–	49,000	49,692
Derivative financial instruments	388	472	85,155	55,791	82	106	85,625	56,369
Available-for-sale assets[1]	37,086	25,147	6,347	5,730	234	40	43,667	30,917
Net loans and advances (designated at fair value)	–	–	683	368	16	–	699	368
Investments backing policy liabilities[1]	17,983	18,850	16,298	14,184	539	545	34,820	33,579
	100,684	90,326	112,252	79,908	875	691	213,811	170,925
Financial liabilities								
Deposits and other borrowings (designated at fair value)	–	–	4,576	5,494	–	–	4,576	5,494
Derivative financial instruments	782	376	80,387	52,444	101	105	81,270	52,925
Policy liabilities[2]	–	–	35,029	34,038	–	–	35,029	34,038
External unit holder liabilities (life insurance funds)	–	–	3,291	3,181	–	–	3,291	3,181
Payables and other liabilities[3]	2,443	3,851	125	19	–	–	2,568	3,870
Debt issuances (designated at fair value)	–		3,165	3,441	–	–	3,165	3,441
Total	3,225	4,227	126,573	98,617	101	105	129,899	102,949

1 During the period there were transfers from Level 1 to Level 2 of $190 million (2014: $357 million) for the Group following a reassessment of available pricing information causing the classification to be assessed as level 2. During the period there were also transfers from Level 2 to Level 1 of $114 million (2014:$33 million) for the Group following increased trading activity to support the quoted prices. Transfers into and out of Level 1 and Level 2 are deemed to have occurred as of the beginning of the reporting period in which the transfer occurred.

2 Policy liabilities relate to life investment contract liabilities only as these are designated at fair value through profit or loss.

3 Represents securities short sold.

20: Fair value of financial assets and financial liabilities (continued)

The Company	Fair value measurements: Quoted market price (Level 1) 2015 $m	2014 $m	Using observable inputs (Level 2) 2015 $m	2014 $m	With significant non–observable inputs (Level 3) 2015 $m	2014 $m	Total 2015 $m	2014 $m
Financial assets								
Trading securities	33,912	34,356	3,456	3,693	4	–	37,372	38,049
Derivative financial instruments	378	470	75,242	52,316	73	96	75,693	52,882
Available-for-sale assets[1]	33,452	22,265	4,110	3,864	50	22	37,612	26,151
Net loans and advances (measured at fair value)	–	–	144	77	16	–	160	77
	67,742	57,091	82,952	59,950	143	118	150,837	117,159
Financial liabilities								
Deposits and other borrowings (designated at fair value)	–	–	65	96	–	–	65	96
Derivative financial instruments	766	373	70,991	49,998	91	103	71,848	50,474
Payables and other liabilities[2]	1,854	3,537	125	19	–	–	1,979	3,556
Debt issuances (designated at fair value)	–	–	3,165	2,630	–	–	3,165	2,630
Total	2,620	3,910	74,346	52,743	91	103	77,057	56,756

1 During the period there were transfers from Level 1 to Level 2 of $136 million (2014: $357 million) for the Company following a reassessment of available pricing information causing the classification to be assessed as level 2. During the period there were also transfers from Level 2 to Level 1 of $104 million (2014:$33 million) for the Group following increased trading activity to support the quoted prices. Transfers into and out of Level 1 and Level 2 are deemed to have occurred as of the beginning of the reporting period in which the transfer occurred.

2 Represents securities short sold.

(iv) DETAILS OF FAIR VALUE MEASUREMENTS THAT INCORPORATE UNOBSERVABLE MARKET DATA

(a) Composition of Level 3 fair value measurements

The following table presents the composition of financial instruments measured at fair value with significant unobservable inputs (Level 3 fair value measurements).

	Financial assets										Financial liabilities	
	Trading securities		Derivatives		Available-for-sale		Net loans and advances		Investments backing policy liabilities		Derivatives	
Consolidated	2015 $m	2014 $m	2015 $m	2014 $m	2015 $m	2014 $m	2015 $m	2014 $m	2015 $m	2014 $m	2015 $m	2014 $m
Asset backed securities	–	–	–	–	2	1	–	–	188	–	–	–
Illiquid corporate bonds	4	–	–	–	198	12	16	–	–	–	–	–
Structured credit products	–	–	52	58	–	–	–	–	–	–	(67)	(80)
Managed funds (suspended)	–	–	–	–	–	–	–	–	–	12	–	–
Alternative assets	–	–	–	–	34	27	–	–	351	533	–	–
Other derivatives	–	–	30	48	–	–	–	–	–	–	(34)	(25)
Total	4	–	82	106	234	40	16	–	539	545	(101)	(105)

	Financial assets										Financial liabilities	
	Trading securities		Derivatives		Available-for-sale		Net loans and advances		Investments backing policy liabilities		Derivatives	
The Company	2015 $m	2014 $m	2015 $m	2014 $m	2015 $m	2014 $m	2015 $m	2014 $m	2015 $m	2014 $m	2015 $m	2014 $m
Asset backed securities	–	–	–	–	–	–	–	–	n/a	n/a	–	–
Illiquid corporate bonds	4	–	–	–	20	–	16	–	n/a	n/a	–	–
Structured credit products	–	–	52	58	–	–	–	–	n/a	n/a	(67)	(80)
Managed funds (suspended)	–	–	–	–	–	–	–	–	n/a	n/a	–	–
Alternative assets	–	–	–	–	30	22	–	–	n/a	n/a	–	–
Other derivatives	–	–	21	38	–	–	–	–	n/a	n/a	(24)	(23)
Total	4	–	73	96	50	22	16	–	n/a	n/a	(91)	(103)

Structured credit products comprise the structured credit intermediation trades that the Group entered into from 2004 to 2007 whereby it sold protection using credit default swaps over certain structures, and mitigated risk by purchasing protection via credit default swaps from US financial guarantors over the same structures. These trades are valued using complex models with certain inputs relating to the reference assets and derivative counterparties not being observable in the market. Such unobservable inputs include credit spreads and default probabilities contributing from 13% to 57% of the valuation. The assets underlying the structured credit products are diverse instruments with a wide range of credit spreads and default probabilities relevant to the valuation.

20: Fair value of financial assets and financial liabilities (continued)

The remaining Level 3 balances include Asset backed securities and Illiquid corporate bonds where the effect on fair value of issuer credit cannot be directly or indirectly observed in the market; managed funds (suspended) comprising of fixed income and mortgage investments in managed funds that are illiquid and are not currently redeemable; Alternative assets that largely comprise investments in funds which are illiquid and are not currently redeemable, as well as various investments in unlisted equity securities for which no active market exists; and Other derivatives which predominantly include reverse mortgage swaps where the mortality rate cannot be observed and options over emissions certificates where the volatility input cannot be observed.

(b) Movements in Level 3 fair value measurements

The following table sets out movements in Level 3 fair value measurements. Derivatives are categorised on a portfolio basis and classified as either financial assets or financial liabilities based on whether the closing balance is an unrealised gain or loss. This could be different to the opening balance.

	Financial assets										Financial liabilities	
	Trading securities		Derivatives		Available-for-sale		Net loans and advances		Investments backing policy liabilities		Derivatives	
Consolidated	2015 $m	2014 $m	2015 $m	2014 $m	2015 $m	2014 $m	2015 $m	2014 $m	2015 $m	2014 $m	2015 $m	2014 $m
Opening balance	–	–	106	200	40	36	–	–	545	105	(105)	(437)
New purchases	–	–	–	–	8	4	21	–	161	447	–	–
Disposals (sales)	–	–	(8)	(9)	(20)	(12)	–	–	(266)	(34)	–	–
Cash settlements	–	–	–	–	–	–	–	–	–	–	7	19
– Transfers into Level 3 category[1]	10	–	2	14	198	8	–	–	161	–	(2)	(13)
– Transfers out of Level 3 category[1]	–	–	(17)	(32)	–	–	–	–	(148)	(2)	9	254
Fair value gain/(loss) recorded in other operating income in the income statement[2]	(6)	–	(1)	(67)	5	–	(5)	–	86	29	(10)	72
Fair value gain/(loss) recognised in reserves in equity	–	–	–	–	3	4	–	–	–	–	–	–
Closing balance	4	–	82	106	234	40	16	–	539	545	(101)	(105)

	Financial assets										Financial liabilities	
	Trading securities		Derivatives		Available–for–sale		Net loans and advances		Investments backing policy liabilities		Derivatives	
The Company	2015 $m	2014 $m	2015 $m	2014 $m	2015 $m	2014 $m	2015 $m	2014 $m	2015 $m	2014 $m	2015 $m	2014 $m
Opening balance	–	–	96	200	22	29	–	–	n/a	n/a	(103)	(437)
New purchases	–	–	–	–	8	4	21	–	n/a	n/a	–	–
Disposals (sales)	–	–	(8)	(9)	(14)	(11)	–	–	n/a	n/a	–	–
Cash settlements	–	–	–	–	–	–	–	–	n/a	n/a	7	19
– Transfers into Level 3 category	10	–	–	6	30	–	–	–	n/a	n/a	–	(9)
– Transfers out of Level 3 category	–	–	(14)	(31)	–	–	–	–	n/a	n/a	8	254
Fair value gain/(loss) recorded in other operating income in the income statement[2]	(6)	–	1	(70)	4	1	(5)	–	n/a	n/a	(3)	70
Fair value gain/(loss) recognised in reserves in equity	–	–	–	–	–	(1)	–	–	n/a	n/a	–	–
Closing balance	4	–	75	96	50	22	16	–	n/a	n/a	(91)	(103)

1 Transfers into Level 3 for the Group relate principally to illiquid corporate bonds and asset backed securities where market activity has reduced resulting in pricing to no longer be observable. Transfers out of Level 3 for the Group relate principally to managed funds (suspended) where the commencement of previously unavailable regular redemption windows has provided observable pricing. Transfers into and out of Level 3 are deemed to have occurred as of the beginning of the reporting period in which the transfer occurred.

2 Relating to assets and liabilities held at the end of the period.

(c) Sensitivity to Level 3 data inputs

Where valuation techniques are employed and assumptions are required due to significant data inputs not being directly observable in the market place (Level 3 inputs), changing these assumptions changes the resultant estimate of fair value. The majority of transactions in this category are 'back-to-back' in nature where ANZ either acts as a financial intermediary or hedges the market risks. Similarly, the valuation of Investments backing policy liabilities directly impacts the associated life investment contracts they relate to. In these circumstances, changes in the assumptions generally have minimal impact on the income statement and net assets of ANZ. An exception to this is the 'back-to-back' structured credit intermediation trades which create significant exposure to credit risk.

Principal inputs used in the determination of fair value of financial instruments included in the structured credit portfolio include counterparty credit spreads, market-quoted CDS prices, recovery rates, default probabilities, correlation curves and other inputs, some of which may not be directly observable in the market. The potential effect of changing prevailing unobservable inputs to reasonably possible alternative assumptions for valuing those financial instruments could result in less than a (+/-) $5 million (2014: (+/-) $10 million) impact on profit. The ranges of reasonably possible alternative assumptions are established by application of professional judgement and analysis of the data available to support each assumption.

20: Fair value of financial assets and financial liabilities (continued)

(d) Deferred fair value gains and losses

Where the fair value of a financial instrument at initial recognition is determined using unobservable data that is significant to the valuation of the instrument, the difference between the transaction price and the amount determined based on the valuation technique (day one gain or loss) is not immediately recognised in the income statement. Subsequently, the day one gain or loss is recognised in the income statement over the life of the transaction on a straight line basis or over the period until all inputs become observable.

The table below summarises the aggregate amount of day one gains not yet recognised in the income statement and amounts which have been subsequently recognised.

	Consolidated		The Company	
	2015 $m	2014 $m	2015 $m	2014 $m
Opening balance	3	4	2	2
Deferral on new transactions	–	1	–	1
Amounts recognised in income statement during the period	(1)	(2)	(1)	(1)
Closing balance	2	3	1	2

The closing balance of unrecognised gains is predominantly related to derivative financial instruments.

(v) ADDITIONAL INFORMATION FOR FINANCIAL INSTRUMENTS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

(a) Financial assets designated at fair value through profit or loss

The category loans and advances includes certain loans designated at fair value through profit or loss in order to eliminate an accounting mismatch which would arise if the asset were otherwise carried at amortised cost. This mismatch arises as the derivative financial instruments which were acquired to mitigate interest rate risk of the loans and advances, are measured at fair value through profit or loss. By designating the economically hedged loans, the movements in the fair value attributable to changes in interest rate risk will be recognised in the income statement in the same periods.

At balance date, the credit exposure of the Group on these assets was $683 million (2014: $368 million) and for the Company was $144 million (2014: $77 million). For the Group $509 million (2014: $195 million) and the Company $144 million (2014: $77 million) was mitigated by collateral held.

For the Group, the cumulative change in fair value attributable to change in credit risk was a reduction to the assets of $1 million (2014: reduction to the assets of $2 million). For the Company the cumulative change to the assets was $nil (2014: $nil). The amount recognised in the income statement attributable to changes in credit risk for the Group was $1 million (2014: $nil) and for the Company $nil (2014: $nil).

The change in fair value of the designated financial assets attributable to changes in credit risk has been calculated by determining the change in credit rating and credit spread implicit in the loans and advances issued by entities with similar credit characteristics.

(b) Financial liabilities designated at fair value through profit or loss

Parts of Subordinated debt, Debt issuances and Deposits and other borrowings have been designated as financial liabilities at fair value through profit or loss in order to eliminate an accounting mismatch which would arise if the liabilities were otherwise carried at amortised cost. This mismatch arises as the derivatives acquired to mitigate interest rate risk within the financial liabilities are measured at fair value through profit or loss. Policy liabilities are designated at fair value through profit or loss in accordance with AASB 1038. External unitholder liabilities which are not included in the table below, represent the external unitholder share of the 'Investments backing policy liabilities' which are designated at fair value through profit or loss.

The table below compares the carrying amount of financial liabilities carried at full fair value, to the contractual amount payable at maturity and fair value gains and losses recognised during the period on liabilities carried at full fair value that are attributable to changes in ANZ's own credit rating.

	Policy liabilities		Deposits and other borrowings		Debt issuances		Subordinated debt	
Consolidated	2015 $m	2014 $m	2015 $m	2014 $m	2015 $m	2014 $m	2015 $m	2014 $m
Carrying amount	35,029	34,038	4,576	5,494	3,165	3,441	–	–
Amount by which the consideration payable at maturity is greater/(less) than the carrying value	–	–	6	4	(15)	(62)	–	–
Cumulative change in liability value attributable to own credit risk:								
– opening cumulative increase/(decrease)	–	–	–	–	34	(13)	–	12
– increase/(decrease) recognised during the year	–	–	–	–	(52)	47	–	(12)
– closing cumulative increase/(decrease)	–	–	–	–	(18)	34	–	–

20: Fair value of financial assets and financial liabilities (continued)

The Company	Deposits and other borrowings 2015 $m	2014 $m	Debt issuances 2015 $m	2014 $m	Subordinated debt 2015 $m	2014 $m
Carrying amount	65	96	3,165	2,630	–	–
Amount by which the consideration payable at maturity is greater/(less) than the carrying value	6	4	(15)	(66)	–	–
Cumulative change in liability value attributable to own credit risk:						
– opening cumulative increase/(decrease)	–	–	34	(13)	–	12
– increase/(decrease) recognised during the year	–	–	(52)	47	–	(12)
– closing cumulative increase/(decrease)	–	–	(18)	34	–	–

For each of Subordinated debt, Debt issuances and Deposits and other borrowings, the change in fair value attributable to changes in credit risk has been determined as the amount of change in fair value that is not attributable to changes in market conditions that give rise to market risks (benchmark interest rate and foreign exchange rates). This approach is deemed appropriate as the changes in fair value arising from factors other than changes in own credit risk or changes in observed (benchmark) interest rates and foreign exchange rates are considered to be insignificant.

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

The table below reflects the carrying amounts of financial instruments not measured at fair value on the Group's balance sheet and where the carrying amount is not considered a close approximation of fair value. The table also provides a comparison of the carrying amount of these financial instruments to the Group's estimate of their fair value. The categorisation of the fair value into the levels within the fair value hierarchy is determined in accordance with the methodology set out on page 126 (section ii).

	Carrying amount		Categorised into fair value hierarchy						Fair value (total)	
			Quoted market price (Level 1)		Using observable inputs (Level 2)		With significant non-observable inputs (Level 3)			
Consolidated	2015 $m	2014 $m	2015 $m	2014 $m	2015 $m	2014 $m	2015 $m	2014 $m	2015 $m	2014 $m
Financial assets										
Net loans and advances[1]	569,539	521,384	–	–	545,538	498,545	25,402	23,339	570,940	521,884
	569,539	521,384	–	–	545,538	498,545	25,402	23,339	570,940	521,884
Financial liabilities										
Deposits and other borrowings	566,218	504,585	–	–	566,636	504,760	–	–	566,636	504,760
Debt issuances	90,582	76,655	37,880	29,893	52,826	47,821	–	–	90,706	77,714
Subordinated debt	17,009	13,607	13,842	10,805	3,241	2,959	–	–	17,083	13,764
Total	673,809	594,847	51,722	40,698	622,703	555,540	–	–	674,425	596,238

1 Included within Net loans and advances (Level 2) is $8,065m of lending assets of the Esanda dealer finance business classified as held for sale (refer note 14).

	Carrying amount		Categorised into fair value hierarchy						Fair value (total)	
			Quoted market price (Level 1)		Using observable inputs (Level 2)		With significant non-observable inputs (Level 3)			
The Company	2015 $m	2014 $m	2015 $m	2014 $m	2015 $m	2014 $m	2015 $m	2014 $m	2015 $m	2014 $m
Financial assets										
Net loans and advances[1]	448,288	414,989	–	–	428,949	396,264	20,276	19,127	449,225	415,391
	448,288	414,989	–	–	428,949	396,264	20,276	19,127	449,225	415,391
Financial liabilities										
Deposits and other borrowings	471,966	423,076	–	–	472,235	423,222	–	–	472,235	423,222
Debt issuances	72,414	61,531	24,428	18,861	48,008	43,558	–	–	72,436	62,419
Subordinated debt	15,812	12,870	11,357	10,072	3,249	2,964	–	–	14,606	13,036
Total	560,192	497,477	35,785	28,933	523,492	469,744	–	–	559,277	498,677

1 Included within Net loans and advances (Level 2) is $8,065m of lending assets of the Esanda dealer finance business classified as held for sale (refer note 14).

The following sets out the Group's basis of establishing fair value of financial instruments not measured at fair value on the balance sheet. The valuation techniques employed are consistent with those used to calculate fair values of financial instruments carried at fair value. Certain Net loans and advances, Deposits and other borrowings and Debt issuances have been designated at fair value and are therefore excluded from the tables above.

20: Fair value of financial assets and financial liabilities (continued)

Net loans and advances

The fair value has been determined through discounting future cash flows.

For Net loans and advances to banks, the fair value is derived by discounting cash flows using prevailing market rates for lending with similar credit quality.

For Net loans and advances to customers, the fair value is the present value of future cash flows, discounted using a curve which incorporates changes in wholesale market rates, the Group's cost of wholesale funding and the customer margin, as appropriate.

Deposits and other borrowings

For interest bearing fixed maturity deposits and other borrowings and acceptances with quoted market prices, market borrowing rates of interest for debt with a similar maturity are used to discount contractual cash flows to derive the fair value. The fair value of a deposit liability without a specified maturity or at call is deemed to be the amount payable on demand at the reporting date. The fair value is not adjusted for any value expected to be derived from retaining the deposit for a future period of time.

Debt issuances and Subordinated debt

The aggregate fair value of Debt issuances and Subordinated debt is calculated based on quoted market prices or observable inputs where applicable. For those debt issuances where quoted market prices were not available, a discounted cash flow model using a yield curve appropriate for the remaining term to maturity of the debt instrument used. The fair value includes the effects of the appropriate credit spreads applicable to ANZ for that instrument.

21: Maturity Analysis of Assets and Liabilities

The following is an analysis of asset and liability line items in the balance sheet that combine amounts expected to be realised or due to be settled within one year and after more than one year.[1]

	2015			2014		
Consolidated	Within one year $m	After more than one year $m	Total $m	Within one year $m	After more than one year $m	Total $m
Available-for-sale assets	10,353	33,314	43,667	8,819	22,098	30,917
Net loans and advances[2]	128,771	441,467	570,238	124,985	396,767	521,752
Investments backing policy liabilities	27,966	6,854	34,820	28,361	5,218	33,579
Deposits and other borrowings	546,626	24,168	570,794	488,862	21,217	510,079
Policy liabilities[3]	35,340	61	35,401	34,554	–	34,554
Debt issuances	29,327	62,420	93,747	15,720	64,376	80,096
Subordinated debt[4]	–	17,009	17,009	–	13,607	13,607

1 Excludes asset and liability line items where the entire amount is considered as "within one year", "after more than one year" or having no specific maturities.
2 Includes Esanda dealer finance assets classified as held for sale (refer note 14).
3 Includes $372 million (2014: $516 million) that relates to life insurance contract liabilities classified as "within one year".
4 Includes $1,188 million (2014: $1,087 million) that relates to perpetual notes.

22: Assets Charged as Security for Liabilities and Collateral Accepted as Security for Assets

ASSETS CHARGED AS SECURITY FOR LIABILITIES[1]

The following assets are pledged as collateral:

- Mandatory reserve deposits with local central banks in accordance with statutory requirements. These deposits are not available to finance the Group's day to day operations.
- Securities provided as collateral for repurchase transactions. These transactions are governed by standard industry agreements.
- Debenture undertakings covering the assets of Esanda Finance Corporation Limited (Esanda), and its subsidiaries, and UDC Finance Limited (UDC). The debenture stock of Esanda, and its subsidiaries, and UDC is secured by a trust deed and collateral debentures, giving floating charges over the undertakings and all the tangible assets of the entity, other than land and buildings (of Esanda only). All controlled entities of Esanda and UDC have guaranteed the payment of principal, interest and other monies in relation to all debenture stock and unsecured notes issued by Esanda and UDC respectively. The only loans pledged as collateral are those in Esanda, and its subsidiaries, and UDC.
- 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.
- Collateral provided to clearing houses.

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

	Consolidated				The Company			
	Carrying Amount		Related Liability		Carrying Amount		Related Liability	
	2015 $m	2014 $m	2015 $m	2014 $m	2015 $m	2014 $m	2015 $m	2014 $m
Regulatory deposits	1,773	1,565	n/a	n/a	557	434	n/a	n/a
Securities sold under arrangements to repurchase	13,975	8,736	13,731	8,641	13,476	8,568	13,255	8,473
Assets pledged as collateral under debenture undertakings	2,218	2,141	1,578	1,400	–	–	–	–
Covered bonds[1]	30,368	27,241	27,013	20,561	23,508	20,738	23,508	20,738
Other	225	219	222	208	179	170	178	170

1 The consolidated related liability represents covered bonds issued to external investors and the related liability for the Company represents the liability to the covered bond structured entities.

COLLATERAL ACCEPTED AS SECURITY FOR ASSETS[1]

ANZ has received collateral in relation to reverse repurchase agreements. These transactions are governed by standard industry agreements.

The fair value of collateral received and sold or repledged is as follows:

	Consolidated		The Company	
	2015 $m	2014 $m	2015 $m	2014 $m
Collateral received on standard reverse repurchase agreements				
Fair value of assets which can be sold	17,506	14,354	16,738	13,878
Fair value of assets sold or repledged	2,475	4,201	1,933	4,090

1 Excludes the amounts disclosed as collateral paid and received in the balance sheet that relate to derivative liabilities and derivative assets respectively. The terms and conditions of the collateral agreements are included in the standard Credit Support Annex that forms part of the International Swaps and Derivatives Association Master Agreement.

23: Offsetting

The following tables identify financial assets and liabilities which have been offset in the balance sheet (in accordance with AASB 132 – Financial Instruments: Presentation (AASB 132)) and those which have not been offset in the balance sheet but are subject to enforceable master netting agreements (or similar arrangements) with our trading counterparties. The effect of over collaterisation has not been taken into account.
A description of the rights of set-off associated with financial assets and financial liabilities subject to master netting agreements or similar, including the nature of those rights, are described in note 19.

			Amount subject to master netting agreement or similar			
				Related amounts not offset in the statement of financial position		
Consolidated 30 September 2015	Total amounts recognised in the balance sheet[1] $m	Amounts not subject to master netting agreement or similar $m	Total $m	Financial instruments $m	Financial collateral (received)/ pledged $m	Net amount $m
Derivative assets	85,625	(6,846)	78,779	(62,782)	(7,165)	8,832
Reverse repurchase, securities borrowing and similar agreements[2]	17,308	(7,470)	9,838	(265)	(9,573)	–
Total financial assets	102,933	(14,316)	88,617	(63,047)	(16,738)	8,832
Derivative liabilities	(81,270)	5,566	(75,704)	62,782	8,517	(4,405)
Repurchase, securities lending and similar agreements[3]	(13,731)	12,674	(1,057)	265	792	–
Total financial liabilities	(95,001)	18,240	(76,761)	63,047	9,309	(4,405)

			Amount subject to master netting agreement or similar			
				Related amounts not offset in the statement of financial position		
Consolidated 30 September 2014	Total amounts recognised in the balance sheet[1] $m	Amounts not subject to master netting agreement or similar $m	Total $m	Financial instruments $m	Financial collateral (received)/ pledged $m	Net amount $m
Derivative assets	56,369	(5,236)	51,133	(41,871)	(5,048)	4,214
Reverse repurchase, securities borrowing and similar agreements[2]	13,384	(5,928)	7,456	(20)	(7,436)	–
Total financial assets	69,753	(11,164)	58,589	(41,891)	(12,484)	4,214
Derivative liabilities	(52,925)	4,148	(48,777)	41,871	4,586	(2,320)
Repurchase, securities lending and similar agreements[3]	(8,641)	8,588	(53)	20	33	–
Total financial liabilities	(61,566)	12,736	(48,830)	41,891	4,619	(2,320)

1 The Group/Company does not have any arrangements that satisfy the conditions of AASB 132 to offset within the balance sheet.
2 Reverse repurchase agreements are presented in the balance sheet within cash if duration is less than 90 days. If maturity is greater than 90 days they are presented in net loans and advances.
3 Repurchase agreements are presented in the balance sheet within deposits and other borrowings.

23: Offsetting (continued)

The Company 30 September 2015	Total amounts recognised in the balance sheet[1]	Amounts not subject to master netting agreement or similar	Amount subject to master netting agreement or similar: Total	Related amounts not offset in the statement of financial position: Financial instruments	Related amounts not offset in the statement of financial position: Financial collateral (received)/ pledged	Net amount
	$m	$m	$m	$m	$m	$m
Derivative assets	75,694	(5,140)	70,554	(55,881)	(6,435)	8,238
Reverse repurchase, securities borrowing and similar agreements[2]	16,604	(6,766)	9,838	(265)	(9,573)	–
Total financial assets	92,298	(11,906)	80,392	(56,146)	(16,008)	8,238
Derivative liabilities	(71,844)	4,247	(67,597)	55,881	7,681	(4,035)
Repurchase, securities lending and similar agreements[3]	(13,255)	12,198	(1,057)	265	792	–
Total financial liabilities	(85,099)	16,445	(68,654)	56,146	8,473	(4,035)

The Company 30 September 2014	Total amounts recognised in the balance sheet[1]	Amounts not subject to master netting agreement or similar	Amount subject to master netting agreement or similar: Total	Related amounts not offset in the statement of financial position: Financial instruments	Related amounts not offset in the statement of financial position: Financial collateral (received)/ pledged	Net amount
	$m	$m	$m	$m	$m	$m
Derivative assets	52,882	(4,230)	48,652	(40,541)	(4,458)	3,653
Reverse repurchase, securities borrowing and similar agreements[2]	12,907	(5,451)	7,456	(20)	(7,436)	–
Total financial assets	65,789	(9,681)	56,108	(40,561)	(11,894)	3,653
Derivative liabilities	(50,474)	3,615	(46,859)	40,541	4,247	(2,071)
Repurchase, securities lending and similar agreements[3]	(8,473)	8,420	(53)	20	33	–
Total financial liabilities	(58,947)	12,035	(46,912)	40,561	4,280	(2,071)

1 The Group/Company does not have any arrangements that satisfy the conditions of AASB 132 to offset within the balance sheet.
2 Reverse repurchase agreements are presented in the balance sheet within cash if duration is less than 90 days. If maturity is greater than 90 days they are presented in net loans and advances.
3 Repurchase agreements are presented in the balance sheet within deposits and other borrowings.

24: Credit Related Commitments, Guarantees and Contingent Liabilities

Credit related commitments – facilities provided

	Consolidated		The Company	
	2015 $m	2014 $m	2015 $m	2014 $m
Contract amount of:				
Undrawn facilities	230,794	193,984	180,847	153,985
Australia	101,898	97,781	99,880	97,773
New Zealand	22,960	20,870	20	29
Overseas markets	105,936	75,333	80,947	56,183
Total	230,794	193,984	180,847	153,985

Guarantees and contingent liabilities

These guarantees and contingent liabilities 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 issue of letters of credit guaranteeing payment in favour of an exporter 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 should the customer fail to fulfil the non-monetary terms of the contract.

To reflect the risk associated with these transactions, they are subjected to the same credit origination, portfolio management and collateral requirements as customers that apply for loans. The contract amount represents the maximum potential amount that could be lost 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.

	Consolidated		The Company	
	2015 $m	2014 $m	2015 $m	2014 $m
Contract amount of:				
Guarantees and letters of credit	18,809	17,235	16,101	14,142
Performance related contingencies	21,526	22,840	18,592	20,774
Total	40,335	40,075	34,693	34,916
Australia	17,638	17,686	17,637	17,686
New Zealand	1,961	1,790	–	–
Asia Pacific, Europe & America	20,736	20,599	17,056	17,230
Total	40,335	40,075	34,693	34,916

25: Goodwill and Other Intangible Assets

	Consolidated		The Company	
	2015 $m	2014 $m	2015 $m	2014 $m
Goodwill[1]				
Gross carrying amount				
Balances at start of the year	4,511	4,499	90	77
Reclassifications	–	–	–	9
Impairment/write off expense	(1)	–	–	–
Foreign currency exchange differences	87	12	19	4
Balance at end of year	4,597	4,511	109	90
Software				
Balances at start of the year	2,533	2,170	2,336	2,007
Software capitalisation during the period	807	777	782	683
Amortisation expense	(542)	(426)	(500)	(368)
Impairment expense/write-offs	(17)	(15)	(12)	(11)
Foreign currency exchange differences	112	27	105	25
Balance at end of year	2,893	2,533	2,711	2,336
Cost	5,860	5,005	5,620	4,568
Accumulated amortisation	(2,763)	(2,263)	(2,710)	(2,031)
Accumulated impairment	(204)	(209)	(199)	(201)
Carrying amount	2,893	2,533	2,711	2,336
Acquired Portfolio of Insurance and Investment Business				
Balances at start of the year	784	856	–	–
Amortisation expense	(70)	(71)	–	–
Foreign currency exchange differences	1	(1)	–	–
Balance at end of year	715	784	–	–
Cost	1,188	1,187	–	–
Accumulated amortisation	(473)	(403)	–	–
Carrying amount	715	784	–	–
Other intangible assets[2]				
Balances at start of the year	122	165	25	40
Other additions	(1)	3	–	–
Reclassification	–	–	(7)	(9)
Amortisation expense	(18)	(18)	(9)	(8)
Impairment expense	–	(28)	–	–
Foreign currency exchange differences	4	–	1	2
Balance at end of year	107	122	10	25
Cost	207	227	68	68
Accumulated amortisation/impairment	(100)	(105)	(58)	(43)
Carrying amount	107	122	10	25
Goodwill and other intangible assets				
Net book value				
Balances at start of the year	7,950	7,690	2,451	2,124
Balance at end of year	8,312	7,950	2,830	2,451

1 Excludes notional goodwill in equity accounted investments.

2 The consolidated other intangible assets comprises aligned advisor relationships, distribution agreements and management fee rights, credit card relationships and other intangibles. The Company other intangible assets comprises distribution agreements and management fee rights, credit card relationships and other intangibles.

25: Goodwill and Other Intangible Assets (continued)

GOODWILL ALLOCATED TO CASH–GENERATING UNITS

The goodwill balance above largely comprises the goodwill purchased on acquisition of NBNZ Holdings Limited in December 2003 and ANZ Wealth Australia Limited (formerly OnePath Australia Limited) on 30 November 2009. Refer to note 8 for Divisional allocation.

The recoverable amount of the CGU to which each goodwill component is allocated is estimated using a market multiple approach as representative of the fair value less costs of disposal of each CGU. The price earnings multiples are based on observable multiples reflecting the businesses and markets in which each CGU operates. The earnings are based on the current forecast earnings of the divisions. The aggregate fair value less costs of disposal across the Group is compared to the Group's market capitalisation to validate the conclusion that goodwill is not impaired.

Key assumptions on which management has based its determination of fair value less costs of disposal include assumptions as to the market multiples being reflective of the segment's businesses, costs of disposal estimates and the ability to achieve forecast earnings. Changes in assumptions upon which the valuation is based could materially impact the assessment of the recoverable amount of each CGU. As at 30 September 2015, the impairment testing performed did not result in any material impairment being identified.

26: Premises and Equipment

	Consolidated		The Company	
	2015 $m	2014 $m	2015 $m	2014 $m
At cost[1]	4,769	4,280	2,694	2,325
Accumulated depreciation[1]	(2,548)	(2,099)	(1,704)	(1,324)
	2,221	2,181	990	1,001
Carrying amount at beginning of year	2,181	2,164	1,001	983
Additions[2]	361	375	232	247
Disposals	(43)	(44)	(38)	(17)
Amortisation and depreciation[3]	(325)	(324)	(227)	(221)
Foreign currency exchange difference	47	10	22	9
Carrying amount at end of year	2,221	2,181	990	1,001
Net book value				
Freehold and leasehold land and buildings	901	878	59	50
Integrals and equipment	1,183	1,162	856	904
Capital works in progress	137	141	75	47
	2,221	2,181	990	1,001

1 The current year cost and accumulated depreciation was reduced to remove assets with a nil net book value that are no longer in use. Comparative information was not adjusted.
2 Includes Transfers.
3 Includes Freehold and leasehold land and buildings, Leasehold improvements, Furniture and equipment and Technology equipment.

COMMITMENTS

	Consolidated		The Company	
	2015 $m	2014 $m	2015 $m	2014 $m
Property capital expenditure				
Contracts for outstanding capital expenditure	109	88	92	68
Total capital expenditure commitments for property	109	88	92	68
Lease rentals				
Land and buildings	2,251	2,163	2,283	2,345
Furniture and equipment	276	216	190	168
Total lease rental commitments[1]	2,527	2,379	2,473	2,513
Due within one year	485	475	438	413
Due later than one year but not later than five years	1,273	1,130	1,083	1,103
Due later than five years	769	774	952	997
Total lease rental commitments[1]	2,527	2,379	2,473	2,513

1 Total future minimum sublease payments expected to be received under non-cancellable subleases at 30 September is $90 million (2014: $90 million) for the Group and $80 million (2014: $78 million) for the Company. During the year, sublease payments received amounted to $22 million (2014: $19 million) for the Group and $19 million (2014: $16 million) for the Company and were netted against rent expense.

27: Other Assets

	Consolidated 2015 $m	Consolidated 2014 $m	The Company 2015 $m	The Company 2014 $m
Accrued interest/prepaid discounts	1,405	1,472	944	998
Accrued commissions	137	129	76	75
Prepaid expenses	427	356	178	152
Insurance contract liabilities ceded	699	591	–	–
Outstanding premiums	228	200	–	–
Defined benefit superannuation plan surplus	144	47	144	47
Operating leases residual value	282	334	282	334
Other	2,524	1,662	1,325	637
Total other assets	5,846	4,791	2,949	2,243

28: Provisions

	Consolidated 2015 $m	Consolidated 2014 $m	The Company 2015 $m	The Company 2014 $m
Employee entitlements[1]	554	526	411	404
Restructuring costs and surplus leased space[2]	23	56	15	48
Non-lending losses, frauds and forgeries	169	134	141	104
Other	328	384	164	139
Total provisions	1,074	1,100	731	695
Provisions, excluding employee entitlements				
Carrying amount at beginning of the year	574	695	291	422
Provisions made during the year	307	572	164	185
Payments made during the year	(206)	(514)	(72)	(172)
Transfer/release of provision	(155)	(179)	(63)	(144)
Carrying amount at the end of the year	520	574	320	291

1 The aggregate liability for employee entitlements largely comprises provisions for annual leave and long service leave.

2 Restructuring costs and surplus leased space provisions 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 includes termination benefits. Costs relating to on-going activities are not provided for. Provision is made when the Group is demonstrably committed, it is probable that the costs will be incurred, though their timing is uncertain, and the costs can be reliably estimated.

3 Other provisions comprise various other provisions including loyalty programs, workers' compensation, make-good provisions on leased premises and contingent liabilities recognised as part of a business combination.

29: Payables and Other Liabilities

	Consolidated 2015 $m	Consolidated 2014 $m	The Company 2015 $m	The Company 2014 $m
Creditors	1,661	1,335	871	477
Accrued interest and unearned discounts	1,938	2,096	1,448	1,592
Defined benefits plan obligations	59	39	14	15
Accrued expenses	1,368	1,394	889	1,022
Securities sold short (classified as held for trading)	2,568	3,870	1,978	3,556
Liability for acceptances	1,371	1,151	649	717
Other liabilities	1,401	1,099	445	303
Total payables and other liabilities	10,366	10,984	6,294	7,682

30: Share Capital

Numbers of issued shares	The Company 2015	The Company 2014
Ordinary shares each fully paid	2,902,714,361	2,756,627,771
Preference shares each fully paid	–	500,000
Total number of issued shares	2,902,714,361	2,757,127,771

30: Share Capital (continued)

ORDINARY SHARES

Ordinary shares have no par value and entitle holders to receive dividends payable to ordinary shareholders and to participate in the proceeds available to ordinary shareholders on winding up of the Company in proportion to the number of fully paid ordinary shares held.

On a show of hands every holder of fully paid ordinary shares present at a meeting in person or by proxy is entitled to one vote, and upon a poll one vote for each share held.

	The Company	
Numbers of issued shares	2015	2014
Balance at start of the year	2,756,627,771	2,743,655,310
Bonus option plan[1,2]	2,899,350	2,479,917
Dividend reinvestment plan[1,2]	35,105,134	26,209,958
Group share option scheme[3]	32,192	171,742
Group employee share acquisition scheme[3,4]	–	–
Share placement and share purchase plan[5]	108,049,914	–
Group share buyback[6]	–	(15,889,156)
Balance at end of year	2,902,714,361	2,756,627,771

	Consolidated		The Company	
	2015 $m	2014 $m	2015 $m	2014 $m
Ordinary share capital				
Balance at start of the year	24,031	23,641	24,280	23,914
Dividend reinvestment plan[1,2]	1,122	851	1,122	851
Group share option scheme[3]	2	4	2	4
Group employee share acquisition scheme[3,4]	1	11	1	11
Share placement and share purchase plan[5]	3,206	–	3,206	–
Group share buyback[6]	–	(500)	–	(500)
Treasury shares in Global Wealth[7]	5	24	–	–
Balance at end of year	28,367	24,031	28,611	24,280

1 Refer to note 6 for details of plan.
2 The Company issued 28.7 million shares under the dividend reinvestment plan and bonus option plan for the 2015 interim dividend and 9.3 million shares for the 2014 final dividend (Sep14: 28.7 million shares for the respective interim and final dividends).
3 Refer to note 41 for details of plan.
4 Includes on-market purchase of shares for settlement of amounts due under share-based compensation plans. In addition, nil shares were issued during the year ended 30 September 2015 to the Group's Employee Share Trust for settlement of amounts due under share-based compensation plans (2014: nil). As at 30 September 2015, there were 11,378,648 Treasury Shares outstanding (2014: 13,754,867).
5 The Company issued 80.8 million ordinary shares under the institutional share placement and 27.3 million ordinary shares under the share purchase plan.
6 Following the announcement of the 2013 final dividend the Company repurchased $500 million of ordinary shares via an on-market share buy-back resulting in 15.9 million ordinary shares being cancelled.
7 Treasury Shares in Global Wealth are shares held in statutory funds as assets backing policyholder liabilities. AWA Treasury Shares outstanding as at 30 September 2015 were 11,623,304 (2014: 11,761,993).

PREFERENCE SHARES

Euro Trust Securities

On 13 December 2004, ANZ issued 500,000 Euro Floating Rate Non-cumulative Trust Securities ('Euro Trust Securities') at €1,000 each, raising $871 million net of issue costs. All 500,000 Euro Trust Securities on issue were bought back by ANZ for cash at face value (€1,000 per security) and cancelled on 15 December 2014.

	Consolidated		The Company	
	2015 $m	2014 $m	2015 $m	2014 $m
Preference share balance at start of year	871	871	871	871
– Euro Trust Securities bought back	(871)	–	(871)	–
Preference share balance at end of the year	–	871	–	871

NON-CONTROLLING INTERESTS

	Consolidated	
	2015 $m	2014 $m
Share capital	55	46
Retained earnings	51	31
Total non-controlling interests	106	77

31: Reserves and Retained Earnings

	Consolidated 2015 $m	Consolidated 2014 $m	The Company[1] 2015 $m	The Company[1] 2014 $m
a) Foreign currency translation reserve				
Balance at beginning of the year	(605)	(1,125)	(290)	(539)
Transferred to income statement	(4)	37	(4)	37
Currency translation adjustments net of hedges	1,728	483	878	212
Total foreign currency translation reserve	1,119	(605)	584	(290)
b) Share option reserve[2]				
Balance at beginning of the year	60	55	60	55
Share-based payments/(exercises)	16	13	16	13
Transfer of options/rights lapsed to retained earnings[3]	(8)	(8)	(8)	(8)
Total share option reserve	68	60	68	60
c) Available-for-sale revaluation reserve				
Balance at beginning of the year	160	121	50	37
Gain/(loss) recognised	27	69	(6)	39
Transferred to income statement	(49)	(30)	(34)	(26)
Total available-for-sale revaluation reserve	138	160	10	50
d) Cash flow hedge reserve				
Balance at beginning of the year	169	75	174	51
Gains/(loss) recognised	111	117	103	117
Transferred to income statement	(11)	(23)	–	6
Total cash flow hedging reserve	269	169	277	174
e) Transactions with non-controlling interests reserve				
Balance at beginning of the year	(23)	(33)	–	–
Transactions with non-controlling interests[4]	–	10	–	–
Total transactions with non-controlling interests reserve	(23)	(23)	–	–
Total reserves	1,571	(239)	939	(6)

1 Comparatives have changed (refer note 45).
2 Further information about share-based payments to employees is disclosed in note 41.
3 The transfer of balances from the share option reserve to retained earnings represents items of a distributable nature.
4 The premium in excess of the book value paid by an associate to acquire an additional interest in its controlled entity from the non-controlling shareholder recognised in 2013 was released in 2014 as the associate no longer controls that entity.

	Consolidated 2015 $m	Consolidated 2014 $m	The Company[1] 2015 $m	The Company[1] 2014 $m
Retained earnings				
Balance at beginning of the year	24,544	21,936	17,557	15,826
Profit attributable to shareholders of the Company	7,493	7,271	7,306	6,436
Transfer of options/rights lapsed from share option reserve[2,3]	8	8	8	8
Remeasurement gain/(loss) on defined benefit plans after tax	(4)	32	20	6
Fair value gain/loss attributable to changes in own credit risk of financial liabilities designated at fair value	37	(25)	37	(25)
Dividend income on Treasury shares held within the Group's life insurance statutory funds	22	22	–	–
Ordinary share dividends paid	(4,906)	(4,694)	(4,906)	(4,694)
Preference share dividends paid	(1)	(6)	–	–
Foreign exchange gains on preference shares bought back[4]	116	–	116	–
Retained earnings at end of year	27,309	24,544	20,138	17,557
Total reserves and retained earnings	28,880	24,305	21,077	17,551

1 Comparatives have changed (refer note 45).
2 Further information about share-based payments to employees is disclosed in note 41.
3 The transfer of balances from the share option reserve to retained earnings represents items of a distributable nature.
4 The Euro Trust Securities were bought back by ANZ for cash at face value and cancelled on 15 December 2014. The foreign exchange gain between the issue date and 15 December 2014 was recognised directly in retained earnings.

32: Capital Management

ANZ pursues an active approach to capital management, which is designed to protect the interests of depositors, creditors and shareholders. This involves the on-going review and Board approval of the level and composition of ANZ's capital base, assessed against the following key policy objectives:

- regulatory compliance such that capital levels exceed APRA's, ANZ's primary prudential supervisor, minimum Prudential Capital Ratios (PCRs) both at Level 1 (the Company and specified subsidiaries) and Level 2 (ANZ consolidated under Australian prudential standards), along with US Federal Reserve's minimum Level 2 requirements under ANZ's Foreign Holding Company Licence in the United States of America;
- capital levels are aligned with the risks in the business and to meet strategic and business development plans through ensuring that available capital exceeds the level of Economic Capital required to support the Ratings Agency 'default frequency' confidence level for a 'AA' credit rating category bank. Economic Capital is an internal estimate of capital levels required to support risk and unexpected losses above a desired target solvency level;
- capital levels are commensurate with ANZ maintaining its preferred 'AA' credit rating category for senior long-term unsecured debt given its risk appetite outlined in its strategic plan; and
- an appropriate balance between maximising shareholder returns and prudent capital management principles.

ANZ achieves these objectives through an Internal Capital Adequacy Assessment Process (ICAAP) whereby ANZ conducts detailed strategic and capital planning over a medium term time horizon.

Annually, ANZ conducts a detailed strategic planning process over a three year time horizon, the outcomes of which are embodied in the Strategic Plan. This process involves forecasting key economic variables which Divisions use to determine key financial data for their existing business. New strategic initiatives to be undertaken over the planning period and their financial impact are then determined. These processes are used for the following:

- review capital ratios, targets, and levels of different classes of capital against ANZ's risk profile and risk appetite outlined in the Strategic Plan. ANZ's capital targets reflect the key policy objectives above, and the desire to ensure that under specific stressed economic scenarios that capital levels are sufficient to remain above both Economic Capital and Prudential Capital Ratio (PCR) requirements;
- stress tests are performed under different economic conditions to ensure a comprehensive review of ANZ's capital position both before and after mitigating actions. The stress tests determine the level of additional capital (i.e. the 'stress capital buffer') needed to absorb losses that may be experienced during an economic downturn; and
- stress testing is integral to strengthening the predictive approach to risk management and is a key component in managing risks, asset writing strategies and business strategies. It creates greater understanding of the impacts on financial performance through modelling relationships and sensitivities between geographic, industry and Divisional exposures under a range of macroeconomic scenarios. ANZ has a dedicated stress testing team within Risk Management that models and reports to management and the Board's Risk Committee on a range of scenarios and stress tests.

Results are subsequently used to:

- recalibrate ANZ's management targets for minimum and operating ranges for its respective classes of capital such that ANZ will have sufficient capital to remain above both Economic Capital and regulatory requirements; and
- identify the level of organic capital generation and hence determine current and future capital issuance requirements for Level 1 and Level 2.

From these processes, a Capital Plan is developed and approved by the Board which identifies the capital issuance requirements, capital securities maturity profile, and options around capital products, timing and markets to execute the Capital Plan under differing market and economic conditions.

The Capital Plan is maintained and updated through a monthly review of forecast financial performance, economic conditions and development of business initiatives and strategies. The Board and senior management are provided with monthly updates of ANZ's capital position. Any actions required to ensure ongoing prudent capital management are submitted to the Board for approval.

REGULATORY ENVIRONMENT

ANZ's regulatory capital calculation is governed by APRA's Prudential Standards which adopt a risk-based capital assessment framework based on the Basel 3 capital measurement standards. This risk based approach requires eligible capital to be divided by total risk weighted assets (RWAs), with the resultant ratio being used as a measure of an ADI's capital adequacy. APRA determines PCRs for Common Equity Tier 1 (CET1), Tier 1 and Total Capital, with capital as the numerator and RWAs as the denominator.

To ensure that ADIs are adequately capitalised on both a stand-alone and group basis, APRA adopts a tiered approach to the measurement of an ADI's capital adequacy by assessing the ADIs financial strength at three levels:

- Level 1 – the ADI on a stand-alone basis (i.e. the Company and approved subsidiaries which are consolidated to form the ADI's Extended Licensed Entity);
- Level 2 – the consolidated banking group (i.e. the consolidated financial group less certain subsidiaries and associates excluded under the prudential standards); and
- Level 3 – the conglomerate group at the widest level.

ANZ is a Level 1 and Level 2 reporter, and measures capital adequacy monthly on a Level 1 and Level 2 basis, and is not yet required to report on a Level 3 basis.

Regulatory capital is divided into Tier 1, carrying the highest capital elements, and Tier 2, which has lower capital elements, but still adds to the overall strength of the ADI.

Tier 1 capital is comprised of Common Equity Tier 1 capital less deductions and Additional Tier 1 capital instruments. Common Equity Tier 1 capital comprises shareholders' equity adjusted for items which APRA does not allow as regulatory capital or classifies as lower forms of regulatory capital. Common Equity Tier 1 capital includes the following significant adjustments:

- Additional Tier 1 capital instruments included within shareholders' equity are excluded;
- Reserves, excluding the hedging reserve and reserves of insurance and funds management subsidiaries excluded for Level 2 purposes;
- Retained earnings excludes retained earnings of insurance and funds management subsidiaries excluded for Level 2 purposes, but includes capitalised deferred fees forming part of loan yields that meet the criteria set out in the prudential standard;
- Inclusion of qualifying treasury shares; and
- Current year net of tax earnings less profits of insurance and funds management subsidiaries excluded for Level 2 purposes.

32: Capital Management (continued)

Additional Tier 1 capital instruments are high quality components of capital that provide a permanent and unrestricted commitment of funds, are available to absorb losses, are subordinated to the claims of depositors and senior creditors in the event of the winding up of the issuer and provide for fully discretionary capital distributions.

Deductions from the capital base comprise mainly deductions to the Common Equity Tier 1 component. These deductions are largely intangible assets, investments in insurance and funds management entities and associates, capitalised expenses (including loan and origination fees) and the amount of regulatory expected losses (EL) in excess of eligible provisions.

Tier 2 capital mainly comprises perpetual subordinated debt instruments and dated subordinated debt instruments which have a minimum term of five years at issue date.

Total Capital is the sum of Tier 1 capital and Tier 2 capital.

In addition to the prudential capital oversight that APRA conducts over the Company and the Group, the Company's branch operations and major banking subsidiary operations are 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 Regulatory Commission who may impose minimum capitalisation rates on those operations.

Throughout the financial year, the Company and the Group maintained compliance with the minimum Common Equity Tier 1, Tier 1 and Total Capital ratios set by APRA and the US Federal Reserve (as applicable) as well as applicable capitalisation rates set by regulators in countries where the Company operates branches and subsidiaries.

REGULATORY DEVELOPMENTS

Financial System Inquiry (FSI)

The Australian Government recently completed a comprehensive inquiry into Australia's financial system. The final FSI report was released on 7 December 2014. The contents of the final FSI report are wide-ranging and key recommendations that may have an impact on regulatory capital levels include:

- setting capital standards such that Australian ADIs capital ratios are unquestionably strong;
- raising the average internal ratings-based (IRB) mortgage risk-weight to narrow the difference between average mortgage risk-weight for ADIs using IRB models and those using standardised risk weights;
- implementing a framework for minimum loss absorbing and recapitalisation capacity in line with emerging international practice;
- developing a common reporting template that improves the transparency and comparability of capital ratios of Australian ADIs; and
- introducing a leverage ratio that acts as a backstop to ADIs' risk-based capital requirements, in line with Basel framework.

APRA responded to parts of the FSI inquiry in July 2015 with the following announcements made in connection to the key recommendations:

- APRA released an information paper entitled "International capital comparison study" (APRA Study) which supports the FSI's recommendation that the capital ratios of Australian ADIs should be unquestionably strong. The APRA Study confirmed that the major Australian ADIs are well-capitalised and acknowledged the challenges and complexity in comparing capital ratios between Australian ADIs and international peers given the varied national discretions exercised by different jurisdictions in implementing the global capital adequacy framework (Basel framework). The APRA Study did not confirm the definition of 'unquestionably strong' and stated that APRA does not intend to directly link Australian capital requirements to a continually moving benchmark. The results of the APRA Study will only inform but will not determine APRA's approach for setting capital adequacy requirements.
- Effective from 1 July 2016, APRA requires increased capital requirements for Australian residential mortgage exposures by ADIs accredited to use the internal ratings-based (IRB) approach to credit risk. These new requirements would increase the average risk weighting for mortgage portfolios to approximately 25%. For ANZ, the impact is an approximate 60 bps reduction in CET1 on implementation of this change. In response to this, ANZ has raised $3.2 billion of ordinary share capital via a fully underwritten institutional placement in August 2015 ($2.5 billion raised) and a share purchase plan to eligible Australian and New Zealand shareholders in September 2015 ($0.7 billion raised). APRA has indicated that further changes may be required once greater clarity on the deliberations of the Basel Committee is available, particularly in relation to revisions to the standardised approach for credit risk and capital floors.

The Australian Government released its response to the FSI in October 2015 which agrees with all of the above capital related recommendations. The Australian Government support and endorses APRA to implement the recommendations, including the initial actions to raise the capital requirements for Australian residential mortgage exposures and to take additional steps to ensure that the major banks have unquestionably strong capital ratios by the end of 2016.

Apart from the July 2015 announcements, APRA has not made any determination on the other key recommendations. Therefore, the final outcomes from the FSI, including any impacts and the timing of these impacts on ANZ remain uncertain.

Leverage Ratio

In May 2015, APRA released final standards for implementing leverage ratio disclosures with effect from 1 July 2015. Leverage ratio requirements are included in the Basel Committee on Banking Supervision (BCBS) Basel 3 capital framework as a supplement to the current risk based capital requirements.

In the requirements, APRA has maintained the BCBS calculation of the leverage ratio of Tier 1 Capital expressed as a percentage of Exposure Measure. The proposed BCBS' minimum leverage ratio requirement is 3%. APRA has not yet announced details of the minimum requirement which will apply to impacted Australian ADIs.

Public disclosure of the leverage ratio commenced for the year ended September 2015, with subsequent disclosures published on a quarterly basis in the Pillar 3 Report.

Domestic Systemically Important Bank (D-SIB) Framework

APRA has released details of its D-SIB framework for implementation in Australia and has classified ANZ and three other major Australian banks as domestic systemically important banks. As a result, an addition to the Capital Conservation Buffer (CCB) will be applied to the four major Australian banks, increasing capital requirements by 100 bps from 1 January 2016 and further strengthening the capital position of Australia D-SIBs. ANZ's current capital position is already in excess of APRA's requirements including the D-SIB overlay. The Group is well placed for D-SIB implementation in January 2016.

32: Capital Management (continued)

Composition of Level 2 ADI Group

In May 2014, APRA provided further clarification to the definition of the Level 2 Authorised Deposit-Taking Institution (ADI) group, where subsidiary intermediate holding companies are now considered part of the Level 2 Group.

The above clarification results in the phasing out, over time, of capital benefits arising from the debt issued by ANZ Wealth Australia Limited (ANZWA). The first tranche of this debt, amounting to $405 million or approximately 10 bps of CET1 was phased out in June 2015. As at 30 September 2015, ANZWA has $400 million of debt outstanding which will mature by March 2016. This will result in a reduction in CET1 by approximately 10bps on maturity of the debt with the Group well placed to manage this through organic capital generation.

Level 3 Conglomerates (Level 3)

In August 2014, APRA announced its planned framework for the supervision of Conglomerates Group (Level 3) which includes updated Level 3 capital adequacy standards. These standards will regulate a bancassurance group such as ANZ as a single economic entity with minimum capital requirements and additional monitoring of risk exposure levels.

APRA has deferred a decision on the implementation date as well as the final form of the Level 3 framework until the recommendations of the FSI and the Government's response to them have been announced and considered by APRA. APRA has committed to a minimum transition period of 12 months for affected institutions to comply with the new requirements once an implementation date is established.

Based upon current draft of the Level 3 standards covering capital adequacy, and risk exposures, ANZ is not expecting any material impact on its operations.

CAPITAL ADEQUACY

The table below provides the composition of capital used for regulatory purposes and capital adequacy ratios.

	2015 $m	2014 $m
Qualifying capital		
Tier 1		
Shareholders' equity and non-controlling interests	57,353	49,284
Prudential adjustments to shareholders equity	(387)	(1,211)
Gross Common Equity Tier 1 Capital	56,966	48,073
Deductions	(18,440)	(16,297)
Common Equity Tier 1 Capital	38,526	31,776
Additional Tier 1 capital	6,958	6,825
Tier 1 capital	45,484	38,601
Tier 2 capital	7,951	7,138
Total qualifying capital	53,435	45,739
Capital adequacy ratios		
Common Equity Tier 1	9.6%	8.8%
Tier 1	11.3%	10.7%
Tier 2	2.0%	2.0%
Total	13.3%	12.7%
Risk Weighted Assets	401,937	361,529

REGULATORY ENVIRONMENT – INSURANCE AND FUNDS MANAGEMENT BUSINESS

Under APRA's Prudential Standards, life insurance and funds management activities are de-consolidated for the purposes of calculating capital adequacy and excluded from the risk based capital adequacy framework for the ANZ Level 2 Group.

ANZ's insurance companies in Australia are regulated by APRA on a stand-alone basis. Prudential Standards issued under the Life Insurance Act 1995 and Insurance Act 1973 determine the minimum capital requirements these companies are required to meet. Life insurance companies in New Zealand are required to meet minimum capital requirements as determined by the Insurance (Prudential Supervision) Act 2010.

Fund managers in Australia are subject to 'Responsible Entity' regulation by the Australian Securities and Investment Commission (ASIC). The regulatory capital requirements vary depending on the type of Australian Financial Services Licence or Authorised Representatives' Licence held.

APRA supervises approved trustees of superannuation funds and it introduced new financial requirements which became effective from 1 July 2013.

ANZ's insurance and funds management companies held assets in excess of regulatory capital requirements at 30 September 2015.

33: Shares in Controlled Entities

	Consolidated		The Company	
	2015 $m	2014 $m	2015 $m	2014 $m
Total shares in controlled entities	–	–	17,823	14,870

DISPOSAL OF CONTROLLED ENTITIES

There were no material entities disposed of during the year ended 30 September, 2015.

On 4 July 2014 the Group disposed of its ownership interest in ANZ Trustees Limited. The contribution to Group profit after tax for the period (1 October 2013 to 4 July 2014) from ordinary activities was $3.7 million. Details of aggregate assets and liabilities of material controlled entities disposed of by the Group are as follows:

	Consolidated		The Company	
	2015 $m	2014 $m	2015 $m	2014 $m
Cash consideration received	–	156	–	156
Less: Balances of disposed cash and cash equivalents	–	11	–	–
Net cash consideration received	–	145	–	156
Less: Net assets disposed				
Shares in controlled entities	–	–	–	(22)
Other assets, including allocated goodwill	–	(2)	–	–
Payables and other liabilities	–	1	–	–
	–	(1)	–	(22)
Less: Provisions for warranties, indemnities and direct costs relating to disposal	–	(19)	–	(19)
Gain on disposal	–	125	–	115

ACQUISITION OF CONTROLLED ENTITIES

ANZ Bank (Thai) Public Company Limited was incorporated in Thailand on 27 November 2014 for the purpose of conducting banking activities.

There were no material controlled entities acquired during the year ended 30 September 2015 or the year ended 30 September 2014.

34: Controlled Entities

	Incorporated in	Nature of business
Ultimate parent of the Group		
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 (Lao) Limited[1]	Laos	Banking
ANZ Bank (Taiwan) Limited[1]	Taiwan	Banking
ANZ Bank (Vietnam) Limited[1]	Vietnam	Banking
ANZ Capel Court Limited	Australia	Securitisation Manager
ANZ Capital Hedging Pty Ltd	Australia	Hedging
ANZ Commodity Trading Pty Ltd	Australia	Finance
ANZ Funds Pty Ltd	Australia	Holding Company
ANZ Bank (Europe) Limited[1]	United Kingdom	Banking
ANZ Bank (Kiribati) Limited[1,2]	Kiribati	Banking
ANZ Bank (Samoa) Limited[1]	Samoa	Banking
ANZ Bank (Thai) Public Company Limited[1]	Thailand	Banking
ANZcover Insurance Private Ltd[1]	Singapore	Captive-Insurance
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
ANZNZ Covered Bond Trust[1]	New Zealand	Finance
ANZ Wealth New Zealand Limited[1]	New Zealand	Holding Company
ANZ New Zealand Investments Ltd	New Zealand	Funds Management
OnePath Life (NZ) Limited[1]	New Zealand	Insurance
Arawata Assets Limited[1]	New Zealand	Property Holding Company
UDC Finance Limited[1]	New Zealand	Finance
ANZ International (Hong Kong) Limited[1]	Hong Kong	Holding Company
ANZ Asia Limited[1]	Hong Kong	Banking
ANZ Bank (Vanuatu) Limited[3]	Vanuatu	Banking
ANZ International Private Limited[1]	Singapore	Holding Company
ANZ Singapore Limited[1]	Singapore	Merchant Banking
ANZ Royal Bank (Cambodia) Limited[1,2]	Cambodia	Banking
Votraint No. 1103 Pty Ltd	Australia	Investment
ANZ Lenders Mortgage Insurance Pty Ltd	Australia	Mortgage Insurance
ANZ Residential Covered Bond Trust	Australia	Finance
ANZ Wealth Australia Limited	Australia	Holding Company
OnePath Custodians Pty Limited	Australia	Trustee
OnePath Funds Management Limited	Australia	Funds Management
OnePath General Insurance Pty Limited	Australia	Insurance
OnePath Life Australia Holdings Pty Limited	Australia	Holding Company
OnePath Life Limited	Australia	Insurance
Australia and New Zealand Banking Group (PNG) Limited[1]	Papua New Guinea	Banking
Australia and New Zealand Bank (China) Company Limited[1]	China	Banking
Chongqing Liangping ANZ Rural Bank Company Limited[1]	China	Banking
Citizens Bancorp[4]	Guam	Holding Company
ANZ Guam Inc.[4]	Guam	Banking
ANZ Finance Guam, Inc.[4]	Guam	Finance
Esanda Finance Corporation Limited	Australia	General Finance
E*TRADE Australia Limited	Australia	Holding Company
E*TRADE Australia Securities Limited	Australia	Online Stockbroking
PT Bank ANZ Indonesia[1,2]	Indonesia	Banking

1 Audited by overseas KPMG firms.

2 Non-controlling interests hold ordinary shares or units in the controlled entities listed above as follows: ANZ Bank (Kiribati) Limited – 150,000 $1 ordinary shares (25%) (2014: 150,000 $1 ordinary shares (25%)); PT Bank ANZ Indonesia – 16,500 IDR 1 million shares (1%) (2014: 16,500 IDR 1 million shares (1%)); ANZ Royal Bank (Cambodia) Limited – 319,500 USD100 ordinary shares (45%) (2014: 319,500 USD100 ordinary shares (45%)).

3 Audited by Hawkes Law.

4 Audited by Deloitte Guam.

35: Investments in associates

Significant associates of the Group are as follows:

	Consolidated		The Company[1]	
	2015 $m	2014 $m	2015 $m	2014 $m
AMMB Holdings Berhad[2]	1,424	1,465	–	–
PT Bank Pan Indonesia[3]	904	795	–	–
Shanghai Rural Commercial Bank[4]	1,981	1,443	1,981	1,443
Bank of Tianjin[5]	1,021	710	1,021	710
Other individually immaterial associates (in aggregate)	110	169	16	13
Total carrying value of associates	5,440	4,582	3,018	2,166

1 Comparatives have changed. Refer to note 45.
2 AMMB Holdings Berhad (AmBank Group) provides a full suite of banking and insurance products and services in Malaysia and is listed on the Bursa Malaysia. This investment relates directly to the Group's Asia Pacific growth strategy.
3 PT Bank Pan Indonesia is a consumer and business bank in Indonesia and is listed on the Jakarta stock exchange. This investment relates directly to the Group's Asia Pacific growth strategy.
4 Shanghai Rural Commercial Bank is a rural commercial bank in China. This investment relates directly to the Group's Asia Pacific growth strategy.
5 Bank of Tianjin operates as a commercial bank in China offering products such as deposit accounts and loans. This investment relates directly to the Group's Asia Pacific growth strategy. Significant influence is established via representation on the Board of Directors.

a) Financial information on material associates

Set out below is the summarised financial information of each associate that is material to the Group. The summarised financial information is based on the associates' IFRS financial information.

	AMMB Holdings Berhad		PT Bank Pan Indonesia		Shanghai Rural Commercial Bank		Bank of Tianjin	
Principal place of business and country of incorporation	Malaysia		Indonesia		Peoples' Republic of China		Peoples' Republic of China	
Method of measurement in the Group's balance sheet	Equity method		Equity method		Equity method		Equity method	
	2015 $m	2014 $m	2015 $m	2014 $m	2015 $m	2014 $m	2015 $m	2014 $m
Summarised results								
Revenue	2,840	3,356	822	688	3,058	2,331	2,168	1,637
Profit/(loss)	583	670	225	238	1,117	731	1,094	619
Other comprehensive income/(loss)	54	(14)	2	6	175	(78)	85	(62)
Total comprehensive income	637	656	227	244	1,292	653	1,179	557
Less: Total comprehensive income attributable to non–controlling interests	30	20	16	20	33	18	2	3
Total comprehensive income attributable to owners of associate	607	636	211	224	1,259	635	1,177	554
Summarised financial position								
Total assets[1]	43,668	45,090	17,244	16,011	128,511	85,056	117,073	85,683
Total liabilities[1]	37,374	38,591	14,684	13,776	118,324	77,634	109,803	80,627
Total Net assets[1]	6,294	6,499	2,560	2,235	10,187	7,422	7,270	5,056
Less: Non–controlling interests of associate	307	338	233	186	283	208	50	40
Net assets attributable to owners of associate	5,987	6,161	2,327	2,049	9,904	7,214	7,220	5,016
Reconciliation to carrying amount of Group's interest in associate								
Proportion of ownership interest held by the Group	24%	24%	39%	39%	20%	20%	14%	14%
Carrying amount at the beginning of the year	1,465	1,282	795	692	1,443	1,261	710	601
Group's share of total comprehensive income	152	151	82	87	251	127	167	86
Dividends received from associate	(66)	(59)	–	–	(38)	(24)	(21)	(19)
Group's share of other reserve movements of associate and FCTR adjustments	(127)	91	27	16	325	79	165	42
Carrying amount at the end of the year	1,424	1,465	904	795	1,981	1,443	1,021	710
Market Value of Group's investment in associate[2]	1,048	1,720	805	855	n/a	n/a	n/a	n/a

1 Includes market value adjustments (including goodwill) made by the Group at the time of acquisition and adjustments for any differences in accounting policies.
2 Applicable to those investments in associates where there are published price quotations. Market Value is based on a price per share and does not include any adjustments for holding size.

At 30 September 2015, although AMMB Holdings Berhad and PT Bank Pan Indonesia market value (based on share price) was below its carrying value, no impairment was recognised as the carrying amount was supported by its value in use.

35: Associates (continued)

The value in use calculation is sensitive to a number of key assumptions, including future profitability levels, capital levels, long term growth rates and discount rates. The key assumptions used in the value in use calculation are outlined below:

	As at 30 Sep 2015	
	AMMB	PT Panin
Pre-tax discount rate	11.0%	12.7%
Terminal growth rate	5.5%	5.7%
Expected NPAT growth (5 years average)	2.1%	5.1%
Core Equity tier 1 rate	10.0%	10.0%

b) Other associates[1]

The following table summarises, in aggregate, the Group's interest in associates that are considered individually immaterial for separate disclosure.

	2015 $m	2014 $m
Group's share of profit/(loss)	36	39
Group's share of other comprehensive income	(4)	2
Group's share of total comprehensive income	32	41
Carrying amount	110	169

1 Includes an interest in joint ventures of $2 million at 30 September 2015.

36: Structured Entities

A structured entity ('SE') is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. A structured entity often has some or all of the following features or attributes:

- restricted activities;
- a narrow and well-defined objective;
- insufficient equity to permit the SE to finance its activities without subordinated financial support; and/or
- financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks (tranches).

SEs are consolidated when control exists in accordance with the accounting policy disclosed in note 1(A)(vii). In other cases the Group may have an interest in or sponsor a SE but not consolidate it. This note provides further details on both consolidated and unconsolidated SEs.

The Group's involvement with SEs is mainly through securitisation, covered bond issuances, structured finance arrangements and funds management activities. SEs may be established either by the Group or by a third party.

Securitisation

The Group uses SEs to securitise customer loans and advances that it has originated in order to diversify its sources of funding for liquidity management. Such securitisation transactions involve transfers to an internal securitisation (bankruptcy remote) vehicle created for the purpose of structuring assets that are eligible for repurchase under agreements with the applicable central bank (i.e. Repo eligible). The internal securitisation SEs are consolidated (refer note 37 for further details).

The Group also establishes SEs on behalf of its customers to securitise their loans or receivables. The Group may manage these securitisation vehicles and/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. While the majority are unconsolidated, in limited circumstances the Group consolidates SEs used in securitisation when control exists.

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 of the SEs and accordingly they are consolidated (refer note 37 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 assets. The Group is also involved with SEs established to own assets that are leased to customers in structured leasing transactions. Sometimes, the Group may also manage the SE, hold minor amounts of capital or provide risk management products (derivatives). The ability of the Group to participate in decisions about the relevant activities of these SEs varies. In most instances the Group does not control these SEs. Further, the Group's involvement typically does not establish more than a passive interest in decisions about the relevant activities and accordingly is not considered disclosable as discussed in (b) below.

Funds management activities

The Group's Global Wealth division conducts investment management and other fiduciary activities as responsible entity, trustee, custodian or manager for investment funds and trusts, including superannuation funds and wholesale and retail trusts (collectively 'Investment Funds'). The Investment Funds are financed through the issue of puttable units to investors and are considered by the Group to be SEs. The Group's exposure to Investment Funds includes holding units and receiving fees for services. Where the Group invests in Investment Funds on behalf of policyholders they are consolidated when control is deemed to exist.

(a) Financial or other support provided to consolidated structured entities

Pursuant to contractual arrangements, the Group provides financial support to consolidated SEs as outlined below (these represent intra-group transactions which are eliminated on consolidation):

- Securitisation and covered bond issuances:
  The Group provides lending facilities, derivatives and commitments to these SEs and/or holds debt instruments that they have issued. Refer to note 37 for further details in relation to the Group's internal securitisation programmes and covered bond issuances.
- Structured finance arrangements:
  The assets held by these SEs are normally pledged as collateral for finance 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 (2014: nil).

Other than as disclosed above the Group does not have any current intention of providing financial or other support to consolidated SEs.

36: Structured Entities (continued)

(b) Group's interest in unconsolidated structured entities

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

For the purpose of disclosing interests in unconsolidated SEs:

- no disclosure has been made where the Group's involvement does not establish 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 (i.e. the activities that significantly affect returns).
- 'interests' do not include derivatives intended to expose the Group to market-risk (rather than performance risk specific to the SE) or derivatives where the Group creates rather than absorbs variability of the unconsolidated SE (e.g. purchase of credit protection under a credit default swap).

The following table sets out the Group's interests in unconsolidated SEs together with the maximum exposure to loss that could arise from such interests.

Interest in unconsolidated structured entities

	Securitisation		Structured finance		Investment funds		Total	
Consolidated at 30 September 2015	2015 $m	2014 $m	2015 $m	2014 $m	2015 $m	2014 $m	2015 $m	2014 $m
Available-for-sale assets	3,849	3,603	–	–	–	–	3,849	3,603
Investment backing policy liabilities	–	–	–	–	165	227	165	227
Loans and advances	6,825	4,958	37	39	–	–	6,862	4,997
Total on-balance sheet	10,674	8,561	37	39	165	227	10,876	8,827
Off-balance sheet interests								
Commitments (facilities undrawn)	2,610	3,520	–	–	–	–	2,610	3,520
Total off-balance sheet	2,610	3,520	–	–	–	–	2,610	3,520
Maximum exposure to loss	13,284	12,081	37	39	165	227	13,486	12,347

In addition to the interests above, the Group earned funds management fees from unconsolidated SEs of $542 million (2014: $544 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, regardless of the probability of occurrence, if loss events were to take place. This does not in any way represent the actual losses expected to be incurred. Instead, the maximum exposure to loss is contingent in nature and may arise for instance upon the bankruptcy of an issuer of securities or debtor or if liquidity facilities or guarantees were to be called upon. 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.

For each type of interest, maximum exposure to credit loss has been determined as follows:

- available-for-sale assets and investments backing policy liabilities – carrying amount; and
- loans and advances – carrying amount plus undrawn amount of any commitments.

Information about the size of the unconsolidated SEs that the Group is involved with is as follows:

- Securitisation and structured finance: Size is indicated by total assets which vary by SE with a maximum value of approximately $1.7 billion (2014: $1.7 billion); and
- Investment funds: Size is indicated by Funds Under Management which vary by SE with a maximum value of approximately $33.8 billion (2014: $32.6 billion).

The Group did not provide any non-contractual support to unconsolidated SEs during the year.

The Group does not have any current intention of providing financial or other support to unconsolidated SEs.

(c) 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 where it is the primary party involved in the design and establishment of that SE and:

- where 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.

37: Transfers of Financial Assets

The Group enters into transactions in the normal course of business by which it transfers financial assets directly to third parties or to SEs. These transfers may give rise to the full or partial derecognition of those financial assets depending on the Group's continuing involvement and exposure to risks and rewards.

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. This includes mortgages that are held for potential repurchase agreements (REPOs) with central banks. The holders of the issued notes have full recourse to the pool of residential mortgages which have been securitised and the Company cannot otherwise pledge or dispose of the transferred assets.

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

The 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 SE's activities. The SEs are therefore consolidated by the Group.

COVERED BONDS

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

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

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

The 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 SE's activities. The SEs are therefore consolidated by the Group. The covered bonds issued externally are included within debt issuances.

REPURCHASE AGREEMENTS

Securities sold subject to repurchase agreements are considered to be transferred assets that do not qualify for derecognition when substantially all the risks and rewards of ownership remain with the Group. An associated liability is recognised for the consideration received from the counterparty.

STRUCTURED FINANCE ARRANGEMENTS

The Company arranges funding for certain customer transactions through structured leasing and commodity prepayment arrangements. At times, other financial institutions participate in the funding of these arrangements. This participation involves a proportionate transfer of the rights to the lease receivable or financing arrangement. The participating banks have limited recourse to the leased assets or financed commodity and related proceeds. Circumstances may arise whereby the Company continues to be exposed to some of the risks of the transferred lease receivable or financing arrangement through a derivative or other continuing involvement. When this occurs, the lease receivable or loan does not get derecognised and the Company will instead recognise an associated liability representing its obligations to the participating financial institutions.

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

	Consolidated		The Company	
	2015 $m	2014 $m	2015 $m	2014 $m
Securitisations[1,2]				
Current carrying amount of assets transferred	–	–	73,559	67,974
Carrying amount of associated liabilities	–	–	73,559	67,974
Covered bonds[1,3]				
Current carrying amount of assets transferred	–	–	23,508	20,738
Carrying amount of associated liabilities[3]	–	–	23,508	20,738
Repurchase agreements				
Current carrying amount of assets transferred	13,975	8,736	13,476	8,568
Carrying amount of associated liabilities	13,731	8,641	13,255	8,473
Structured Finance Arrangements				
Current carrying amount of assets transferred	766	169	627	31
Carrying amount of associated liabilities	759	158	627	31

1 The consolidated balances are nil as the Company balances relate to transfers to internal structured entities.

2 The securitisation noteholders have recourse only to the pool of residential mortgages which have been securitised. The carrying value of securitised assets and the associated liabilities approximates their fair value.

3 The total covered bonds issued by the Group to external investors at 30 September 2015 was $27,013 million (2014: $20,561 million), secured by $30,368 million (2014 $27,241 million) of specified residential mortgages. The associated liability represents the Company's liability to the covered bond SE. Covered bonds issued by the Company to external investors at 30 September 2015 were $22,164 million (2014: $16,969 million).

38: Life Insurance Business

The Group conducts its life insurance business through OnePath Life Limited and OnePath Life (NZ) Limited. This note is intended to provide disclosures in relation to the life insurance businesses conducted through these controlled entities.

CAPITAL ADEQUACY OF LIFE INSURER

Australian life insurers are required to hold reserves in excess of policy liabilities to support capital requirements under the Life Insurance Act (Life Act).

The life insurance business in New Zealand is not governed by the Life Act as this is a foreign domiciled life insurance company. The company is however required to meet similar capital requirements.

The summarised capital information below, in respect of capital requirements under the Life Act, has been extracted from the financial statements prepared by OnePath Life Limited. For detailed capital adequacy information on a statutory fund basis, users of this annual financial report should refer to the separate financial statements prepared by OnePath Life Limited.

	OnePath Life Limited	
	2015 $m	2014 $m
Capital Base	538	524
Prescribed Capital Amount (PCA)	316	295
Capital Adequacy Multiple (times)	1.69	1.78

LIFE INSURANCE BUSINESS PROFIT ANALYSIS

	Life insurance contracts		Life investment contracts		Consolidated	
	2015 $m	2014 $m	2015 $m	2014 $m	2015 $m	2014 $m
Net shareholder profit after income tax	386	235	143	114	529	349
Net shareholder profit after income tax is represented by:						
Emergence of planned profit margins	198	181	93	87	291	268
Difference between actual and assumed experience	7	(21)	29	12	36	(9)
(Loss recognition)/reversal of previous losses on groups of related products	–	–	–	–	–	–
Investment earnings on retained profits and capital	181	75	21	15	202	90
Changes in assumptions	–	–	–	–		–
Net policyholder profit in statutory funds after income tax	18	16	–	–	18	16
Net policyholder profit in statutory funds after income tax is represented by:						
Emergence of planned profits	14	12	–	–	14	12
Investment earnings on retained profits and experience profits	4	4	–	–	4	4

INVESTMENTS RELATING TO LIFE INSURANCE BUSINESS

	Consolidated	
	2015 $m	2014 $m
Equity securities	10,898	10,528
Debt securities	6,460	6,503
Investments in managed investment schemes	16,781	15,954
Derivative financial assets/(liability)	(81)	(203)
Cash and cash equivalents	762	797
Total investments backing policy liabilities designated at fair value through profit or loss[1]	34,820	33,579

1 This includes $3,291 million (2014: $3,181 million) in respect of investments relating to external unit holders. In addition, the investment balance has been reduced by $4,636 million (2014: $4,779 million) in respect of the elimination of intercompany balances and Treasury Shares.

Investments held in statutory funds can only be used to meet the liabilities and expenses of that fund, or to make profit distributions when solvency and capital adequacy requirements of the Life Act and Insurance (Prudential Supervision) Act 2010 are met. Accordingly, with the exception of permitted profit distributions, the investments held in the statutory funds are not available for use by other parties of the Group.

38: Life Insurance Business (continued)

INSURANCE POLICY LIABILITIES

a) Policy liabilities

	Consolidated 2015 $m	Consolidated 2014 $m
Life insurance contract liabilities		
Best estimate liabilities		
Value of future policy benefits	9,290	6,854
Value of future expenses	2,204	2,024
Value of future premium	(14,086)	(10,697)
Value of declared bonuses	15	15
Value of future profits		
Policyholder bonus	23	27
Shareholder profit margin	2,232	1,655
Business valued by non-projection method	4	5
Total insurance contract liabilities	(318)	(117)
Unvested policyholder benefits	41	42
Liabilities ceded under reinsurance contracts	649	591
Total life insurance contract liabilities	372	516
Life investment contract liabilities[1,2]	35,029	34,038
Total policy liabilities	35,401	34,554

1 Designated at fair value through profit or loss.
2 Life investment contract liabilities that relate to a capital guaranteed element is $1,354 million (2014: $1,526 million). Life investment contract liabilities subject to investment performance guarantees is $842 million (2014: $960 million).

b) Reconciliation of movements in policy liabilities

	Life investment contracts		Life insurance contracts		Consolidated	
	2015 $m	2014 $m	2015 $m	2014 $m	2015 $m	2014 $m
Policy liabilities						
Gross liability brought forward	34,038	31,703	516	685	34,554	32,388
Movements in policy liabilities reflected in the income statement	1,520	2,388	(144)	(169)	1,376	2,219
Deposit premium recognised as a change in life investment contract liabilities	5,165	5,311	–	–	5,165	5,311
Fees recognised as a change in life investment contract liabilities	(463)	(462)	–	–	(463)	(462)
Withdrawal recognised as a change in other life investment contract liabilities	(5,231)	(4,902)	–	–	(5,231)	(4,902)
Gross policy liabilities closing balance	35,029	34,038	372	516	35,401	34,554
Liabilities ceded under reinsurance[1]						
Balance brought forward	–	–	591	519	591	519
Movements in reinsurance assets reflected in the income statement	–	–	58	72	58	72
Closing balance	–	–	649	591	649	591
Total policy liabilities net of reinsurance asset	35,029	34,038	(277)	(75)	34,752	33,963

1 Liabilities ceded under reinsurance contracts are shown as 'other assets'.

c) Sensitivity analysis – Life investment contract liabilities

Market risk arises on the Group's life insurance business in respect of life investment contracts where an element of the liability to the policyholder is guaranteed by the Group. The value of the guarantee is impacted by changes in underlying asset values and interest rates. As at 30 September 2015, a 10% decline in equity markets would have decreased profit by $12 million (2014: $15 million) and a 10% increase would have increased profit by $5 million (2014: $nil). A 1% increase in interest rates at 30 September 2015 would have decreased profit by $4 million (2014: $9 million) and 1% decrease would have increased profit by $6 million (2014: $nil).

METHODS AND ASSUMPTIONS – LIFE INSURANCE CONTRACTS

Significant actuarial methods

The effective date of the actuarial report on policy liabilities (which includes insurance contract liabilities and life investment contract liabilities) and solvency requirements is 30 September 2015.

In Australia, the actuarial report was prepared by Mr Jaimie Sach FIAA Appointed Actuary, a fellow of the Institute of Actuaries of Australia. The actuarial reports indicate Mr Sach is satisfied as to the accuracy of the data upon which policy liabilities have been determined.

The amount of policy liabilities has been determined in accordance with methods and assumptions disclosed in this financial report and the requirements of the Life Act, which includes applicable standards of the APRA.

In New Zealand, the actuarial report was prepared by Mr Michael Bartram FIAA FNZSA, a fellow of the Institute of Actuaries of Australia and a fellow of the New Zealand Society of Actuaries. The actuarial reports indicate that Mr Bartram is satisfied as to the accuracy of the data upon which policy liabilities have been determined.

38: Life Insurance Business (continued)

Policy liabilities have been calculated in accordance with Prudential Standard LPS 340 Valuation of Policy Liabilities issued by the APRA in accordance with the requirements of the Life Act. For life insurance contracts the Standard requires the policy liabilities to be calculated in a way which allows for the systematic release of planned margins as services are provided to policyholders.

The profit carriers used to achieve the systematic release of planned margins are based on the product groups.

Critical assumptions

The valuation of the policy liabilities is dependant on a number of variables including interest rate, equity prices, future expenses, mortality, morbidity and inflation. The critical estimates and judgements used in determining the policy liabilities is set out in note 2 (vi) on page 76.

Sensitivity analysis – life insurance contracts

The Group conducts sensitivity analysis to quantify the exposure of the life insurance contracts to risk of changes in the key underlying variables such as interest rate, equity prices, mortality, morbidity and inflation. The valuations included in the reported results and the Group's best estimate of future performance is calculated using certain assumptions about these variables. The movement in any key variable will impact the performance and net assets of the Group and as such represents a risk. The table below illustrates how changes in key assumptions would impact the reported profit, insurance contract policy liabilities and equity at 30 September 2015.

Variable	Impact of movement in underlying variable	Change in variable	Profit/(loss) net of reinsurance	Insurance contract liabilities net of reinsurance	Equity
		% change	$m	$m	$m
Market interest rates	A change in market interest rates affects the value placed on future cash flows. This changes profit and shareholder equity.	-1% +1%	69 (55)	(97) 77	69 (55)
Expense risk	An increase in the level or inflationary growth of expenses over assumed levels will decrease profit and shareholder equity.	-10% +10%	– –	– –	– –
Mortality risk	Greater mortality rates would lead to higher levels of claims occurring, increasing associated claims cost and therefore reducing profit and shareholder equity.	-10% +10%	(4) –	5 –	(4) –
Morbidity risk	The cost of health-related claims depends on both the incidence of policyholders becoming ill and the duration which they remain ill. Higher than expected incidence and duration would increase claim costs, reducing profit and shareholder equity.	-10% +10%	– (30)	– 43	– (30)
Discontinuance risk	An increase in discontinuance rates at earlier durations has a negative effect as it affects the ability to recover acquisition expenses and commissions.	-10% +10%	– –	– –	– –

LIFE INSURANCE RISK

Insurance risk is the risk of loss due to unexpected changes in current and future insurance claims rates. Insurance risk exposure arises in the life insurance business as the risk that claims payments are greater than expected. In the life insurance business this arises primarily through mortality (death) or morbidity (illness or injury) risks being greater than expected.

Insurance risks are controlled through the use of underwriting procedures and reinsurance arrangements. Controls are also maintained over claims management practices to assist in the correct and timely payment of insurance claims. Regular monitoring of experience is conducted at a sufficiently detailed level in order to identify any deviation from expected claim levels.

Financial risks relating to the Group's life insurance business are generally monitored and controlled by selecting appropriate assets to back insurance and life investment contract liabilities. Wherever possible within regulatory constraints, the Group segregates policyholders funds from shareholders funds and sets investment mandates that are appropriate for each. The assets are regularly monitored by the Wealth Asset Liability Committee and Wealth Product Committee to ensure that there are no material asset and liability mismatch issues and other risks, such as liquidity risk and credit risk, are maintained within acceptable limits.

All financial assets within the life insurance statutory funds directly support either the Group's life insurance contracts, life investment contracts or capital requirements. Market risk arises for the Group on contracts where the liabilities to policyholders are guaranteed. The Group manages this risk by the monthly monitoring and rebalancing of assets to policy liabilities. However, for some contracts the ability to match asset characteristics with policy obligations is constrained by a number of factors including regulatory constraints, the lack of suitable investments as well as by the nature of the policy liabilities themselves.

Market risk also arises from those life investment contracts where the asset management fees earned are directly impacted by the value of the underlying assets. The Group is exposed to the risk of future decreased asset management fees as a result of a decline in assets under management and operational risk associated with the possible failure to administer life investment contracts in accordance with the product terms and conditions.

38: Life Insurance Business (continued)

Risk strategy

In compliance with contractual and regulatory requirements, a strategy is in place to monitor that the risks underwritten satisfy policyholders' risk and reward objectives whilst not adversely affecting the Group's ability to pay benefits and claims when due. The strategy involves the identification of risks by type, impact and likelihood, the implementation of processes and controls to mitigate the risks, and continuous monitoring and improvement of the procedures in place to minimise the chance of an adverse compliance or operational risk event occurring. Included in this strategy are the processes and controls over underwriting, claims management and product pricing. Capital management is also a key aspect of the Group's risk management strategy.

Allocation of capital

The Group's life insurance businesses are subject to regulatory capital requirements which prescribe the amount of capital to be held depending on the contract liability.

Solvency margin requirements established by APRA are in place to reinforce safeguards for policyholders' interest, which are primarily the ability to meet future claims payments in respect of existing policies.

Methods to limit or transfer insurance risk exposures

Reinsurance – Reinsurance treaties are analysed using a number of analytical modelling tools to assess the impact on the Group's exposure to risk with the objective of achieving the desired choice of the type of reinsurance and retention levels.

Underwriting procedures – Strategic underwriting decisions are put into effect using the underwriting procedures detailed in the Group's underwriting manual. Such procedures include limits to delegated authorities and signing powers.

Claims management – Strict claims management procedures are in place to assist in the timely and correct payment of claims in accordance with policy conditions.

39: Fiduciary Activities

The Group provides fiduciary services to third parties including custody, nominee, trustee, administration and investment management services predominantly through the Global Wealth segment. This involves the Group holding assets on behalf of third parties and making decisions regarding the purchase and sale of financial instruments. In circumstances where ANZ is not the beneficial owner or does not control the assets, they are not recognised in these financial statements.

40: Superannuation and Post Employment Benefit Obligations

The Group participates in a number of pension, superannuation and post-retirement medical benefit schemes throughout the world. The Group may be obliged to contribute to the schemes as a consequence of legislation and/or provisions of the trust deeds. Set out below is a summary of amounts recognised in these financial statements in respect of the defined benefit sections of these schemes:

	Consolidated		The Company	
	2015 $m	2014 $m	2015 $m	2014 $m
Amount recognised in the income statement				
Current service cost	7	6	3	3
Administration costs	1	1	1	1
Net interest cost	(2)	1	(2)	–
Adjustment for contributions tax	1	2	-	–
Total included in personnel expenses	7	10	2	4
Amounts recognised in other comprehensive income (pre-tax)				
Remeasurement (gains)/losses incurred during the year and recognised directly in retained earnings	6	(43)	(24)	(8)
Cumulative remeasurement (gains)/losses recognised directly in retained earnings	218	212	193	217
Defined benefit obligation and scheme assets				
Present value of funded defined benefit obligation[1]	(1,538)	(1,327)	(1,322)	(1,151)
Fair value of scheme assets	1,623	1,335	1,452	1,183
Total	85	8	130	32
As represented in the balance sheet				
Net liabilities arising from defined benefit obligations included in payables and other liabilities	(59)	(39)	(14)	(15)
Net assets arising from defined benefit obligations included in other assets	144	47	144	47
Total	85	8	130	32

1 The Group's defined benefit obligation relates solely to funded arrangements. The liability relates predominantly to pension payments to retired members or their dependants. The basis of calculation is set out in note 1 F(vii).

40: Superannuation and Post Employment Benefit Obligations (continued)

	Consolidated 2015 $m	Consolidated 2014 $m	The Company 2015 $m	The Company 2014 $m
Movements in the present value of the defined benefit obligation				
Opening defined benefit obligation	1,327	1,265	1,151	1,047
Current service cost	7	6	3	3
Interest cost	54	54	48	45
Contributions from scheme participants	–	–	–	–
Remeasurements:				
Actuarial (gains)/losses – experience	(22)	(4)	(20)	1
Actuarial (gains)/losses – change in demographic assumptions	9	(7)	–	–
Actuarial (gains)/losses – change in financial assumptions	36	33	18	35
Actuarial (gains)/losses – change in ESCT	10	(10)	–	–
Curtailments	–	–	–	–
Settlements	–	–	–	–
Exchange difference on foreign schemes	187	74	182	71
Benefits paid	(70)	(84)	(60)	(51)
Closing defined benefit obligation	1,538	1,327	1,322	1,151
Movements in the fair value of the scheme assets				
Opening fair value of scheme assets	1,335	1,174	1,183	1,018
Interest income	56	53	50	45
Return on scheme assets excluding amounts included in interest income	27	55	22	44
Contributions from the employer	79	66	68	57
Contributions from scheme participants	–	–	–	–
Benefits paid	(70)	(84)	(60)	(51)
Administrative costs paid	(1)	(1)	(1)	(1)
Settlements	–	–	–	–
Exchange difference on foreign schemes	197	72	190	71
Closing fair value of scheme assets[1]	1,623	1,335	1,452	1,183

1 Scheme assets include the following financial instruments issued by the Group: cash and short-term instruments $1.7 million (September 2014: $1.7 million), fixed interest securities $0.5 million (September 2014: $0.4 million) and equities nil (September 2014: $0.1 million).

	Consolidated Quoted $m	Consolidated Unquoted $m	Consolidated Value $m	The Company Quoted $m	The Company Unquoted $m	The Company Value $m
Composition of scheme assets						
2015						
Equities	198	–	198	193	–	193
Debt securities	–	35	35	–	34	34
Pooled investment funds	249	1,133	1,382	157	1,060	1,217
Property	–	1	1	–	1	1
Cash and equivalents	6	–	6	6	–	6
Other	1	–	1	1	–	1
Total at the end of the year	454	1,169	1,623	357	1,095	1,452
2014						
Equities	184	–	184	180	–	180
Debt securities	–	276	276	–	270	270
Pooled investment funds	240	612	852	153	558	711
Property	–	1	1	–	1	1
Cash and equivalents	13	–	13	13	–	13
Other	9	–	9	8	–	8
Total at the end of the year	446	889	1,335	354	829	1,183

40: Superannuation and Post Employment Benefit Obligations (continued)

	Consolidated		The Company	
	2015	2014	2015	2014
Actuarial assumptions used to determine the present value of the defined benefit obligation for the main defined benefit sections				
Discount rate (% p.a.)	3.2 – 3.7	3.6 – 4.3	3.7	3.6 – 4.0
Future salary increases (% p.a.)	2.5 – 3.5	2.5 – 3.7	3.5	3.7
Future pension indexation				
– In payment (% p.a.)	2.2 – 3.0	2.2 – 3.2	2.5 – 3.0	2.5 – 3.2
– In deferment (% p.a.)	2.0	2.3	2.0	2.3
Life expectancy at age 60 for current pensioners				
– Males (years)	22.6 – 28.4	22.6 – 28.4	22.6 – 28.4	22.6 – 28.4
– Females (years)	26.3 – 30.7	26.3 – 30.5	26.3 – 30.5	26.3 – 30.5

The weighted average duration of the benefit payments reflected in the defined benefit obligation is 16.5 years (2014: 16.2 years) for Consolidated and 16.3 years (2014: 16.3 years) for the Company.

	Consolidated				The Company			
	Impact on defined benefit obligation for 2015		Impact on defined benefit obligation for 2014		Impact on defined benefit obligation for 2015		Impact on defined benefit obligation for 2014	
	Increase/(decrease)		Increase/(decrease)		Increase/(decrease)		Increase/(decrease)	
Sensitivity analysis	%	$m	%	$m	%	$m	%	$m
Changes in actuarial assumptions								
0.5% increase in discount rate	(7.7)	(119)	(7.6)	(101)	(8.3)	(109)	(8.2)	(94)
0.5% increase in pension indexation	7.7	118	7.5	100	8.3	109	8.2	94
1 year increase to life expectancy	2.7	41	2.7	35	2.7	35	2.7	31

The sensitivity analysis shows the effect of reasonably possible changes in significant assumptions on the value of scheme liabilities. The sensitivities provided assume that all other assumptions remain unchanged and are not intended to represent changes that are the extremes of possibility. The figure shown is the difference between the recalculated liability figure and that stated in the balance sheet as detailed above.

GOVERNANCE OF THE SCHEMES AND FUNDING OF THE DEFINED BENEFIT SECTIONS

The main 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. The trustees are solely responsible for setting investment policy and for agreeing funding requirements with the employer through the triennial actuarial valuation process.

Employer contributions to the defined benefit sections are based on recommendations by the schemes' actuaries. Funding recommendations are made by the actuaries based on assumptions of various matters such as future investment performance, interest rates, salary increases, mortality rates and turnover levels. The funding methods adopted by the actuaries are intended to ensure that the benefit entitlements of employees are fully funded by the time they become payable.

As at the most recent reporting dates of the schemes, the aggregate deficit of net market value of assets over the value of accrued benefits on the funding bases was $129 million (2014: $92 million).

In 2015 the Group made contributions totalling $79 million (2014: $66 million) to the defined benefit sections of the schemes, and expects to make a $68 million contribution in the next financial year. The employer contributions to the defined contribution sections of the schemes are included as superannuation costs in personnel expenses.

The Group has a legal liability to fund deficits in the schemes, but no legal right to use any surplus in the schemes to further its own interests. The Group has no present liability to settle deficits with an immediate contribution.

Further details about the funding and contributions for the main defined benefit sections of the schemes are described below.

- **ANZ Australian Staff Superannuation Scheme**

  The Pension Section of the ANZ Australian Staff Superannuation Scheme provides pension benefits to retired members and their dependants. This section of the Scheme was closed to new members in 1987.

  An interim actuarial valuation, conducted by consulting actuaries Russell Employee Benefits as at 31 December 2014, showed a surplus of $0.3 million and the actuary recommended that the Group make no contribution to the Pension Section for the year to 31 December 2015 and the funding position be reviewed as part of an interim actuarial valuation as at 31 December 2015. The next full actuarial valuation is due to be conducted as at 31 December 2016.

  The Group has no present liability under the Scheme's Trust Deed to commence contributions or fund any deficit.

- **ANZ UK Staff Pension Scheme**

  This Scheme provides pension benefits. From 1 October 2003, members contribute 5% of salary. The Scheme was closed to new members on 1 October 2004.

  Following a full actuarial valuation as at 31 December 2012, the Group agreed to make regular contributions at the rate of 26% of pensionable salaries. These contributions are sufficient to cover the cost of accruing benefits. To address the deficit, the Group agreed to continue to pay additional quarterly contributions of GBP 7.5 million until 2016. These contributions will be reviewed following the next actuarial valuation which is scheduled to be undertaken as at 31 December 2015.

40: Superannuation and Post Employment Benefit Obligations (continued)

An interim actuarial valuation, conducted by consulting actuaries Towers Watson as at 31 December 2014, showed a deficit of GBP 44 million ($95 million at 30 September 2015 exchange rates) measured on a funding basis.

The Group has no present liability under the Scheme's Trust Deed to fund the deficit measured on a funding basis. A contingent liability may arise in the event that the Scheme was wound up. If this were to happen, the Trustee would be able to pursue the Group for additional contributions under the UK Employer Debt Regulations. The Group intends to continue the Scheme on an on-going basis.

National Bank Staff Superannuation Fund

The defined benefit section of the Fund provides pension benefits and was closed to new members on 1 October 1991. Members contribute 5% of salary.

An actuarial valuation of the National Bank Staff Superannuation Fund, conducted by consulting actuaries AON Consulting NZ, as at 31 March 2014 showed a deficit of NZD21 million ($19 million at 30 September 2015 exchange rates). Following the full actuarial valuation as at 31 March 2013, the actuary recommended that the Group make contributions of 24.8% of salaries plus a lump sum contribution of NZD5 million p.a. (net of employer superannuation contribution tax) in respect of members of the defined benefit section.

The Group has no present liability under the Fund's Trust Deed to fund the deficit measured on a funding basis. A contingent liability may arise in the event that the Fund was wound up. Under the Fund's Trust Deed, if the Fund were wound up, the Group is required to pay the Trustees of the Fund an amount sufficient to ensure members do not suffer a reduction in benefits to which they would otherwise be entitled. The Group intends to continue the defined benefit section of the Fund on an on-going basis.

Amounts were also recognised in the financial statements in respect of other defined benefit arrangements in New Zealand, Taiwan, Japan, Philippines and the UK.

41: 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 2014 and 2015 years were the Employee Share Offer and the Deferred Share Plan.

Employee Share Offer

Most permanent employees who have had continuous service for three years are eligible to participate in the Employee Share Offer enabling the grant of up to AUD1,000 of ANZ shares in each financial year, subject to approval of the Board. At a date approved by the Board, the shares will be granted to all eligible employees using the 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.

In Australia and three overseas locations (Cook Islands, Kiribati and Solomon Islands), ANZ ordinary shares are granted to eligible employees for nil consideration and vest immediately when granted, as there is no forfeiture provision. It is a requirement, however, that shares are held in trust for three years from the date of grant, after which time they may remain in trust, be transferred to the employee's name or sold. Dividends received on the shares are automatically reinvested into the dividend reinvestment plan.

In New Zealand shares are granted to eligible employees upon payment of NZD one cent per share.

Shares granted in New Zealand and the remaining overseas locations under this plan vest subject to the satisfaction of a three year service period, after which time they may remain in trust, be transferred into the employee's name or sold. Unvested shares are forfeited in the event of resignation or dismissal for serious misconduct. Dividends are either paid as cash or reinvested into the Dividend Reinvestment Plan.

During the 2015 year, 643,568 shares with an issue price of $31.84 were granted under the Employee Share Offer to employees on 4 December 2014 (2014 year: 794,855 shares with an issue price of $31.85 were granted on 4 December 2013).

Deferred Share Plan

Under ANZ's standard Short Term Incentive (STI)[1] arrangements equity deferral into shares applies to half of all incentive amounts above a specified threshold. Half the deferred portion is deferred for one year and half deferred for two years.

Under the Institutional Total Incentives Performance Plan (TIPP) mandatory deferral into shares also applies to 60% of incentive amounts above a specified threshold, deferred evenly over three years.

Selected employees may be granted Long Term Incentive (LTI)[2] deferred shares which vest to the employee three years from the date of grant.

In exceptional circumstances, deferred shares may be granted to certain employees upon commencement with ANZ to compensate for remuneration forgone from their previous employer. The vesting period generally aligns with the remaining vesting period of remuneration forgone, and therefore varies between grants. Retention deferred shares may also be granted occasionally to high performing employees who are regarded as a significant retention risk to ANZ.

Unless the Board decides otherwise, unvested deferred shares are forfeited on resignation, termination on notice or dismissal for serious misconduct. Deferred shares remain at risk and can be adjusted downwards at any time prior to the vesting date. The deferred shares may be held in trust beyond the deferral period.

The employee receives dividends on deferred shares while those shares are held in trust (cash or dividend reinvestment plan).

Deferred share rights may be granted instead of deferred shares in some countries as locally appropriate (refer to Deferred Share Rights section).

The issue price for deferred shares is based on the VWAP of the shares traded on the ASX in the week leading up to and including the date of grant.

1 Also referred to as Annual Variable Remuneration (AVR).
2 Also referred to as Long Term Variable Remuneration (LTVR).

41: Employee Share and Option Plans (continued)

During the 2015 year, 5,129,479 deferred shares with a weighted average grant price of $31.96 were granted under the deferred share plan (2014 year: 4,940,721 shares with a weighted average grant price of $31.79 were granted).

In accordance with the downward adjustment provisions detailed in Section 6.2, Variable Remuneration of the 2015 Remuneration Report, Board discretion was exercised to adjust downward 135,592 deferred shares in 2015 and none in 2014.

Share Valuations

The fair value of shares granted in the 2015 year under the Employee Share Offer and the Deferred Share Plan, measured as at the date of grant of the shares, is $184.4 million based on 5,773,047 shares at a volume weighted average price of $31.93 (2014 year: fair value of shares granted was $181.8 million based on 5,735,576 shares at a weighted average price of $31.70). The VWAP of all ANZ shares sold on the ASX on the date of grant is used to calculate the fair value of shares. No dividends are incorporated into the measurement of the fair value of shares.

ANZ SHARE OPTION PLAN

Selected employees may be granted options/rights, which entitle them to acquire ordinary fully paid shares in ANZ at a price fixed at the time the options/rights are granted. 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. The exercise price of the 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.

The option plan rules set out the entitlements a holder of options/rights has prior to exercise in the event of a bonus issue, pro-rata new issue or reorganisation of ANZ's share capital. In summary:

- if ANZ has issued bonus shares during the life of an option and prior to the exercise of the option, then when the option is exercised the option holder is also entitled to be issued such number of bonus shares as the holder would have been entitled to if the option holder had held the underlying shares at the time of the bonus issue;
- if ANZ makes a pro-rata offer of securities during the life of an option and prior to the exercise of the option, the exercise price of the option will be adjusted in the manner set out in the ASX Listing Rules; and
- in respect of rights, if there is a bonus issue or reorganisation of ANZ's share capital, the number of rights or the number of underlying shares may be adjusted 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 prior to exercise of their options/rights. Holders also have no right to participate in a share issue of a body corporate other than ANZ (e.g. a subsidiary).

ANZ Share Option Plan schemes expensed in the 2014 and 2015 years are as follows:

Option Plans that operated during 2014 and 2015

Performance Rights Plan (excluding CEO Performance Rights)

Performance rights are granted to selected employees as part of ANZ's incentive plans. Performance rights provide the right to acquire ANZ shares at nil cost, subject to a three year vesting period and from 1 October 2013 two Total Shareholder Return (TSR) performance hurdles (previously one TSR performance hurdle).

For equity grants made after 1 November 2012, any portion of the award which vests may be satisfied by a cash equivalent payment rather than shares at the Board's discretion.

The provisions that apply in the case of cessation of employment are detailed in Section 6.3, Other Remuneration Elements in the 2015 Remuneration Report.

During the 2015 year, 1,389,890 performance rights (excluding CEO performance rights) were granted (2014: 1,452,456).

In accordance with the downward adjustment provisions detailed in 6.2, Variable Remuneration of the 2015 Remuneration Report, Board discretion was exercised to adjust downward 1,552 performance rights in 2015 and none in 2014.

CEO Performance Rights

At the 2014 Annual General Meeting shareholders approved a LTI grant of performance rights to the CEO with an award value of $3.4 million, divided into two equal tranches. This equated to 119,382 performance rights being allocated for the first tranche and 109,890 performance rights being allocated for the second tranche. Each tranche will be subject to testing against a separate TSR hurdle after three years from the start of the performance period, i.e. November 2017.

At the 2011, 2012 and 2013 Annual General Meetings shareholders approved LTI grants to the CEO equivalent to 100% of his fixed pay at the time ($3.15 million in 2011, 2012 and 2013). This equated to a total of 326,424 (2011), 328,810 (2012) and 201,086 (2013) performance rights being allocated, which are subject to testing against a TSR hurdle after three years, i.e. December 2014, 2015 and 2016 respectively. The 2011 grant of performance rights was tested in December 2014. Although ANZ achieved TSR growth of 87.83% over the three year period, ANZ's TSR did not reach the median of the comparator group. Accordingly, the performance rights did not vest. The performance rights lapsed in full at this time, and the CEO received no value. There is no retesting of this grant.

For equity grants made after 1 November 2012, any portion of the award which vests may be satisfied by a cash equivalent payment rather than shares at the Board's discretion.

The provisions that apply in the case of cessation of employment are detailed in Section 6.3, Other Remuneration Elements in the 2015 Remuneration Report.

41: Employee Share and Option Plans (continued)

Deferred Share Rights (no performance hurdles)

Deferred share rights provide the right to acquire ANZ shares at nil cost after a specified vesting period. The fair value of rights is adjusted for the absence of dividends during the restriction period. Treatment of rights in respect of cessation relates to the purpose of the grant (refer to Deferred Share Plan section above).

For deferred share rights grants made after 1 November 2012, any portion of the award which vests 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 21,737 deferred share rights (2014 year: 9,480 deferred share rights) where Board discretion was exercised.

In accordance with the downward adjustment provisions detailed in Section 6.2, Variable Remuneration of the 2015 Remuneration Report, Board discretion was exercised to adjust downward no deferred share rights in 2015 and none in 2014.

During the 2015 year 1,104,107 deferred share rights (no performance hurdles) were granted (2014: 837,011).

Legacy Option Plans

There were no legacy option plans expensed in the 2014 and 2015 years.

Options, deferred share rights and performance rights on issue

As at 4 November 2015, there were 2 holders of 18,062 options on issue, 1,341 holders of 2,233,829 deferred share rights on issue and 167 holders of 3,949,105 performance rights on issue.

Option/Rights Movements

Details of options/rights over unissued ANZ shares and their related weighted average exercise prices as at the beginning and end of 2015 and movements during 2015 follow:

	Opening balance 1 Oct 2014	Options/rights granted	Options/rights forfeited	Options/rights expired	Options/rights exercised	Closing balance 30 Sep 2015
Number of options/rights	5,431,903	2,723,269	(961,871)	(4,871)	(947,273)	6,241,157
Weighted average exercise price	$0.24	$0.00	$0.00	$18.63	$0.81	$0.07

The weighted average closing share price during the year ended 30 September 2015 was $31.94 (2014: $32.41).

The weighted average remaining contractual life of options/rights outstanding at 30 September 2015 was 3.1 years (2014: 3.1 years).

The weighted average exercise price of all exercisable options/rights outstanding at 30 September 2015 was $1.51 (2014: $9.73).

A total of 283,283 exercisable options/rights were outstanding at 30 September 2015 (2014: 131,793).

Details of options/rights over unissued ANZ shares and their related weighted average exercise prices as at the beginning and end of 2014 and movements during 2014 are set out below:

	Opening balance 1 Oct 2013	Options/rights granted	Options/rights forfeited	Options/rights expired	Options/rights exercised	Closing balance 30 Sep 2014
Number of options/rights	4,870,518	2,490,553	(785,136)	–	(1,144,032)	5,431,903
Weighted average exercise price	$1.07	$0.00	$0.00	–	$3.43	$0.24

No options/rights over ordinary shares have been granted since the end of 2015 up to the signing of the Directors' Report on 4 November 2015.

41: Employee Share and Option Plans (continued)

Details of shares issued as a result of the exercise of options/rights during 2015 are as follows:

Exercise price $	No. of shares issued	Proceeds received $	Exercise price $	No. of shares issued	Proceeds received $
0.00	2,892	–	0.00	556	–
0.00	19,694	–	0.00	4,388	–
0.00	4,859	–	0.00	585	–
23.71	16,096	381,636	0.00	1,652	–
23.71	16,096	381,636	0.00	1,739	–
0.00	1,712	–	0.00	184	–
0.00	1,030	–	0.00	1,868	–
0.00	39	–	0.00	30,025	–
0.00	1,098	–	0.00	4,624	–
0.00	4,597	–	0.00	3,545	–
0.00	340,479	–	0.00	12,562	–
0.00	55,604	–	0.00	2,459	–
0.00	15,055	–	0.00	67,514	–
0.00	21,968	–	0.00	27,655	–
0.00	6,371	–	0.00	4,816	–
0.00	2,650	–	0.00	918	–
0.00	2,882	–	0.00	1,061	–
0.00	10,587	–	0.00	606	–
0.00	5,928	–	0.00	3,262	–
0.00	4,885	–	0.00	2,978	–
0.00	123,317	–	0.00	558	–
0.00	38,297	–	0.00	194	–
0.00	1,404	–	0.00	1,108	–
0.00	2,167	–	0.00	610	–
0.00	21,774	–	0.00	994	–
0.00	26,414	–	0.00	724	–
0.00	2,295	–	0.00	432	–
0.00	804	–	0.00	1,000	–
0.00	600	–	0.00	421	–
0.00	1,713	–	0.00	387	–
0.00	2,139	–	0.00	396	–
0.00	9,658	–	0.00	125	–
0.00	2,223	–			

Details of shares issued as a result of the exercise of options/rights since the end of 2015 up to the signing of the Directors' Report on 4 November 2015 are as follows:

Exercise price $	No. of shares issued	Proceeds received $	Exercise price $	No. of shares issued	Proceeds received $
0.00	7,748	–	0.00	1,121	–
0.00	5,421	–	0.00	730	–
0.00	5,747	–	0.00	48	–
0.00	2,117	–	0.00	18	–
0.00	1,459	–	0.00	16	–
0.00	942	–			

41: Employee Share and Option Plans (continued)

Details of shares issued as a result of the exercise of options/rights during 2014 are as follows:

Exercise price $	No. of shares issued	Proceeds received $	Exercise price $	No. of shares issued	Proceeds received $
0.00	2,329	–	0.00	20,628	–
0.00	121,459	–	0.00	12,269	–
0.00	40,997	–	0.00	839	–
0.00	1,324	–	0.00	2,123	–
0.00	19,550	–	0.00	9,332	–
0.00	8,450	–	0.00	9,940	–
0.00	24,915	–	0.00	7,491	–
0.00	2,164	–	0.00	1,056	–
0.00	1,628	–	0.00	768	–
0.00	9,174	–	0.00	12,081	–
0.00	7,572	–	0.00	798	–
0.00	262	–	17.18	15,804	271,513
0.00	11,585	–	22.80	17,515	399,342
0.00	11,682	–	22.80	3,915	89,262
0.00	2,200	–	22.80	17,512	399,274
0.00	654	–	22.80	11,344	258,643
0.00	3,163	–	23.71	16,407	389,010
0.00	232,431	–	23.71	19,858	470,833
0.00	19,081	–	23.71	16,562	392,685
0.00	3,988	–	23.71	16,407	389,010
0.00	1,972	–	23.71	19,857	470,809
0.00	3,115	–	23.71	16,561	392,661
0.00	2,445	–	0.00	173,130	–
0.00	6,908	–	0.00	35,724	–
0.00	35,470	–	0.00	726	–
0.00	88,186	–	0.00	14,804	–
0.00	3,120	–	0.00	396	–
0.00	3,454	–	0.00	90	–
0.00	817	–			

41: Employee Share and Option Plans (continued)

In determining the fair value below, the standard market techniques for valuation, including Monte Carlo and/or Black Scholes pricing models, were applied in accordance with the requirements of AASB 2 Share-based payments. The models take into account early exercise of vested equity, non-transferability and market based performance hurdles (if any). The significant assumptions used to measure the fair value of instruments granted during 2015 are contained in the table below:

Type	Grant date	Number of options/rights	Exercise price $	Equity fair value $	Share closing price at grant $	ANZ expected volatility[1] %	Equity term (years)	Vesting period (years)	Expected life (years)	Expected dividend yield %	Risk free interest rate %
STI/TIPP deferred share rights	21-Nov-14	234,600	0.00	30.16	31.82	17.5	3	1	1	5.50	2.53
	21-Nov-14	90,883	0.00	30.39	31.82	17.5	2.9	0.9	0.9	5.50	2.53
	21-Nov-14	247,421	0.00	28.58	31.82	17.5	4	2	2	5.50	2.53
	21-Nov-14	34,768	0.00	29.37	31.82	17.5	3.5	1.5	1.5	5.50	2.53
	21-Nov-14	36,681	0.00	27.84	31.82	17.5	4.5	2.5	2.5	5.50	2.53
	21-Nov-14	37,662	0.00	26.38	31.82	17.5	5.5	3.5	3.5	5.50	2.66
	21-Nov-14	184,029	0.00	27.09	31.82	17.5	5	3	3	5.50	2.53
LTI deferred share rights	21-Nov-14	154,179	0.00	27.09	31.82	17.5	5	3	3	5.50	2.53
LTI performance rights	21-Nov-14	695,358	0.00	14.24	31.82	17.5	5	3	3	5.50	2.53
	21-Nov-14	640,076	0.00	15.47	31.82	17.5	5	3	3	5.50	2.53
	21-Nov-14	21,382	0.00	13.97	31.82	17.5	5.5	3.5	3.5	5.50	2.66
	21-Nov-14	19,588	0.00	15.25	31.82	17.5	5.5	3.5	3.5	5.50	2.66
	18-Dec-14	119,382	0.00	13.67	30.98	17.5	5	3	3	5.50	2.20
	18-Dec-14	109,890	0.00	14.69	30.98	17.5	5	3	3	5.50	2.20
	25-Feb-15	7,022	0.00	15.24	35.31	17.5	5	3	3	5.25	1.86
	25-Feb-15	6,464	0.00	16.46	35.31	17.5	5	3	3	5.25	1.86
Other deferred share rights	21-Nov-14	9,777	0.00	30.58	31.82	17.5	2.7	0.7	0.7	5.50	2.53
	21-Nov-14	3,459	0.00	30.16	31.82	17.5	3	1	1	5.50	2.53
	21-Nov-14	3,486	0.00	29.60	31.82	17.5	3.4	1.4	1.4	5.50	2.53
	21-Nov-14	7,073	0.00	28.98	31.82	17.5	3.8	1.8	1.8	5.50	2.53
	21-Nov-14	3,650	0.00	28.58	31.82	17.5	4	2	2	5.50	2.53
	21-Nov-14	3,690	0.00	27.96	31.82	17.5	4.4	2.4	2.4	5.50	2.53
	21-Nov-14	3,276	0.00	27.47	31.82	17.5	4.8	2.8	2.8	5.50	2.53
	21-Nov-14	1,680	0.00	27.09	31.82	17.5	5	3	3	5.50	2.53
	21-Nov-14	3,894	0.00	26.50	31.82	17.5	5.4	3.4	3.4	5.50	2.66
	4-Dec-14	20,302	0.00	27.43	32.22	17.5	3	3	3	5.50	2.36
	27-Feb-15	1,185	0.00	33.58	35.34	17.5	3	1	1	5.25	1.91
	27-Feb-15	1,247	0.00	31.90	35.34	17.5	4	2	2	5.25	1.79
	1-Jun-15	4,021	0.00	31.50	32.72	17.5	2.7	0.7	0.7	5.25	1.89
	1-Jun-15	1,271	0.00	31.08	32.72	17.5	3	1	1	5.25	1.89
	1-Jun-15	7,664	0.00	29.92	32.72	17.5	3.7	1.7	1.7	5.25	1.94
	1-Jun-15	1,067	0.00	29.53	32.72	17.5	4	2	2	5.25	1.94
	1-Jun-15	2,334	0.00	28.43	32.72	17.5	4.7	2.7	2.7	5.25	1.94
	20-Aug-15	2,342	0.00	27.54	29.13	17.5	3	1	1	5.75	1.97
	20-Aug-15	2,477	0.00	26.04	29.13	17.5	4	2	2	5.75	1.89

1 Expected volatility represents a measure of the amount by which ANZ's share price is expected to fluctuate over the life of the rights. The measure of volatility used in the model is the annualised standard deviation of the continuously compounded rates of return on the historical share price over a 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.

41: Employee Share and Option Plans (continued)

The significant assumptions used to measure the fair value of instruments granted during 2014 are contained in the table below:

Type	Grant date	Number of options/rights	Exercise price $	Equity fair value $	Share closing price at grant $	ANZ expected volatility[1] %	Equity term (years)	Vesting period (years)	Expected life (years)	Expected dividend yield %	Risk free interest rate %
STI/TIPP deferred share rights	22–Nov–13	39,269	0.00	31.68	31.68	n/a	2.4	0.4	0.4	5.80	n/a
	22–Nov–13	192,539	0.00	30.10	31.68	20.0	3	1	1	5.25	2.54
	22–Nov–13	202,523	0.00	28.60	31.68	20.0	4	2	2	5.25	2.75
	22–Nov–13	148,315	0.00	27.17	31.68	20.0	5	3	3	5.25	3.13
LTI deferred share rights	22–Nov–13	149,626	0.00	27.17	31.68	20.0	5	3	3	5.25	3.13
LTI performance rights	22–Nov–13	759,220	0.00	13.87	31.68	20.0	5	3	3	5.25	3.13
	22–Nov–13	693,236	0.00	15.19	31.68	20.0	5	3	3	5.25	3.13
	18–Dec–13	100,832	0.00	15.62	30.70	20.0	5	3	3	5.50	2.90
	18–Dec–13	100,254	0.00	15.71	30.70	20.0	5	3	3	5.50	2.90
Other deferred share rights	22–Nov–13	15,530	0.00	31.68	31.68	n/a	2.3	0.3	0.3	5.80	n/a
	22–Nov–13	918	0.00	30.50	31.68	20.0	2.7	0.7	0.7	5.25	2.54
	22–Nov–13	1,438	0.00	30.10	31.68	20.0	3	1	1	5.25	2.54
	22–Nov–13	3,671	0.00	29.69	31.68	20.0	3.3	1.3	1.3	5.25	2.54
	22–Nov–13	983	0.00	28.98	31.68	20.0	3.7	1.7	1.7	5.25	2.75
	22–Nov–13	5,009	0.00	28.60	31.68	20.0	4	2	2	5.25	2.75
	22–Nov–13	1,595	0.00	28.21	31.68	20.0	4.3	2.3	2.3	5.25	2.75
	22–Nov–13	217	0.00	27.53	31.68	20.0	4.7	2.7	2.7	5.25	3.13
	22–Nov–13	1,591	0.00	27.17	31.68	20.0	5	3	3	5.25	3.13
	4–Dec–13	25,710	0.00	27.24	31.76	20.0	3	3	3	5.25	3.08
	27–Feb–14	7,988	0.00	30.47	32.15	20.0	3	1	1	5.50	2.44
	27–Feb–14	6,036	0.00	28.89	32.15	20.0	4	2	2	5.50	2.69
	27–Feb–14	4,809	0.00	27.38	32.15	20.0	5	3	3	5.50	2.85
	1–Jun–14	5,116	0.00	32.64	33.49	17.5	3	0.5	0.5	5.50	2.54
	1–Jun–14	994	0.00	32.18	33.49	17.5	3	0.7	0.7	5.50	2.54
	1–Jun–14	1,298	0.00	31.73	33.49	17.5	3	1	1	5.50	2.54
	1–Jun–14	3,944	0.00	30.93	33.49	17.5	4	1.5	1.5	5.50	2.63
	1–Jun–14	1,049	0.00	30.50	33.49	17.5	4	1.7	1.7	5.50	2.63
	1–Jun–14	1,369	0.00	30.08	33.49	17.5	4	2	2	5.50	2.63
	1–Jun–14	1,807	0.00	29.32	33.49	17.5	5	2.5	2.5	5.50	2.74
	1–Jun–14	5,190	0.00	28.90	33.49	17.5	5	2.7	2.7	5.50	2.74
	1–Jun–14	771	0.00	28.51	33.49	17.5	5	3	3	5.50	2.74
	1–Jun–14	1,934	0.00	27.40	33.49	17.5	6	3.7	3.7	5.50	2.92
	20–Aug–14	524	0.00	32.35	33.27	17.5	3	0.5	0.5	5.50	2.47
	20–Aug–14	2,328	0.00	31.54	33.27	17.5	3	1	1	5.50	2.47
	20–Aug–14	292	0.00	30.66	33.27	17.5	4	1.5	1.5	5.50	2.54
	20–Aug–14	2,457	0.00	29.89	33.27	17.5	4	2	2	5.50	2.54
	20–Aug–14	171	0.00	29.06	33.27	17.5	5	2.5	2.5	5.50	2.64

1 Expected volatility represents a measure of the amount by which ANZ's share price is expected to fluctuate over the life of the rights. The measure of volatility used in the model is the annualised standard deviation of the continuously compounded rates of return on the historical share price over a 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, or be newly issued shares or a combination of both.

In relation to equity purchased on market during the 2015 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 6,164,925 shares were purchased at an average price of $32.11 per share (2014 year: 5,909,763 shares at an average price of $31.93).

42: Related Party Disclosures

A: KEY MANAGEMENT PERSONNEL COMPENSATION

Key Management Personnel (KMP) are defined as directors and those executives that report directly to the CEO with responsibility for the strategic direction and management of a major revenue generating division or who control material revenue and expenses. KMP compensation included in the personnel disclosure expenses is as follows:

	Consolidated	
	2015[1] $000	2014 $000
Short-term benefits	24,447	25,367
Post-employment benefits	914	921
Other long-term benefits	291	356
Termination benefits	104	–
Share-based payments	17,805	15,400
	43,561	42,044

1 Current period includes former CEO Australia notice period from 3 April 2014 until cessation of employment.

B: KEY MANAGEMENT PERSONNEL LOAN TRANSACTIONS

Loans made to directors of the Company and other KMP of the Group are made in the ordinary course of business on normal commercial terms and conditions no more favourable than those given to other employees or customers, including the term of the loan, security required and the interest rate. The aggregate of loans made, guaranteed or secured by any entity in the Group to KMP, including their related parties, were as follows:

	Consolidated		The Company	
	2015 $000	2014 $000	2015 $000	2014 $000
Loans advanced[1]	50,400	29,560	41,401	20,622
Interest charged[2]	2,106	1,314	1,601	849

1 Balances are for KMP who were in office as of the balance sheet date.
2 Interest is for all KMP during the period.

C: KEY MANAGEMENT PERSONNEL HOLDINGS OF ANZ SECURITIES

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

	Consolidated	
	2015 Number[1]	2014 Number[1]
Ordinary shares	4,137,367	3,876,106
Subordinated debt	17,227	10,499

1 Balances are for KMP who were in office as of the balance sheet date.

D: OTHER TRANSACTIONS OF KEY MANAGEMENT PERSONNEL AND THEIR RELATED PARTIES

All other transactions with KMP and their related parties are made on terms equivalent to those that prevail in arm's length transactions. These transactions generally involve the provision of financial and investment services including services to eligible international assignees ensuring they are neither financially advantaged nor disadvantaged by their relocation. All such transactions that have occurred with KMP and their related parties have been trivial or domestic in nature. In this context, transactions are only disclosed when they are considered of interest to the users of the financial report in making and evaluating decisions about the allocation of scarce resources.

E: ASSOCIATES

Significant associates are disclosed in note 35. During the course of the financial year the Company and its subsidiaries conducted transactions with all associates as shown below on terms equivalent to those on an arm's length basis.

	Consolidated		The Company	
	2015 $000	2014 $000	2015 $000	2014 $000
Amounts receivable from associates	7,436	81,193	5,283	80,628
Amounts payable to associates	6,614	77,977	5,703	2,210
Interest revenue	322	694	244	657
Interest expense	2,443	2,378	40	–
Dividend revenue	232,289	125,400	59,220	45,935
Costs recovered from associates	2,394	1,865	1,279	476

There have been no guarantees given or received. No outstanding amounts have been written down or recorded as allowances, as they are considered fully collectible.

42: Related Party Disclosures (continued)

F: SUBSIDIARIES

Significant controlled entities are disclosed in note 34. During the course of the financial year subsidiaries conducted transactions with each other and associates on terms equivalent to those on an arm's length basis. As of 30 September 2015, all outstanding amounts are considered fully collectible.

Transactions between the Company and its subsidiaries include the provision of 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 3 and note 4.

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

43: Other Contingent Liabilities and Contingent Assets

In addition to the credit related contingent liabilities included at note 24, the Group also had contingent liabilities as at 30 September 2015 in respect of the matters outlined below. Where relevant, expert legal advice has been obtained and, in the light of such advice, provisions and/or disclosures as deemed appropriate have been made. 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.

i) Bank fees litigation

Litigation funder IMF Bentham Limited commenced a class action against ANZ in 2010, followed by a second similar class action in March 2013. Together the class actions are claimed to be on behalf of more than 40,000 ANZ customers. The customers currently involved in these class actions are only part of ANZ's customer base for credit cards and transaction accounts.

The applicants contended that the relevant exception fees (honour, dishonour and non-payment fees on transaction accounts and late payment and overlimit fees on credit cards) were unenforceable penalties (at law and in equity) and that various of the fees were also unenforceable under statutory provisions governing unconscionable conduct, unfair contract terms and unjust transactions.

In April 2015, the Full Federal Court delivered judgment in respect of appeals by both parties in the second class action. The Full Federal Court found in ANZ's favour in respect of all fees subject to appeal (in relation to both the penalty and statutory claims). All but one of those fees are no longer being pursued by IMF Bentham Limited. The one which is being pursued further is the credit card late payment fee – for which IMF Bentham Limited has obtained special leave to appeal to the High Court of Australia. The High Court appeal has been listed for hearing on 4 and 5 February 2016.

The first class action is on hold.

In August 2014, IMF Bentham Limited commenced a separate class action against ANZ for late payment fees charged to ANZ customers in respect of commercial credit cards and other ANZ products (at this stage not specified). The action is expressed to apply to all relevant customers, rather than being limited to those who have signed up with IMF Bentham Limited. The action is at an early stage and has been put on hold.

In June 2013, litigation funder Litigation Lending Services (NZ) commenced a representative action against ANZ for certain fees charged to New Zealand customers since 2007. This action is currently on hold.

There is a risk that further claims could emerge in Australia, New Zealand or elsewhere.

ii) Regulator investigations into BBSW and foreign exchange trading

Since mid-2012 the Australian Securities and Investments Commission (ASIC) has been undertaking inquiries into historic trading practices in the Australian interbank market known as the Bank Bill Swap Rate (BBSW) market. Since 2014, each of ASIC and the Australian Competition and Consumer Commission (ACCC) have been investigating foreign exchange trading conduct of various banks including ANZ. ASIC's and the ACCC's investigations are ongoing and the range of potential outcomes include civil and criminal penalties and other actions under the relevant legislation.

iii) Security recovery actions

Various claims have been made or are anticipated, arising from security recovery actions taken to resolve impaired assets over recent years. ANZ will defend these claims and any future claims.

iv) Clearing and settlement obligations

In accordance with the clearing and settlement arrangements set out:

- in the Australian Payments Clearing Association Limited's Regulations for the Australian Paper Clearing System, the Bulk Electronic Clearing System, the Issuers and Aquirers Community and the High Value Clearing System (HVCS), the Company has a commitment to comply with rules which could result in a bilateral exposure and loss in the event of a failure to settle by a member institution. The exposure arising from these arrangements is unquantifiable in advance; and
- in the Austraclear System Regulations (Austraclear) and the CLS Bank International Rules, the Company has a commitment to participate in loss-sharing arrangements in the event of a failure to settle by a member institution. The exposure arising from these arrangements is unquantifiable in advance.

For HVCS and Austraclear, the obligation arises only in limited circumstances.

43: Other Contingent Liabilities and Contingent Assets (continued)

v) 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.

vi) Sale of Grindlays businesses

On 31 July 2000, ANZ completed the sale to Standard Chartered Bank (SCB) of ANZ Grindlays Bank Limited and the private banking business of ANZ in the United Kingdom and Jersey, together with ANZ Grindlays (Jersey) Holdings Limited and its subsidiaries, for USD1.3 billion in cash. ANZ provided warranties and certain indemnities relating to those businesses and, where it was anticipated that payments would be likely under the warranties or indemnities, made provisions to cover the anticipated liability. The issue below has not impacted adversely the reported results. All settlements, penalties and costs to date have been covered within existing provisions.

Foreign Exchange Regulation Act (India)

In 1991 certain amounts were transferred from non-convertible Indian Rupee accounts maintained with Grindlays in India. These transactions may not have complied with the provisions of the Foreign Exchange Regulation Act, 1973. Grindlays, on its own initiative, brought these transactions to the attention of the Reserve Bank of India. The Indian authorities served notices on Grindlays and certain of its officers in India and civil penalties have been imposed which are the subject of appeals. Criminal prosecutions are pending and will be defended. The amounts in issue are not material.

vii) Deed of Cross Guarantee in respect of certain controlled entities

Pursuant to ASIC class order 98/1418 (as amended) dated 13 August 1998, relief was granted to a number of wholly owned controlled entities from the Corporations Act 2001 requirements for preparation, audit, and lodgement of individual financial statements in Australia. The results of these companies are included in the consolidated Group results.

The entities to which relief was granted are:

- ANZ Properties (Australia) Pty Ltd[1]
- ANZ Capital Hedging Pty Ltd[1]
- ANZ Funds Pty Ltd[1]
- Votraint No. 1103 Pty Ltd[2]
- ANZ Securities (Holdings) Limited[3]
- ANZ Commodity Trading Pty Ltd[4]
- ANZ Nominees Limited[5]

It is a condition of the class order that the Company and each of the above controlled entities enter into a Deed of Cross Guarantee. A Deed of Cross Guarantee or subsequent Assumption Deeds under the class order were executed by them and lodged with the Australian Securities and Investments Commission. The Deed of Cross Guarantee is dated 1 March 2006. The effect of the Deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding up any of the controlled entities under certain provisions of the Corporations Act 2001. If a winding up occurs in any other case, the Company will only be liable in the event that after six months any creditor has not been paid in full. The controlled entities have also given similar guarantees in the event that the Company is wound up.

1 Relief originally granted on 21 August 2001.
2 Relief originally granted on 13 August 2002.
3 Relief originally granted on 9 September 2003.
4 Relief originally granted on 2 September 2008.
5 Relief originally granted on 11 February 2009.

43: Other Contingent Liabilities and Contingent Assets (continued)

The consolidated statement of comprehensive income and consolidated balance sheet of the Company and its wholly owned controlled entities which have entered into the Deed of Cross Guarantee in the relevant financial years are:

	Consolidated	
	2015 $m	2014 $m
Profit before tax	9,263	9,116
Income tax expense	(1,925)	(1,945)
Profit after income tax	7,338	7,171
Foreign exchange differences taken to equity, net of tax	807	175
Change in fair value of available-for-sale financial assets, net of tax	(31)	34
Change in fair value of cash flow hedges, net of tax	103	125
Actuarial gains/(loss) on defined benefit plans, net of tax	19	6
Other comprehensive income, net of tax	898	340
Total comprehensive income	8,236	7,511
Retained profits at start of year	18,990	16,499
Profit after income tax	7,338	7,171
Ordinary share dividends provided for or paid	(4,905)	(4,694)
Transfer from reserves	7	8
Actuarial gains/(loss) on defined benefit plans after tax	19	6
Retained profits at end of year	21,449	18,990
Assets		
Cash	51,217	30,655
Settlement balances owed to ANZ	16,601	18,150
Collateral paid	8,234	4,873
Available-for-sale assets/investment securities	37,612	26,151
Net loans and advances	447,799	414,349
Other assets	267,579	209,318
Premises and equipment	1,047	1,065
Total assets	830,089	704,561
Liabilities		
Settlement balances owed by ANZ	9,901	8,189
Collateral received	6,886	4,886
Deposits and other borrowings	472,031	423,172
Income tax liability	249	366
Payables and other liabilities	307,390	234,807
Provisions	731	695
Total liabilities	797,188	672,115
Net assets	32,901	32,446
Shareholders' equity[1]	32,901	32,446

1 Shareholders' equity excludes retained profits and reserves of controlled entities within the class order.

CONTINGENT ASSETS

National Housing Bank

ANZ 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 ANZ and NHB.

44: Compensation of Auditors

	Consolidated		The Company	
	2015 $'000	2014 $'000	2015 $'000	2014 $'000
KPMG Australia[1]				
Audit or review of financial reports of the Company or Group entities	8,824	9,031	5,377	5,346
Audit-related services[2]	4,093	3,166	3,026	2,444
Non-audit services[3]	126	630	126	530
	13,043	12,827	8,529	8,320
Overseas related practices of KPMG Australia				
Audit or review of financial reports of the Company or Group entities	6,022	5,396	1,537	1,227
Audit-related services[2]	1,394	1,195	682	516
Non-audit services[3]	256	4	–	–
	7,672	6,595	2,219	1,743
Total compensation of auditors	20,715	19,422	10,748	10,063

1 Inclusive of goods and services tax.

2 For the Group, comprises prudential and regulatory services of $4.000 million (2014: $3.217 million), comfort letters $0.745 million (2014: $0.814 million) and other $0.742 million (2014: $0.330 million). For the Company, comprises prudential and regulatory services of $2.556 million (2014: $1.927 million), comfort letters of $0.565 million (2014: $0.585 million) and other $0.587 million (2014: $0.448 million).

3 The nature of the non-audit services include reviews of compliance with legal and regulatory requirements, benchmarking reviews and a branch optimisation analysis performed during the year. Further details are provided in the Directors' Report.

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

45: Changes to comparatives

Certain amounts reported as comparative information have changed as a result of the adoption of new accounting standards or being reclassified to conform with current period financial statement presentations.

Merchant Services and Commercial Cards (impacting segment analysis)

During 2015 the Merchant Services and Commercial Credit Cards business were transferred out of the Cards and Payments business unit in Australia Retail and split between Australia C&CB and IIB based on customer ownership. Comparatives in note 8 have changed.

Fee commissions and expenses (impacting income)

Certain card related fees that are integral to the generation of income were reclassified within total income to better reflect the nature of the items and comparatives were restated. Comparatives in note 3 have changed.

45: Changes to comparatives (continued)

Equity accounting of associates

During the year the Company elected to early adopt AASB 2014-9 Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements in order to account for investments in associates using the equity method, rather than at cost. This change has been retrospectively applied and the impact on comprehensive income and the balance sheet as at 30 September 2014 and 1 October 2013 is presented below.

	2014		
The Company	Previously reported $m	Adjustments $m	Currently reported $m
Share of associates' profit	–	248	248
Other operating income[1]	5,868	(84)	5,784
Operating income	16,095	164	16,259
Profit before credit impairment and income tax	9,217	164	9,381
Profit before income tax	8,243	164	8,407
Profit attributable to shareholders of the Company	6,272	164	6,436
Other comprehensive income net of tax attributable to shareholders of the Company	234	132	366
Total comprehensive income attributable to shareholders of the Company	6,506	296	6,802

1 The adjustment to other operating incomes comprises the removal of dividends from associates, and the recognition of a dilution gain on investment in BoT and the loss on divestment of SSI.

	2014			2013		
Company	Previously reported $m	Adjustments $m	Currently reported $m	Previously reported $m	Adjustments $m	Currently reported $m
Assets						
Investments in associates	720	1,446	2,166	841	1,150	1,991
All other assets	706,824	–	706,824	618,156	–	618,156
Total assets	707,544	1,446	708,990	618,997	1,150	620,147
Total liabilities	666,288	–	666,288	579,932	–	579,932
Net Assets	**41,256**	**1,446**	**42,702**	**39,065**	**1,150**	**40,215**
Ordinary and prefered share capital	25,151	–	25,151	24,785	–	24,785
Foreign currency translation reserve	(522)	232	(290)	(616)	77	(539)
Other reserves	307	(23)	284	143	–	143
Retained earnings	16,320	1,237	17,557	14,753	1,073	15,826
Total Equity	41,256	1,446	42,702	39,065	1,150	40,215

46: Events Since the End of the Financial Year

CEO Appointment

On 1st October the Board of ANZ announced that Shayne Elliott will succeed Mike Smith as Chief Executive Officer and join the Board on 1 January 2016. Mr Smith will step down as Chief Executive Officer and as Director on 31 December 2015. Mr Smith will be retained as a non-executive advisor to the Board, initially for one year, commencing after his period of leave on 11 July 2016. Further details of Mr Elliott's remuneration arrangements and Mr Smith's leaving arrangements can be found in the Remuneration Report.

Sale of Esanda Dealer Finance Portfolio

On 8th October the Group entered into an agreement to sell the Esanda Dealer Finance business to Macquarie Group Limited. The sale is expected to complete during the first half of 2016. The estimated sale price is $8.2 billion.

Other than the matters noted above there have been no other material events from 30 September to the date of this report.

DIRECTORS' DECLARATION AND RESPONSIBILITY STATEMENT

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 of the consolidated entity as at 30 September 2015 and of their performance for the year ended on that date;

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;

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

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; and

e) the Company and certain of its wholly owned controlled entities (listed in note 43) have executed a Deed of Cross Guarantee enabling them to take advantage of the accounting and audit relief offered by class order 98/1418 (as amended), issued by the Australian Securities and Investments Commission. The nature of the Deed of Cross Guarantee is to guarantee to each creditor payment in full of any debt in accordance with the terms of the Deed of Cross Guarantee. At the date of this declaration, there are reasonable grounds to believe that the Company and its controlled entities which executed the Deed of Cross Guarantee are able, as an economic entity, to meet any obligations or liabilities to which they are, or may become, subject by virtue of the Deed of Cross Guarantee.

Signed in accordance with a resolution of the Directors.

David M Gonski, AC
Chairman

Michael R P Smith, OBE
Director

4 November 2015

Responsibility statement of the Directors in accordance with Rule 4.1.12 (3)(b) of the Disclosure Rules and Transparency Rules of the United Kingdom Financial Conduct Authority.

The Directors of Australia and New Zealand Banking Group Limited confirm to the best of their knowledge that:

The Group's Annual Report includes:

i) a fair review of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole; together with

ii) a description of the principal risks and uncertainties faced by the Group.

Signed in accordance with a resolution of the Directors.

David M Gonski, AC
Chairman

Michael R P Smith, OBE
Director

4 November 2015

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED

KPMG

REPORT ON THE FINANCIAL REPORT

We have audited the accompanying financial report of Australia and New Zealand Banking Group Limited (the Company), which comprises the balance sheets as at 30 September 2015, and income statements, statements of comprehensive income, statements of changes in equity and statements of cash flow for the year ended on that date, notes 1 to 46 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Company and the Group comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL REPORT

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 1(A)(i), the directors also state, in accordance with Australian Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001 and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Company's and the Group's financial position and of their performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENCE

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

AUDITOR'S OPINION

In our opinion:

(a) the financial report of Australia and New Zealand Banking Group Limited is in accordance with the Corporations Act 2001, including:
   - (i) giving a true and fair view of the Company's and the Group's financial position as at 30 September 2015 and of their performance for the year ended on that date; and
   - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1(A)(i).

REPORT ON THE REMUNERATION REPORT

We have audited the remuneration report included in pages 31 to 57 of the directors' report for the year ended 30 September 2015. 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 responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

AUDITOR'S OPINION

In our opinion, the remuneration report of Australia and New Zealand Banking Group Limited for the year ended 30 September 2015, complies with Section 300A of the Corporations Act 2001.

KPMG
Melbourne

4 November 2015

Andrew Yates
Partner

Annex C: Further information relating to the sale of the Retail and Wealth businesses in Asia

1. Definitions

In this Annex C, the following terms have been used:

"ANZ" means Australia and New Zealand Banking Group Limited and/or (as applicable) Australia and New Zealand Bank (China) Company Limited, PT Bank ANZ Indonesia and ANZ Bank (Taiwan) Limited.

"DBS" means DBS Bank Ltd. and/or (as applicable) DBS Bank (Hong Kong) Limited, DBS Bank (China) Limited, PT Bank DBS Indonesia and DBS Bank (Taiwan) Ltd.

"Transaction Agreements" means a Framework Agreement and Sale Agreements for each Territory, each dated 30 October 2016.

2. Summary

ANZ entered into certain Transaction Agreements with DBS dated 30 October 2016 under which ANZ agreed to sell, and DBS agreed to purchase, ANZ's retail banking and wealth businesses ("**Businesses**", each a "**Business"**) in China, Hong Kong, Indonesia, Singapore and Taiwan("**Territories"**, each a "**Territory**").

The Transaction Agreements comprise separate Sale Agreements for each Territory comprising the agreement to buy and sell the Business in that Territory (including price and conditions), as well as a Framework Agreement setting out certain common terms applicable across the sales in all Territories.

In each case, the scope of the Business to be sold includes all retail customer deposit and loan facility (including credit card) accounts and wealth accounts in the Territory as at the applicable closing date. In some cases, the transfer of the customer accounts will be subject to obtaining customer consent (and the account will be excluded from the sale if such consent is not obtained); in other cases, customer consent is not required and the account will be transferred by way of notification and/or (in Singapore and Taiwan) pursuant to a local statutory transfer scheme. The sale will exclude accounts of customers who close their account, or repay their loan facility in full, before closing. The Transaction Agreements include employee transfer regimes under which most of the direct retail employees of the Businesses (collectively) will be offered employment with DBS.

Closing of the sale of each Business is conditional on relevant local regulatory approvals being obtained. ANZ and DBS are each obliged to use best endeavors to obtain those approvals as soon as possible, but in any event before certain 'regulatory long stop dates' set out in the Local Sale Agreements, which dates fall between 12 and 18 months after the date of the Transaction Agreements. ANZ or DBS may terminate a Local Sale Agreement if relevant regulatory approvals for that Territory have not been obtained by the applicable regulatory long stop date, unless extended by agreement. The sale of each Business is legally separate from, is not conditional on, the sale of any other Business being closed and, accordingly, the failure to fulfil the conditions in a Territory does not impact the obligation to close the sale in other Territories.

There are no conditions regarding any matters other than regulatory approvals.

Closing of the sale of each Business is agreed to occur after regulatory approval conditions in the applicable Territory are satisfied, with the actual timing of the closing date to be determined in each case by a joint implementation committee. The Transaction Agreements envisage a separate closing date applying in each Territory.

Consideration payable in respect of the sale of the Businesses includes an amount referable to net tangible assets of the Businesses at closing, subject to post-closing adjustments. The profits (or losses) of the Businesses during the period before closing are retained by ANZ.

The Transaction Agreements include representations and warranties given by ANZ to DBS regarding various matters related to the Businesses, including in relation to the accuracy of disclosure information, material contracts, financial information, legal and regulatory compliance, employees and real property. There are also indemnities in relation to certain matters. Claims by DBS under the representations, warranties and indemnities are subject to various monetary and time thresholds and limitations.

A non-competition covenant applies in each Territory for a period of three years from closing of the sale in that Territory, under which ANZ must not (and must procure that its subsidiaries do not) carry on any retail banking or wealth product distribution businesses in that Territory. Certain exceptions and exclusions apply.