2016

Half Year U.S. Disclosure Document

for the fiscal half year ended March 31, 2016

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

The date of this 2016 Half Year U.S. Disclosure Document is May 6, 2016.

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INTRODUCTION

All references in this document to this "U.S. Disclosure Document" should be read as referring to the 2016 Half Year U.S. Disclosure Document of Australia and New Zealand Banking Group Limited for the fiscal half year ended March 31, 2016 (the "March 2016 half") including the Annex attached hereto.

This U.S. Disclosure Document is dated May 6, 2016. All references in this document to "the date of this U.S. Disclosure Document" are to May 6, 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 March 31, 2016, and the results of operations for the fiscal half year then ended. All balances disclosed in this U.S. Disclosure Document relate to those of the Group. The Group's Condensed Consolidated Financial Statements including the notes thereto and the independent auditor's review report thereon for the March 2016 half (hereafter defined as the "Condensed Consolidated Financial Statements"), as prepared and filed by the Company with the ASX in accordance with its rules, are attached to this U.S. Disclosure Document as the Annex.

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 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, the Asia Pacific region and other jurisdictions in which we or our customers operate, including without limitation changes that impact the natural resources and real estate industries;
- 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 and accounting standards in Australia and worldwide;
- changes in consumer spending, saving and borrowing habits in Australia, New Zealand, the Asia Pacific 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 Asia Pacific 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 Asia Pacific 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;
- reliability and security of our technology and 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, 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 condensed consolidated balance sheets and selected ratios as of March 31, 2016, September 30, 2015 and March 31, 2015, and the summary of condensed consolidated income statements and selected ratios for the fiscal half years ended March 31, 2016, September 30, 2015, March 31, 2015, have been derived from the Condensed Consolidated Financial Statements. The Condensed Consolidated Financial Statements are attached to this U.S. Disclosure Document as the Annex.

The Condensed Consolidated 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 Condensed Consolidated 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 March 31, 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$0.7677 = 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 condensed consolidated income statements and selected ratios

	Half Year			
	Mar 16 USD $M[1]	**Mar 16 $M**	**Sep 15 $M**	**Mar 15 $M**
Interest income	11,585	15,090	15,132	15,394
Interest expense	(5,775)	(7,522)	(7,654)	(8,256)
Net interest income	5,810	7,568	7,478	7,138
Other operating income[2]	2,070	2,697	3,372	3,102
Operating income[2]	7,880	10,265	10,850	10,240
Operating expenses[2]	(4,206)	(5,479)	(4,775)	(4,603)
Profit before credit impairment and income tax	3,674	4,786	6,075	5,637
Credit impairment charge[3]	(694)	(904)	(685)	(494)
Profit before income tax	**2,980**	**3,882**	**5,390**	**5,143**
Income tax expense[4]	(875)	(1,140)	(1,397)	(1,629)
Profit for the half year	2,105	2,742	3,993	3,514
Profit attributable to non-controlling interests	(3)	(4)	(6)	(8)
Profit attributable to shareholders of the Company	**2,102**	**2,738**	**3,987**	**3,506**
Non-interest income as a % of operating income[5]	26.3%	26.3%	31.1%	30.3%
Net interest margin	2.01%	2.01%	2.04%	2.04%
Cost to income ratio	53.4%	53.4%	44.0%	45.0%
Dividends on ordinary shares	2,081	2,711	2,328	2,578
Earnings per fully paid ordinary share (cents)				
Basic	72.8	94.8	143.4	128.0
Diluted	67.9	89.7	134.9	124.6
Ordinary share dividend payout ratio (%)[6]	85.2%	85.2%	69.2%	67.9%
Dividend per ordinary share (cents)	61	80	95	86

1 *The USD amounts are disclosed for information purposes only. There is no assurance that the AUD amounts could be translated at the March 31, 2016 Noon Buying Rate applied in this U.S. Disclosure Document.*

2 *Certain amounts reported as comparative information for Sep 15 and Mar 15 have changed as a result of being reclassified to conform with current period financial statement presentation. Refer to Note 2 and Note 3 of the Condensed Consolidated Financial Statements (attached as the Annex).*

3 *The credit impairment charge represents the individual and collective credit impairment charge.*

4 *Includes the impact of contribution tax and investment income tax attributable to policyholders.*

5 *Non-interest income comprises net funds management and insurance income, share of associates' profit and other operating income.*

6 *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:*

Proposed 2016 interim dividend	***Actual Dividend Paid Sep 2015 half***	***Actual Dividend Paid Mar 2015 half***
*$2,334 million**	*$2,758 million*	*$2,379 million*

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

Summary of condensed consolidated balance sheets and selected ratios

	Half Year			
	Mar 16 USD $M[1]	**Mar 16 $M**	**Sep 15 $M**	**Mar 15 $M**
Shareholders' equity[2]	43,270	56,363	57,247	51,956
Subordinated debt[3]	13,479	17,557	17,009	16,463
Debt issuances	62,911	81,947	93,747	85,664
Deposits and other borrowings	443,785	578,071	570,794	567,215
Gross loans and advances[4,5]	434,417	565,868	574,255	562,231
Less: Individual provision for credit impairment[4]	(950)	(1,238)	(1,061)	(1,114)
Less: Collective provision for credit impairment[4,6]	(2,197)	(2,862)	(2,956)	(2,914)
Less: Esanda Dealer Finance assets held for sale[5]	-	-	(8,065)	-
Net loans and advances	431,270	561,768	562,173	558,203
Total assets	687,305	895,278	889,900	860,087
Net assets	43,347	56,464	57,353	52,051
Risk weighted assets[7]	298,125	388,335	401,937	386,863
Summary of consolidated ratios				
Statutory profit after preference share dividends as a percentage of:				
Average total assets	0.6%	0.6%	0.9%	0.8%
Average ordinary shareholders' equity[8]	9.5%	9.5%	15.0%	14.0%
Average ordinary shareholders' equity as a percentage of average total assets[8]	12.7%	12.7%	12.1%	12.1%
Capital adequacy ratios:[7]				
Common Equity Tier 1	9.8%	9.8%	9.6%	8.7%
Tier 1	11.6%	11.6%	11.3%	10.6%
Tier 2	2.1%	2.1%	2.0%	2.0%
Total	13.7%	13.7%	13.3%	12.6%
Number of ordinary shares on issue (millions)	2,917.6	2,917.6	2,902.7	2,766.0

1. *The USD amounts are disclosed for information purposes only. There is no assurance that the AUD amounts could be translated at the March 31, 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 12 of the Condensed Consolidated Financial Statements (attached as the Annex).*
4. *Loans and advances are disclosed in the balance sheet net of the individual and collective provisions. For ease of presentation gross amounts are shown here.*
5. *Gross loans and advances include $766 million of Esanda Dealer Finance bailment facilities which are due to migrate to Macquarie Group Limited during the third quarter of the fiscal 2016 year. These assets formed part of the $8,065 million assets classified as held for sale at September 30, 2015 which were disclosed separately from loans and advances on the balance sheet. For ease of presentation, gross loans and advances at September 30, 2015 shown here include the Esanda Dealer Finance assets classified as held for sale.*
6. *The collective provision includes amounts for off-balance sheet credit exposures of $663 million at March 31, 2016 (September 30, 2015: $677 million; March 31, 2015: $646 million).*
7. *Risk weighted assets and capital adequacy ratios are calculated using the Australian Prudential Regulation Authority (APRA) Basel 3 methodology.*
8. *Excludes non-controlling interests and preference shares.*

Summary of credit risk data

	Half Year			
	Mar 16 USD $M[1]	**Mar 16 $M**	**Sep 15 $M**	**Mar 15 $M**
Gross impaired assets				
Impaired loans	1,968	2,564	2,441	2,466
Restructured items	174	226	184	146
Non-performing commitments and contingencies	71	93	94	96
Total gross impaired assets	**2,213**	**2,883**	**2,719**	**2,708**
Provision for credit impairment:				
Individual provision - impaired loans	928	1,209	1,038	1,081
Individual provision - non-performing commitments and contingencies	22	29	23	33
Collective provision	2,197	2,862	2,956	2,914
Total provision for credit impairment	**3,148**	**4,100**	**4,017**	**4,028**
Total gross loans and advances[2,3,4]	**434,417**	**565,868**	**574,255**	**562,231**
Credit Risk Weighted Assets	256,648	334,308	349,751	339,697
Collective provision as a % of credit risk weighted assets[5]	0.86%	0.86%	0.85%	0.86%
Gross impaired assets as a percentage of gross loans and advances	0.51%	0.51%	0.47%	0.48%
Individual provision for credit impairment as a percentage of gross impaired assets	42.9%	42.9%	39.0%	41.1%
Individual provision for impaired loans as a percentage of impaired loans	47.2%	47.2%	42.5%	43.8%
Total provision for credit impairment as a percentage of:				
Gross loans and advances[2,3,4]	0.7%	0.7%	0.7%	0.7%
Credit risk weighted assets[5]	1.2%	1.2%	1.1%	1.2%

1. *The USD amounts are disclosed for information purposes only. There is no assurance that the AUD amounts could be translated at the March 31, 2016 Noon Buying Rate applied in this U.S. Disclosure Document.*
2. *Consists of loans and advances, customers' liability for acceptances, capitalized brokerage/mortgage origination fees less unearned income.*
3. *Loans and advances are disclosed in the balance sheet net of individual and collective provisions. For ease of presentation gross amounts are shown here.*
4. *Gross loans and advances include $766 million of Esanda Dealer Finance bailment facilities which are due to migrate to Macquarie Group Limited during the third quarter of the fiscal 2016 year. These assets formed part of the $8,065 million assets classified as held for sale at September 30, 2015 which were disclosed separately from loans and advances on the balance sheet. For ease of presentation, gross loans and advances at September 30, 2015 shown here include the Esanda Dealer Finance assets classified as held for sale.*
5. *Credit risk weighted assets are calculated using APRA Basel 3 methodology.*

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.

As of March 31, 2016, ANZBGL had total assets of $895 billion and shareholders' equity of $56 billion. In terms of total assets among banking groups, the Group ranked in the top three in Australia[1] as of March 31, 2016 and first in New Zealand[2] as of December 31, 2015. 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 March 31, 2016, ANZBGL had a market capitalization of $68.4 billion which ranked among the top four largest companies listed on the ASX[3].

1. *Source: Commonwealth Bank of Australia results announcement for the half year ended December 31, 2015; National Australia Bank results announcement for the half year ended March 31, 2016; Westpac Banking Corporation results announcement for the half year ended March 31, 2016.*
2. *Source: ASB Bank disclosure statement for the half year ended December 31, 2015; Bank of New Zealand disclosure statement for the 3 months ended December 31, 2015; Westpac New Zealand disclosure statement for the 3 months ended December 31, 2015.*
3. *Source: IRESS.*

PRINCIPAL ACTIVITIES OF THE GROUP

During the March 2016 half, 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 reported divisions: Australia, New Zealand, Institutional, Asia Retail & Pacific, Wealth 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 IIB business has been renamed Institutional.

The Wealth changes announced during the March 2016 half designed to simplify the approach to the wealth management business took effect on April 1, 2016.

The principal activities of the six reported divisions are:

Australia

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

- Retail provides products and services to consumer customers via the branch network, mortgage specialists, the call center and a variety of self-service channels (internet banking, phone banking, ATMs, website and mobile phone 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 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, structured trade finance 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 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 products and services to consumer and small business banking customers via the branch network, mortgage specialists, business managers, the call center and a variety of self-service channels (internet banking, phone banking, ATMs, website and mobile phone banking).
- 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

The Wealth division comprises Insurance, Funds Management and Private Wealth business units which provide insurance, investment, superannuation and private banking solutions to customers across Australia, New Zealand and Asia to make it easier for them 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 E*TRADE.

- Private Wealth includes private banking business which specializes in assisting individuals and families to manage, grow and preserve their wealth.

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 and small to medium sized enterprises located in the Pacific Islands (excluding Papua New Guinea). Products and services include retail products provided to consumers, traditional relationship banking and sophisticated financial solutions provided to business customers through dedicated managers.

Technology, Services & Operations 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 includes Group Treasury, Shareholder Functions and minority investments in Asia. Minority investments in Asia comprise AMMB Holdings Berhad in Malaysia, PT Bank Pan Indonesia in Indonesia, Shanghai Rural Commercial Bank in China and Bank of Tianjin in China.

RECENT DEVELOPMENTS

There have been no significant developments since March 31, 2016 to the date of this U.S. Disclosure Document.

COMPETITION

Australia

The Australian banking system is concentrated and highly competitive. As of March 31, 2016 the four major banking groups in Australia (ANZ, Commonwealth Bank of Australia, National Australia Bank and Westpac Banking Corporation), held approximately 79% of the total Australian lending assets of banks that carry on 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. Institutional's key competitive strength is its industry expertise, linkages with the Asia Pacific region, extensive product offering and established client base.

The Institutional 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 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 Australia's insurance companies. 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".

New Zealand

The New Zealand financial services sector in which ANZ New Zealand operates is very concentrated and highly competitive. ANZ New Zealand'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. Together with ANZ New Zealand, 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 December 31, 2015.

Asia

Banking in Asia is highly competitive. The Group currently operates in 16 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 along with targeted reduction of assets that are dilutive to returns. In addition, a strategic review of the Asia Retail business and the Group's minority investments in Asia is now underway.

SUPERVISION AND REGULATION

As a major banking group, ANZ 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 in its key markets of Australia and New Zealand, as well as an overview of the Group's regulatory obligations in the U.S.

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 "Capital management" and "Liquidity risk" 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:

- APRA released an information paper entitled "International capital comparison study" (the "APRA Study") which supported the FSI's recommendation that the capital ratios of ADIs should be unquestionably strong. The APRA Study confirmed that the major ADIs are well-capitalized and acknowledged the challenges and complexity of comparing capital ratios between ADIs and international peers given the varied national discretions exercised by some different jurisdictions when implementing the Basel 3 global capital adequacy 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 with a continually moving benchmark, such as the top quartile of banks internationally. The results of the APRA Study will only inform but will not determine APRA's approach for setting capital adequacy requirements.
- Effective from July 1, 2016, APRA will increase the capital requirements for Australian residential mortgage exposures for ADIs accredited to use the IRB approach for credit risk. These new requirements are expected to increase the average risk weighting for mortgage portfolios to approximately 25%. The estimated impact on ANZ is an approximate 60 bps reduction in CET1 on implementation of this change. In response to this, ANZ 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 offer 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 standardized approach for credit risk and capital floors.

The Australian Government released its response to the FSI Final Report in October 2015 and it agrees with all of the above capital related recommendations. The Australian Government supports and endorses APRA to implement the recommendations, including the initial actions to raise the capital requirements for Australian residential mortgage exposures as well as taking additional steps to ensure that major ADIs have "unquestionably strong" capital ratios by the end of 2016.

Apart from the July 2015 announcements, APRA has not made any determinations on 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 Government inquiries and proposals for new inquiries, the impact of which is indeterminate at this stage.

Liquidity Ratios

The Basel 3 liquidity changes include the introduction of two liquidity ratios to measure liquidity risk: (i) the Liquidity Coverage Ratio ("LCR"), which became effective on January 1, 2015, and (ii) the Net Stable Funding Ratio ("NSFR").

The final Basel 3 NSFR standard was released in October 2014 which will require banks to maintain a stable funding profile relative to the composition of their assets including off-balance sheet exposures. The NSFR is a ratio of available stable funding relative to the amount of required stable funding and banks have to meet a minimum ratio requirement of 100% on January 1, 2018.

APRA released a consultation paper in March 2016 which confirmed that the NSFR will become a minimum requirement on January 1, 2018. As part of managing future liquidity requirements, ANZ monitors the NSFR in its internal reporting and although consultation is continuing, ANZ believes it is well placed to meet this requirement.

Domestic Systemically Important Bank ("D-SIB") Framework

APRA's D-SIB requirements for ANZ and the other three major Australian banks deemed to be domestic systemically important banks ("Australian D-SIBs") came into effect on January 1, 2016. As a result, the Capital Conservation Buffer ("CCB") requirement for Australian D-SIBs was increased by 100 bps, further strengthening their capital position. ANZ's position as of March 31, 2016 exceeded APRA's requirements including the D-SIB overlay.

Composition of Level 2 ADI Group

In May 2014, APRA provided further clarification to the definition of the Level 2 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 debt issued by ANZ Wealth Australia Limited ("ANZWA"). Following repayment of the last tranche of ANZWA debt in March 2016 ($400 million or approximately 10 bps on CET1), ANZ has fully repaid all debt affected by this change as of March 31, 2016. APRA is still providing implementation guidance on certain aspects of these changes although any impact on ANZ is not expected to be material.

Level 3 Conglomerates ("Level 3")

In March 2016, APRA announced a revised implementation timetable for the Level 3 framework taking into consideration the Australian Government's response to the FSI Final Report. The Level 3 framework is meant to supervise conglomerate groups and includes updated Level 3 capital adequacy standards 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.

APRA has deferred finalizing the capital components of the Level 3 framework (minimum capital requirements for the conglomerate group) until 2019 at the earliest, in order to allow the final form of capital requirements arising from the FSI Final Report recommendations as well as other international initiatives that are currently in progress to be determined.

The non-capital components of the Level 3 framework which cover group governance, risk exposures, intragroup transactions and other risk management and compliance requirements will become effective on July 1, 2017. APRA has released updated draft prudential standards in relation to the non-capital components as part of the March 2016 announcement and is currently consulting with constituents on the proposed changes. ANZ does not expect any material impact on its operations based upon the current draft of these prudential 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.

Apart from the finalization of standards on the review of the trading book, BCBS is still currently consulting with constituents on the other proposals. The impact of any changes arising from the above proposals to ANZ and other ADIs cannot be determined until the BCBS finalizes their calibration and proposals. The final impact will also be subject to the form of the BCBS proposals that APRA will implement for Australian ADIs.

Basel 3 Securitization Framework

In November 2015, APRA released a second consultation paper outlining proposed revisions to the prudential framework for securitization ("APS 120"). The release of this paper follows BCBS finalization of the revised Basel 3 securitization framework in December 2014. The revised framework is proposed to take effect from January 2018. The impact of any changes on ANZ arising from a revised APS 120 standard cannot be determined until APRA finalizes their proposal.

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 or provides support or resources to a terrorist organization.

Certain organizations are prescribed as terrorist organizations in regulations made 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;
- 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 and full financial statements at the full year, and unaudited interim financial statements at the half year and the 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 has also required most New Zealand incorporated banks, including ANZ New Zealand, to maintain a conservation buffer of 2.5 per cent 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 per cent., 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 New Zealand) 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 per cent., 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 ANZ New Zealand and ANZBGL's other operations in New Zealand in ordinary times, including senior funding, cannot exceed more than five per cent 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 per cent limit. In addition, APRA has stated that ANZBGL's ability to provide ANZ New Zealand 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 ANZ New Zealand and its other New Zealand operations, must not exceed 50 per cent of ANZBGL's Level 1 Tier 1 Capital.

RBNZ prudential credit controls

In late 2013, the RBNZ introduced restrictions on high Loan-to-Value Ratio ("LVR") residential lending. As a result, New Zealand banks have been required to restrict new residential mortgage lending at LVRs of over 80% to no more than 10% of the dollar value of the bank's new residential mortgage lending. Effective from November 1, 2015, the RBNZ eased the LVR restriction on all new residential lending secured against property outside the Auckland Council area from 10% to 15%. The LVR restrictions for borrowing secured against owner-occupied property within the Auckland Council area will remain at 10% and borrowing secured against residential investment property in the Auckland Council area at LVRs of over 70% must be no more than 5%. Essentially, residential property investors in the Auckland Council area using bank loans must have a deposit with the lending bank of at least 30% of the value of the property.

The RBNZ has established a new asset class for loans to residential property investors. The changes increase the amount of capital that New Zealand banks are required to hold for residential property investment loans. The new asset class took effect with respect to new loans from November 1, 2015, and will take effect for existing loans from November 1, 2016.

The RBNZ is also continuing to work on an exercise with New Zealand's four largest banks, including ANZ New Zealand, to investigate differences in risk weights across internal bank models of housing and rural lending portfolios.

Financial reporting

In late 2015, the RBNZ announced it is considering removing the requirement for banks to disclose 'off-quarter' information. In place, banks will report privately to RBNZ and RBNZ will publish a 'dashboard' comparing banks' financial performance and risk positions. Consultation is expected in mid-2016 on the details of the dashboard.

RBNZ review of capital requirements

The RBNZ is undertaking a review of 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

The RBNZ has released a consultation paper on potential changes arising out of the review of its outsourcing policy for registered banks. This paper covers seven major topics, which include the requirement for a separation plan (loss of access to parent bank) and compendium of outsourcing arrangements, out of scope outsourced functions, a black list of functions that cannot be outsourced, transition timeframes, thresholds for application, and process for non-objections by the RBNZ. As the consultation is currently at an early stage, the effect of any policy changes on ANZ New Zealand is currently unknown.

UNITED STATES

ANZBGL has elected to be treated as a Financial Holding Company (a "FHC") by 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. bank subsidiary 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 ANZ 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 recently finalized and issued their respective rules imposing initial and variation margin requirements on transactions in uncleared swaps and security-based swaps. Such requirements will become effective over a period of time beginning in September 2016. 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”) that 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. payors (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 USA PATRIOT 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 Anti-Money Laundering and Counter-Terrorism Financing Act 2006 of Australia (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 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.

Economic effects of the global financial crisis and European sovereign debt crisis have been widespread and far-reaching with unfavorable ongoing impacts on retail spending, personal and business credit growth, housing credit, and business and consumer confidence. While some of these economic factors have since improved, lasting impacts from the global financial crisis and the subsequent volatility in financial markets, the European sovereign debt crisis and the potential for escalation in geopolitical risks suggest ongoing vulnerability and potential adjustment of consumer and business behavior.

Other current economic conditions impacting the Group and its customers include changes in the 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") and a decline in natural resources demand and prices (see risk factor 20 "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 some 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 it 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 22 "The Group may be exposed to the impact of future climate change, geological events, plant and animal 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, 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 consequently 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.

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 Asian 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.

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 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.

Declining asset prices could impact customers and counterparties and the value of the security (including residential and commercial property) we hold against loans which may impair our ability to recover amounts owing to us if customers or counterparties were to default.

A significant decrease in Australian and New Zealand housing valuations could adversely impact our 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 us to incur higher credit losses which could adversely affect the Group’s financial performance and condition. The demand for our home lending products may also decline due to buyer concerns about decreases in values or concerns about rising interest rates, which could make our 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 our residential build to sell portfolio if customers who are pre-committed to purchase these dwellings are unable or unwilling to complete their contracts and we are 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 2008, 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. In recent years, there have been significant increases in the nature and scale of regulatory investigations, enforcement actions (whether by court action or otherwise), and the quantum of fines issued by regulators. 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.

In December 2010, the Basel Committee (BCBS) released capital reform packages known as Basel 3 to strengthen the resilience of the banking and insurance sectors, including proposals to strengthen capital and liquidity requirements for the banking sector. APRA released prudential standards implementing Basel 3 capital reforms with effect from January 1, 2013. With regards to Basel 3 liquidity reforms, 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 we operate or obtain funding proposing significant regulatory change for financial institutions. This includes new accounting and reporting standards, or implementing global OTC derivatives reform and the United States Dodd-Frank legislation, including the Volcker Rule promulgated thereunder.

In 2015, the Australian Government announced its response to the Financial System Inquiry (FSI). The response tasks APRA with implementation of a number of resilience-related FSI recommendations in line with emerging international regulatory practice. These FSI recommendations are intended to increase the strength of the financial system and may result in requirements to hold additional capital (such as Additional Tier 1 Capital, Tier 2 Capital or other forms of subordinated capital or senior debt that may be available to absorb loss) or additional liquid assets. The Australian Government response also endorses FSI recommendations relating to Australia's superannuation system and retirement incomes, innovation-related issues, reforms to improve consumer outcomes when purchasing financial products, and the overall regulation of the financial sector. These are likely to result in changes to laws, regulations, codes of practice and policies that will impact the Group. The implementation of any recommendations could also result in changes to laws, regulations, codes of practice or policies which could adversely affect the Group in substantial and unpredictable ways.

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 we operate or obtain 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 Group maintains appropriate policies, and has invested in procedures and internal controls aimed to detect, prevent and report money laundering, terrorist financing, and sanctions breaches. The risk of non-compliance 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 U.K. The Group is required 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 natural resources sector and the New Zealand dairy industry could be adversely impacted by a prolonged slowdown in the Chinese economy and current 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

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. A downgrade or potential downgrade to the Group's credit rating may reduce access to capital and wholesale debt markets, leading to an increase in funding costs, as well as affecting the willingness of counterparties to transact with 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. Further, 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.

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

The Group is subject to market risk, which is the risk to the Group's earnings arising from changes in interest rates, foreign exchange rates, credit spreads, equity prices and indices, prices of commodities, debt securities and other financial contracts, such as derivatives. Losses arising from these risks may have a material adverse effect on the Group.

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 profitability of the Group's funds management and insurance businesses is also affected by changes in investment markets and weaknesses in global securities markets.

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

Movements in the Australian and New Zealand dollars in recent times illustrate the potential volatility in, and significance of global economic events to, the value of these currencies relative to other currencies. Depreciation of the Australian or New Zealand dollars relative to other currencies would increase the debt service obligations in the Group's unhedged exposures denominated in Australian or New Zealand dollars. In contrast, any upward pressure on the Australian or New Zealand dollar could cause business conditions to deteriorate for certain portions of the Australian and New Zealand economies, including some agricultural exports, tourism, manufacturing, retailing subject to internet competition, and import-competing producers. In addition, appreciation of the Australian dollar against the New Zealand dollar, United States dollar and other currencies has a potential negative earnings translation effect on non-hedged exposures, and future appreciation could have a greater negative impact on the Group's results from its other non-Australian businesses, particularly its New Zealand and Asian businesses, which are largely based on non-Australian dollar revenues. The relationship between exchange rates and commodity prices is volatile. 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 and reputational 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 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.

Reputation 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 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.

16. The Group may be exposed to 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 include:

- 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;
- 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 e.g., BBSW, LIBOR, rate fixing.

Exposure to such risks may increase during periods of declining investment asset values (such as during a period of economic downturn or investment market volatility), leading to sub-optimal performance of investment products and/or portfolios that were not aligned with the customer's objectives and risk appetite.

The Group is regulated under various legislative mechanisms in the countries in which it operates that provide for consumer protection around 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 failure to avoid or manage conflicts of interest, may expose the Group to regulatory actions, and/or reputational consequences.

17. 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 is highly dependent on information systems and technology. Therefore, there is a risk that these, 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 technology systems are essential to maintaining effective communications with customers. The Group is also conscious that threats to information systems 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 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 technology systems, in part to assist it to satisfy regulatory demands, ensure information security, enhance computer-based 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 ANZBGL to provide a number of information technology systems, and any failure of ANZBGL systems could directly affect ANZ New Zealand.

18. 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. 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 on their part could adversely affect its business. The Group is conscious that threats to information systems are continuously evolving and that cyber threats and risk of 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 position and reputation.

19. 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 operations and subsequent financial results.

20. 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. Recently, crude oil prices have reached a 12 year low and a prolonged period of low oil prices, beyond 12 months, is likely to result in reduced investment and increased asset write downs. The suddenness and magnitude of oil price decline and the shift in sentiment towards this sector introduces challenges across 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.

21. 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 its operations and financial condition. If the Group had difficulty retaining or attracting highly qualified people for important roles, this also could adversely affect its business, operations and financial condition.

22. 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 and animal 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.

23. 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 distributer only of these products. The general insurance business now solely comprises a small amount of unemployment benefit. 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.

24. 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

In 2010, the U.S. enacted the Foreign Account Tax Compliance Act ("FATCA") that 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.

The Organization for Economic Co-operation and Development ("OECD") has finalized a global Common Reporting Standard ("CRS") 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. On June 3, 2015, Australia signed the Multilateral Competent Authority Agreement ("MCAA") that enables Common Reporting Standard information to be exchanged between countries' tax authorities. Several countries, including Canada, New Zealand and India, also signed the MCAA on June 3, 2015. 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.

To date, no legislation has been introduced in the New Zealand Parliament to support implementation of the CRS although the New Zealand Government has recently released a media statement announcing that it intends for the CRS to apply from July 1, 2017 (with exchange of information to take place in September 2018) and preliminary consultation activities on an approach to CRS have commenced.

In countries where an entity of the Group (including certain trusts and branches) operates and which maintains financial accounts, there may be a requirement to collect customer information including customers' tax residence and report it to local tax authorities. Even if an entity of the Group does not operate in a country that has adopted CRS, it will still be required to capture information on residents of that country who have an account with the Group. 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 addition to FATCA and CRS, there are an increasing number of tax reporting initiatives that require financial institutions to undertake due diligence and report customer information including the Annual Investment Income Report (Australia), UK Crown Dependency and Overseas Territory ("CDOT") automatic exchange of information regime and many others that will require due diligence and reporting to the in-country revenue authority.

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.

25. 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 indictors 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.

26. 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.

27. 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, if they crystallize, may adversely affect the Group's results.

The Group had contingent liabilities as at March 31, 2016 in respect of the matters outlined in Note 20 to the Condensed Consolidated Financial Statements for the half year ended March 31, 2016.

There is a risk that contingent liabilities may be larger than anticipated or that additional litigation or other contingent liabilities may arise.

28. 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 results relating to the total cost of integration (or separation), the time required to complete the integration (or separation), 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 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.

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$0.7677 = 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 March 31, 2016. On April 29, 2016 the Noon Buying Rate was US$0.7612 = 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			
Half year ended	**High**	**Low**	**Average[1]**	**Period-end**
March 31, 2015	0.8904	0.7582	0.8209	0.7625
September 30, 2015	0.8118	0.6917	0.7517	0.7020
March 31, 2016	0.7677	0.6855	0.7217	0.7677

1. *The average for half yearly periods is calculated from the Noon Buying Rate on each business day 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[1]:

	Balance Sheet As of			Profit & Loss Average Half Year		
	Mar 16	**Sep 15**	**Mar 15**	**Mar 16**	**Sep 15**	**Mar 15**
Chinese Yuan	**4.9471**	4.4573	4.7365	**4.6622**	4.6831	5.0786
Euro	**0.6760**	0.6229	0.7057	**0.6558**	0.6767	0.6909
Pound Sterling	**0.5335**	0.4625	0.5163	**0.4886**	0.4853	0.5295
Indian Rupee	**50.741**	46.142	47.759	**48.101**	48.141	50.911
Indonesian Rupiah	**10,164**	10,281	9,987	**9,835**	10,127	10,271
Japanese Yen	**85.951**	84.072	91.715	**85.328**	91.330	95.713
Malaysian Ringgit	**3.0015**	3.1176	2.8372	**3.0565**	2.8898	2.8623
New Taiwan Dollar	**24.640**	23.066	23.887	**23.708**	23.511	25.580
New Zealand Dollar	**1.1093**	1.1003	1.0188	**1.0834**	1.0878	1.0691
Papua New Guinean Kina	**2.3724**	2.0123	2.0439	**2.1565**	2.0649	2.1233
United States Dollar	**0.7651**	0.7013	0.7634	**0.7212**	0.7480	0.8200

1. *Source: Foreign exchange rates obtained from Reuters.*

For the March 2016 half, 35% (Sep 2015: 37%, Mar 2015: 38%) of ANZ's operating income was derived from the APEA and New Zealand geographic regions. 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]

Half year ended	Mar 16	Sep 15	Mar 15
Chinese Yuan	0%	-8%	-12%
Euro	-3%	-2%	0%
Pound Sterling	1%	-8%	-4%
Indian Rupee	0%	-5%	-9%
Indonesian Rupiah	-3%	-1%	-5%
Japanese Yen	-7%	-5%	0%
Malaysian Ringgit	6%	1%	-4%
New Taiwan Dollar	1%	-8%	-8%
New Zealand Dollar	0%	2%	-2%
Papua New Guinean Kina	4%	-3%	-6%
United States Dollar	-4%	-9%	-12%

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

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

OPERATING AND FINANCIAL REVIEW

The following discussion of statutory profit is based on the Condensed Consolidated Financial Statements (attached as the Annex 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 half 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.

During the March 2016 half, 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.

- **Esanda Dealer Finance divestment**

  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 TSO and Group Center. $766 million of Esanda Dealer Finance bailment facilities remain on ANZ's balance sheet at March 31, 2016 which are scheduled to transition to Macquarie during the third quarter of 2016. As these assets were not subject to equitable assignment and ANZ continues to receive profits prior to migration, the transfer of these residual facilities will not impact the divestment gain.

- **Software capitalization changes**

  During the March 2016 half, 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, $88 million would otherwise have been amortized in the March 2016 half (i.e. the half year amortization charge increased by $468 million).

  In addition, application of the software capitalization changes also increased other operating expenses by $161 million for the March 2016 half relating to software development costs that would otherwise have been capitalized and amortized in future periods.

  In future periods, these changes are expected to result in higher project expenditure being expensed in the profit and loss which will be offset by lower amortization charges.

	March 2016 Half Year			
Operating expense increase/(decrease) by division	**Accelerated amortization $M**	**Amortization benefit $M**	**Application of policy to new project expenditure $M**	**Total impact $M**
Australia	-	(13)	49	**36**
Institutional	-	(26)	30	**4**
New Zealand	-	(7)	17	**10**
Wealth	-	(14)	19	**5**
Asia Retail & Pacific	-	(4)	-	**(4)**
TSO and Group Centre	556	(24)	46	**578**
Total	556	(88)	161	**629**

- **Asian minority investment adjustments**

  During the March 2016 half, 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 calculations (refer Note 1 (v) of the Condensed Consolidated Financial Statements (attached as the Annex 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 for 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 evolving its strategy, including reshaping of the workforce to reduce complexity and duplication, and to align with its changing emphasis on Institutional and Wealth businesses, restructure of Asia Retail and Pacific and delayering and simplification in TSO and Group Centre. A restructuring expense of $138 million was recognized in the March 2016 half.

	Half Year		
Restructuring expense by division	**Mar 16 $M**	**Sep 15 $M**	**Mar 15 $M**
Australia	**22**	2	-
Institutional	**51**	6	2
New Zealand	**2**	1	2
Wealth	**13**	-	1
Asia Retail & Pacific	**12**	-	-
TSO and Group Centre	**38**	12	5
Total	**138**	21	10

Group Profit and Loss

	Half Year		
	Mar 16 $M	Sep 15 $M	Mar 15 $M
Net interest income	7,568	7,478	7,138
Other operating income[1]	2,697	3,372	3,102
Operating income[1]	10,265	10,850	10,240
Operating expenses[1]	(5,479)	(4,775)	(4,603)
Profit before credit impairment and income tax	4,786	6,075	5,637
Credit impairment charge	(904)	(685)	(494)
Profit before income tax	3,882	5,390	5,143
Income tax expense	(1,140)	(1,397)	(1,629)
Non-controlling interests	(4)	(6)	(8)
Profit attributable to shareholders of the Company	**2,738**	**3,987**	**3,506**

1. *Comparatives have changed; refer Other operating income and operating expenses for further details.*

Comparison of March 2016 with March 2015

Profit after income tax decreased $768 million (22%) compared to the March 2015 half mainly due to a number of specified items: software capitalization changes, Asian minority investment adjustments, restructuring expenses and the Esanda Dealer Finance divestment. Excluding these items, profit after income tax decreased $58 million (2%). Key factors affecting the result were:

- Net interest income increased $430 million (6%) with 7% growth in average interest earning assets, partly offset by a 3 basis point decrease in net interest margin. $77 million of the increase in net interest income was due to foreign currency translation impact. The $52.2 billion increase in average interest earning assets reflected a $17.0 billion foreign currency translation impact and lending growth of $20.5 billion, primarily in Australia and New Zealand home loans.
- Other operating income decreased $405 million (13%). The decrease was mainly due to a $283 million reduction in Markets' other operating income, a $260 million impairment of the investment in Ambank, a $201 million decrease from mark-to-market of economic hedging instruments, and a $163 million decrease in net funds management and insurance income, partially offset by a $307 million increase from revenue and net investment hedges, a $82 million increase in net foreign exchange earnings and the $66 million gain on the Esanda Dealer Finance divestment.
- Operating expenses increased $876 million (19%) mainly due to a $629 million increase relating to the software capitalization changes, a $128 million increase in restructuring charges and a $115 million foreign currency translation impact. Adjusting for these items, operating expenses were flat.
- Credit impairment charges increased $410 million (83%) due to a $439 million (100%) increase in individual credit impairment charge, mainly from a small number of Australian and multinational resource related exposures, increases in Small Business Banking and Regional Business Banking in C&CB together with lower recoveries, partially offset by a $29 million decrease in the collective impairment charge.

Comparison of March 2016 with September 2015

Profit after income tax decreased $1,249 million (31%) compared to the September 2015 half mainly due to the specified items outlined above. Excluding these items, profit after income tax decreased $547 million (14%). Key factors affecting the result were:

- Net interest income increased $90 million (1%) with 3% growth in average interest earning assets, partly offset by a 3 basis point contraction in net interest margin. $32 million of the increase in net interest income was due to foreign currency translation impact. The $22.7 billion increase in average interest earning assets reflected a $5.7 billion foreign currency translation impact and lending growth of $4.6 billion primarily in Australia and New Zealand home loans.
- Other operating income decreased by $675 million (20%). The decrease was mainly due to a $417 million decrease from economic hedging, a $260 million impairment of the investment in Ambank, and a $201 million decrease from revenue and net investment hedges, partially offset by a $77 million increase in net foreign exchange earnings, the $66 million gain on the Esanda Dealer Finance divestment and a $62 million increase in net funds management and insurance income.
- Operating expenses increased $704 million (15%) mainly due to the $629 million increase relating to the software capitalization changes, a $117 million increase in restructuring charges and a $37 million increase due to foreign currency translation impact. Adjusting for these items, operating expenses decreased by $79 million (1%) reflecting the 3% decrease in FTE.
- Credit impairment charges increased $219 million (32%) due to a $233 million (36%) increase in individual credit impairment charges mainly from a small number of Australian and multinational resource related exposures, partially offset by a $14 million decrease in the collective credit impairment charge.

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	Half Year Mar 16 $M	Sep 15 $M	Mar 15 $M
Net interest income	7,568	7,478	7,138
Average interest earning assets[1]	754,391	731,739	702,203
Average deposits and other borrowings	587,235	567,709	551,805
Net interest margin (%)	2.01	2.04	2.04

Net interest margin by major division	Half Year Mar 16 $M	Sep 15 $M	Mar 15 $M
Australia			
Net interest margin (%)	2.54	2.53	2.54
Average interest earning assets	317,540	306,816	294,368
Average deposits and other borrowings	172,779	164,732	162,688
Institutional			
Net interest margin (%)	1.15	1.20	1.19
Average interest earning assets	312,961	305,902	292,914
Average deposits and other borrowings	233,729	231,655	227,460
New Zealand			
Net interest margin (%)	2.37	2.44	2.52
Average interest earning assets	98,741	94,624	92,395
Average deposits and other borrowings	67,540	63,996	62,314

1. *During the period individual provisions for credit impairment charges were moved from non-interest earning assets to more accurately reflect the yield on impaired loans and advances. Comparatives have been restated but there was no impact on the net interest margin ratios.*

Comparison of March 2016 with March 2015

The increase in net interest income of $430 million (6%) was driven by a $52.2 billion increase in average interest earning assets, partially offset by a 3 bps decrease in net interest margin.

Net interest margin (-3 bps)

- Asset mix and funding mix (0 bp): favorable mix impact from a higher proportion of capital and run-off of lower margin trade loans offset by the adverse asset mix impact from the Esanda Dealer Finance divestment.
- Funding costs (1 bp): favorable wholesale funding costs.
- Deposit competition (2 bps): benefit from deposit repricing, particularly term deposits.
- Asset competition and risk mix (0 bp): improved Australian Home Loan margins following repricing offset by lending margin compression in New Zealand and lower spreads within Institutional, C&CB and New Zealand Commercial lending.
- Markets and treasury (-6 bps): adverse impact of lower earnings on capital from lower interest rates and growth in lower margin liquidity portfolios in Markets.

Average interest earning assets (+$52.2 billion or +7%)

- Average gross loans and advances (+$29.0 billion or +5%): excluding the impact of foreign currency translation, growth was $20.5 billion or +4% driven by growth in Australia and New Zealand home loans as well as growth in New Zealand Commercial lending. This was slightly offset by a decline of Trade loans in Transaction Banking due to active portfolio reduction and strategic repositioning of that business, as well as the Esanda Dealer Finance divestment.
- Average trading and available-for-sale assets (+$10.9 billion or +12%): excluding the impact of foreign currency translation, growth was $8.4 billion or +9% driven by growth in the liquidity portfolio.
- Average cash (+$5.6 billion or +12%): excluding the impact of foreign currency translation, growth was $2.0 billion or +4% driven by management of liquidity requirements.
- Average collateral paid (+$3.2 billion or +42%): excluding the impact of foreign currency translation, growth was $2.6 billion or +33%.

Average deposits and other borrowings (+$35.4 billion or +6%)

- Average deposits and other borrowings ($35.4 billion or +6%): excluding the impact of foreign currency translation, growth was $17.7 billion or +3% driven by growth in customer deposits across both the Australia and New Zealand divisions.

Comparison of March 2016 with September 2015

The increase in net interest income of $90 million (1%) was driven by a $22.7 billion increase in average interest earning assets, partially offset by a 3 bps reduction in the net interest margin.

Net interest margin (-3 bps)

- Asset mix and funding mix (0 bp): favorable mix impact from higher proportion of capital and run-off of lower margin trade loans offset by the adverse asset mix impact from the Esanda Dealer Finance divestment.
- Funding costs (-1 bps): adverse impact of increased wholesale funding costs.
- Deposit competition (1 bp): benefit from deposit repricing, particularly in Australia and Asia.
- Asset competition and risk mix (2 bps): improved margins, particularly in Home Loans following repricing, partly offset by lower Institutional, C&CB and New Zealand Commercial lending spreads.
- Markets and treasury (-5 bps): adverse impact of lower earnings on capital from lower interest rates and growth in lower margin liquidity portfolio in Markets.

Average interest earning assets (+$22.7 billion or +3%)

- Average gross loans and advances (+$7.3 billion or +1%): excluding the impact of foreign currency translation, growth was $4.6 billion or +1% driven by growth in Australia and New Zealand home loans as well as growth in New Zealand Commercial lending. This was slightly offset by the Esanda Dealer Finance divestment and a decline of Trade loans in Transaction Banking due to active portfolio reduction and the strategic repositioning of that business.
- Average trading and available-for-sale assets (+$6.9 billion or +8%): excluding the impact of foreign currency translation, growth was $6.1 billion or +7% driven by growth in the liquidity portfolio.
- Average cash (+$4.6 billion or +10%): excluding the impact of foreign currency translation, growth was $3.7 billion or +8% driven by management of liquidity requirements.
- Average collateral paid (+$1.7 billion or +19%): excluding the impact of foreign currency translation, growth was $1.4 billion or +15%.

Average deposits and other borrowings (+$19.5 billion or +3%)

- Average deposits and other borrowings (+$19.5 billion or +3%): excluding the impact of foreign currency translation, growth was $13.7 billion or +2% driven by growth in customer deposits across both the Australia and New Zealand divisions, partially offset by a small decline in Institutional cash management deposits.

Other operating income

	Half Year		
	Mar 16 $M	Sep 15 $M	Mar 15 $M
Net fee and commission income[1,2]	**1,194**	1,232	1,212
Net funds management and insurance income	**857**	795	1,020
Markets other operating income	**433**	423	716
Share of associates profit[2]	**301**	311	314
Net foreign exchange earnings[1,2]	**141**	64	59
Economic hedging[3]	**(181)**	236	20
Revenue and net investment hedges[4]	**55**	256	(252)
Other[2,5]	**(103)**	55	13
Total other operating income[1]	**2,697**	3,372	3,102

1. *Certain cards related fees that are integral to the generation of income were reclassified from operating expenses to other operating income to better reflect the nature of the items and comparatives were restated. For the Sep15 half, $9 million of card related fees were moved from other operating income to operating expenses (Mar 15: $10 million).*
2. *Excluding Markets.*
3. *Represents gains and losses on economic hedges used to manage interest rate and foreign exchange risk and the ineffective portion of designated accounting hedges.*
4. *Represents gains and losses on revenue and net investment hedges used to hedge large foreign exchange denominated revenue and expense streams.*
5. *Other income for the March 2016 half includes the ($260) million impairment of investment in Ambank, $29 million gain on cessation of equity accounting of BoT and $66 million gain on Esanda Dealer Finance divestment.*

	Half Year		
Markets income	Mar 16 $M	Sep 15 $M	Mar 15 $M
Net interest income	**562**	600	507
Other operating income	**433**	423	716
Markets operating income	**995**	1,023	1,223

Comparison of March 2016 with March 2015

Other operating income decreased $405 million (13%). Key factors affecting the result were:

Net fee and commission income

Decreased by $18 million (1%). Key factors included:

- $21 million positive impact due to foreign currency translation.
- Decrease in fee income of $35 million in Institutional due to lower customer demand and competitive pricing pressure.
- $5 million decrease in fees in Australia resulting from the Esanda Dealer Finance divestment, partially offset by growth in Small Business Banking lending fee income in C&CB.

Net funds management and insurance income

Net funds management and insurance income decreased $163 million (16%). The key factor affecting the result was:

- Investment income decreased $2,679 million (85%) to $470 million due to subdued investment market conditions in the March 2016 half compared to the March 2015 half. This decrease was partially offset by changes in policy liabilities which decreased by $2,377 million (88%) during the period.

Markets other operating income

Decreased by $283 million (40%). Key factors included:

- $48 million positive impact of foreign currency translation.
- Balance Sheet income decreased $116 million (45%) due to widening credit spreads.
- Rates income decreased $85 million (27%) as a result of lower customer demand for interest rate hedging products.
- Commodities income decreased $20 million (21%) due to declining demand for gold from Asian customers.

Share of associates' profit

Decreased by $13 million (4%) despite an increase of $19 million due to foreign currency translation impact. The decrease was driven by:

- Ambank decreased $30 million due to margin contraction and subdued Malaysian economic conditions.
- P.T. Bank Pan Indonesia decreased $19 million due to higher credit provisions.
- BoT decreased $5 million mainly due to higher credit provisions and increased operating expenses.
- Shanghai Rural Commercial Bank increased $20 million with higher investment income.

Net foreign exchange earnings

Increased by $82 million (large %). Key factors included:

- Lower realized losses on earnings related hedges in TSO and Group Centre ($61 million) compared with the March 2015 half, these offset translation gains elsewhere in the Group.
- Higher unrealized gains on foreign currency balances held in Institutional ($6 million).

Economic hedging

Decreased by $201 million (large %). Key factors included:

- During the March 2016 half, the majority of the $181 million loss related to funding related swaps that were impacted by the significant strengthening in the AUD across a number of major currencies, most notably the USD and EUR.
- During the March 2015 half, the $20 million gain related to funding related swaps that were impacted by widening spreads in the USD/EUR currency pair and the weakening in the AUD against the USD, offset by losses driven from falls in the AUD and NZD yield curves.

Revenue and net investment hedges

Increased by $307 million (large %). Key factors included:

- During the March 2016 half, the $55 million gain on revenue and net investment hedges was principally attributable to the recycling impact of prior period losses on USD positions that settled during the half.
- During the March 2015 half, the $252 million loss on revenue and net investment hedges was the result of significant weakening in the AUD against both the USD and NZD exchange rates.

Other

Decreased by $116 million (large %). Key factors included:

- $3 million positive impact due to foreign currency translation.
- $260 million impairment of investment in Ambank.
- $66 million gain on Esanda Dealer Finance divestment.
- $29 million gain on cessation of equity accounting for BoT.

Comparison of March 2016 with September 2015

Other operating income decreased $675 million (20%). Key factors affecting the result were:

Net fee and commission income

Decreased by $38 million (3%). Key factors included:

- $6 million positive impact of foreign currency translation.
- Decrease in fee income of $26 million in Institutional due to lower customer demand and competitive pricing pressure.
- $13 million decrease in fees in Australia resulting from the Esanda Dealer Finance divestment, partially offset by growth in Deposits and Payments in Retail.

Net funds management and insurance income

Net funds management and insurance income increased $62 million (8%). Key factors included:

- Investment income increased $1,771 million (large %) to $470 million primarily due to improved market conditions during the March 2016 half compared to the September 2015 half. This was partially offset by changes in policy liabilities which decreased by $1,589 million (large %) during the period.
- Insurance premium income decreased by $85 million mainly due to the seasonality of Group risk annual premiums which are predominantly written in the second half of each financial year and a $44 million reduction in General Insurance premiums due to discontinuance of underwriting new home, content, travel and motor insurance in the September 2015 half.

Markets other operating income

Increased by $10 million (2%). Key factors included:

- Foreign Exchange income increased $63 million (15%) due to increased customer demand as a depreciating Chinese Yuan resulted in customers seeking to hedge their foreign exchange exposures.
- Commodities income decreased $19 million (20%) due to declining demand for gold from Asian customers.

Share of associates' profit

Decreased by $10 million (3%) with foreign currency translation impact driving a decrease of $1 million and the remaining decrease driven by:

- Ambank decreased $14 million due to margin contraction.
- P.T. Bank Pan Indonesia decreased $28 million due to higher credit provisions.
- Shanghai Rural Commercial Bank increased $24 million with higher investment income.
- BoT increased $10 million due to asset growth.

Net foreign exchange earnings

Increased by $77 million (large %). Key factors included:

- Lower realized losses on earnings related hedges in TSO and Group Centre ($90 million) compared with the September 2015 half, these offset translation gains elsewhere in the Group.
- Higher unrealized losses on foreign currency balances held in Institutional ($7 million).

Economic hedging

Decreased by $417 million (large %). Key factors included:

- During the March 2016 half, the majority of $181 million loss related to funding related swaps that were impacted by the significant strengthening in the AUD across a number of major currencies, most notably the USD and EUR.
- During the September 2015 half, the $236 million gain related to funding related swaps that were impacted by the significant weakening in the AUD across a number of major currencies, most notably the USD and EUR.

Revenue and net investment hedges

Decreased by $201 million (79%). Key factors included:

- During the March 2016 half, the $55 million gain on revenue and net investment hedges was principally attributable to the recycling impact of prior period losses on USD positions that settled during the half.
- During the September 2015 half, the $256 million gain on revenue and net investment hedges was principally attributable to the strengthening of the AUD against the NZD exchange rate partially offset by the losses attributable to the weakening of the AUD against the USD.

Other

Decreased by $158 million (large %). Key factors included:

- $2 million positive impact due to foreign currency translation
- $260 million impairment of investment in Ambank.
- $15 million decrease on credit default swaps hedging lending exposures in Loans and Specialized Finance.
- $66 million gain on Esanda Dealer Finance divestment.
- $29 million gain on cessation of equity accounting for BoT.

Operating expenses

	Half Year		
	Mar 16 $M	Sep 15 $M	Mar 15 $M
Personnel expenses[1]	2,801	2,764	2,715
Premises expenses	458	467	455
Technology expenses[1]	1,324	761	701
Restructuring expenses	138	21	10
Other expenses[1,2]	758	762	722
Total operating expenses[2]	**5,479**	**4,775**	**4,603**
Total full time equivalent staff (FTE) at the end of the period.	**48,896**	**50,152**	**51,243**

1. *The $629 million charge associated with the software capitalization changes included in the March 2016 half comprises $98 million of personnel expenses, $513 million of technology expenses, and $18 million of other expenses. Refer to page 29 for further details.*
2. *Certain cards related fees that are integral to the generation of income were reclassified from operating expenses to other operating income to better reflect the nature of the items and comparatives were restated. For the Sep15 half, $9 million of card related fees were moved from other operating income to operating expenses (Mar 15: $10 million).*

Comparison of March 2016 with March 2015

Operating expenses increased $876 million (19%) compared to the March 2015 half due to the inclusion of specified items (software capitalization changes and restructuring). Excluding the impact of these, operating expenses increased 3%.

- Personnel expenses increased $86 million (3%), with $81 million due to the impact of foreign currency translation and $98 million due to the software capitalization changes (personnel expenses that would otherwise have been capitalized). Excluding these, personnel expenses decreased $93 million (3%) due to a 5% decrease in FTE and lower incentive costs.
- Premises expenses increased $3 million (1%) with a $10 million increase due to the impact of foreign currency translation. Adjusting for this, premises expense decreased $7 million (2%) due to premises consolidation benefits offsetting annual rent increases.
- Technology expenses increased $623 million (89%). $513 million of the increase was due to the software capitalization changes comprising $468 million of increased amortization for software assets and $45 million due to software expenditure which would otherwise have been capitalized. Excluding this, technology expenses increased $110 million (16%) from higher licensing, outsourced services and data communication costs, along with $9 million due to the impact of foreign currency translation.
- Restructuring expenses increased $128 million reflecting the reshaping of the workforce in response to the Group evolving its strategy, including the simplification of the Institutional and Wealth businesses, restructure of Asia Retail and Pacific and delayering and simplification in TSO and Group Centre.
- Other expenses increased $36 million (5%), with $15 million due to the impact of foreign currency translation and $18 million due to the software capitalization changes. Excluding these, other expenses were flat with higher compliance and remediation spend, being offset by decreased travel, entertainment and advertising expenses.
- Full time equivalent staff decreased by 2,347 (5%), primarily due to natural attrition.

Comparison of March 2016 with September 2015

Operating expenses increased $704 million (15%) compared to the September 2015 half due to the inclusion of specified items (software capitalization changes and restructuring). Excluding the impact of these, operating expenses decreased 1%.

- Personnel expenses increased $37 million (1%), with $25 million due to the impact of foreign currency translation and $98 million due to the software capitalization changes (personnel expenses that would otherwise have been capitalized). Excluding these, personnel expenses decreased $86 million (3%) due to a 3% decrease in FTE and lower incentive costs.
- Premises expenses decreased $9 million (2%), with a $3 million increase due to the impact of foreign currency translation and a $12 million decrease driven by premises consolidation benefits which more than offset annual rent increases.
- Technology expenses increased $563 million (74%). $513 million of the increase was due to the software capitalization changes comprising $468 million of increased amortization for software assets and $45 million due to software expenditure which would otherwise have been capitalized. Excluding these, technology expenses increased $50 million (7%) driven by higher licensing costs and outsourced services, and $4 million due to the impact of foreign currency translation.
- Restructuring expenses increased $117 million, reflecting the reshaping of the workforce in response to the Group evolving its strategy, including the simplification of the Institutional and Wealth businesses, restructure of Asia Retail and Pacific and delayering and simplification in TSO and Group Centre.
- Other expenses decreased $4 million (1%), with a $5 million of the increase due to the impact of foreign currency translation and $18 million due to the software capitalization changes. Excluding these, other expenses decreased $28 million (4%) due to decreased travel and entertainment expenses and lower advertising spend.
- Full time equivalent staff decreased by 1,256 (3%), primarily due to natural attrition.

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, a discounted cash flow methodology is used to calculate the individual provision for credit impairment.

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

	Half Year								
	Mar 16 $M			Sep 15 $M			Mar 15 $M		
Division	Individual charge	Collective charge	Total charge	Individual charge	Collective charge	Total charge	Individual charge	Collective charge	Total charge
Australia	429	33	462	427	31	458	334	61	395
Institutional	339	(16)	323	114	(3)	111	92	(4)	88
New Zealand	43	(1)	42	32	4	36	22	(3)	19
Wealth	(1)	1	-	1	-	1	(1)	-	(1)
Asia Retail & Pacific	82	9	91	78	9	87	8	2	10
TSO & Group Center	(14)	-	(14)	(7)	(1)	(8)	(16)	(1)	(17)
Total	**878**	**26**	**904**	**645**	**40**	**685**	**439**	**55**	**494**

Comparison of March 2016 with March 2015

- The individual credit impairment charge increased $439 million (100%) driven by increases in new and existing provisions of $331 million, combined with a $108 million reduction in recoveries and write-backs. The main driver of the increase in new and existing provisions was in the Institutional division from a small number of Australian and multi-national resource related exposures and continued commodity sector weakness. In Australia division, the increases were in Small Business Banking, Cards & Personal Loans and Regional Business Banking, partially offset by the Esanda Dealer Finance divestment. Lower write-backs reflected a large write-back in Asia Retail & Pacific that occurred in the March 2015 half.
- The collective credit impairment charge decreased $29 million (53%) driven by a number of customer downgrades in the Institutional division and the subsequent migration of provisioning from collective to individual provision.

Comparison of March 2016 with September 2015

- The individual credit impairment charge increased by $233 million (36%) driven by an increase in new and existing provisions of $186 million combined with a $47 million reduction in recoveries and write-backs. The main driver of the increase in new and existing provisions was in the Institutional division from a small number of Australian and multi-national resource related exposures and continued commodity sector weakness.
- The collective credit impairment charge decreased $14 million (35%) driven by a number of customer downgrades in the Institutional division and subsequent migration of provisioning from collective to individual provision, and releases from the economic cycle overlay in September 2015.

Provision for credit impairment

	Half Year								
	Mar 16 $M			Sep 15 $M			Mar 15 $M		
Division	Individual provision	Collective provision[1]	Total provision	Individual provision	Collective provision[1]	Total provision	Individual provision	Collective provision[1]	Total provision
Australia	547	1,199	1,746	589	1,239	1,828	587	1,209	1,796
Institutional	555	1,126	1,681	300	1,180	1,480	330	1,158	1,488
New Zealand	114	334	448	139	337	476	175	361	536
Wealth	1	11	12	2	11	13	2	10	12
Asia Retail & Pacific	21	189	210	31	186	217	20	173	193
TSO & Group Center	-	3	3	-	3	3	-	3	3
Total	**1,238**	**2,862**	**4,100**	**1,061**	**2,956**	**4,017**	**1,114**	**2,914**	**4,028**

1. *The collective provision includes amounts for off-balance sheet credit exposures of $663 million at March 2016 (Sep 2015: $677 million; Mar 2015: $646 million). The impact on the income statement for the half year ended March 31, 2016 was a $3 million charge (Sep 2015 half: $20 million charge; Mar 2015 half: $7 million charge).*

Impaired assets and loans

ANZ's policy relating to the recognition and measurement of impaired assets conforms with the following APRA ADI prudential and reporting standards: APS 220 Credit Quality, ARS 220 Impaired Facilities, as well as other guidelines issued by APRA.

Loans are classified as either performing or impaired. Impaired assets are on and off-balance sheet facilities where there is doubt as to whether the full contractual amount (including interest) will be received.

	Half Year		
	Mar 16 $M	Sep 15 $M	Mar 15 $M
Gross impaired assets			
Impaired loans	2,564	2,441	2,466
Restructured items	226	184	146
Non-performing commitments and contingencies	93	94	96
Gross impaired assets	**2,883**	**2,719**	**2,708**
Individual provisions			
Impaired loans	(1,209)	(1,038)	(1,081)
Non-performing commitments and contingencies	(29)	(23)	(33)
Net impaired assets	**1,645**	**1,658**	**1,594**
Gross impaired assets by division			
Australia	**1,093**	1,193	1,245
Institutional	**1,281**	960	826
New Zealand	**273**	338	434
Wealth	**4**	5	8
Asia Retail & Pacific	**232**	223	195
TSO and Group Center	**-**	-	-
Gross impaired assets	**2,883**	**2,719**	**2,708**
Gross impaired assets by size of exposure			
Less than $10 million	**1,597**	1,748	1,903
$10 million to $100 million	**970**	708	607
Greater than $100 million	**316**	263	198
Gross impaired assets	**2,883**	**2,719**	**2,708**

Gross impaired assets	Half Year Mar 16 $M	Sep 15 $M	Mar 15 $M
Impaired loans			
Australia	1,062	1,175	1,220
Institutional	1,168	848	742
New Zealand	252	320	414
Wealth	4	5	8
Asia Retail & Pacific	78	93	82
TSO and Group Center	-	-	-
Total gross impaired loans	**2,564**	**2,441**	**2,466**
Restructured items			
Australia	22	5	17
Institutional	33	36	-
New Zealand	17	13	16
Wealth	-	-	-
Asia Retail & Pacific	154	130	113
TSO and Group Center	-	-	-
Total restructured items	**226**	**184**	**146**
Non-performing commitments and contingencies			
Australia	9	13	8
Institutional	80	76	84
New Zealand	4	5	4
Wealth	-	-	-
Asia Retail & Pacific	-	-	-
TSO and Group Center	-	-	-
Total non-performing commitments and contingencies[1]	**93**	**94**	**96**

1. *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.*

Comparison of March 2016 with March 2015

- Gross impaired assets (comprising impaired loans, restructured items, and non-performing commitments and contingencies) increased $175 million (6%) driven by Institutional ($455 million), partially offset by decreases in Australia division ($152 million) and New Zealand division ($161 million). The increase in Institutional related to impairments on a small number of Australian and multi-national resource related exposures due to continued weakness in the commodity sector. The Australia division decrease was driven by the Esanda Dealer Finance divestment. In the New Zealand division, the decrease was due to repayments and transfers out of the impaired category. The Group's individual provision coverage ratio on impaired assets was 42.9% at March 31, 2016, up from 41.1% at March 31, 2015.

Comparison of March 2016 with September 2015

- Gross impaired assets (comprising impaired loans, restructured items, and non-performing commitments and contingencies) increased $164 million (6%) driven by Institutional ($321 million), partially offset by decreases in Australia division ($100 million) and New Zealand division ($65 million). The increase in Institutional related to impairments on a small number of Australian and multi-national resource related exposures due to continued weakness in the commodity sector. The Australia division decrease was due to the Esanda Dealer Finance divestment. In the New Zealand division, the decrease was due to repayments and transfers out of the impaired category. The Group's individual provision coverage ratio on impaired assets was 42.9% at March 31, 2016, up from 39.0% at September 30, 2015.

	Half Year		
	Mar 16 $M	Sep 15 $M	Mar 15 $M
New impaired assets			
Impaired loans	1,657	1,707	1,141
Restructured items	81	4	26
Non-performing commitments and contingencies	46	72	30
Total new impaired assets	**1,784**	**1,783**	**1,197**
New impaired assets by division			
Australia	777	840	778
Institutional	652	614	146
New Zealand	194	203	165
Global Wealth	-	-	18
Asia Retail & Pacific	161	126	90
TSO and Group Center	-	-	-
Total new impaired assets	**1,784**	**1,783**	**1,197**

Comparison of March 2016 with March 2015

- New impaired assets increased $587 million (49%) with increases in Institutional ($506 million). The increase in Institutional related to a small number of Australian and multi-national resource related exposures due to continued weakness in the commodity sector.

Comparison of March 2016 with September 2015

- New impaired assets increased $1 million with increases in Institutional ($38 million) and Asia Retail & Pacific ($36 million), offset by a decrease in Australia division ($63 million). The increase in Institutional related to a small number of Australian and multi-national resource related exposures due to continued weakness in the commodity sector, offset by the Esanda Dealer Finance divestment in the Australia 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		
	Mar 16 $M	Sep 15 $M	Mar 15 $M
Australia	2,282	2,070	1,918
Institutional	33	35	38
New Zealand	198	201	227
Wealth	2	6	3
Asia Retail & Pacific	54	62	58
TSO and Group Center	4	4	4
Total past due loans	2,573	2,378	2,248

Comparison of March 2016 with March 2015

- The 90 days past due but not impaired increased by $325 million (14%) primarily within Australia division due to growth in the mortgage portfolio and portfolio deterioration mainly in Western Australia and Queensland.

Comparison of March 2016 with September 2015

- The 90 days past due but not impaired increased by $195 million (8%) primarily within Australia division due to growth in the mortgage portfolio and portfolio deterioration predominantly 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 19 of the 2015 Financial Statements included in ANZ's 2015 Annual Report (extracts attached as Annex A to the 2015 Annual U.S. Disclosure Document dated November 9, 2015).

Income tax expense

	Half Year		
	Mar 16 $M	Sep 15 $M	Mar 15 $M
Income tax expense charged to the income statement	1,140	1,397	1,629
Effective tax rate	29.4%	25.9%	31.7%
Australian corporate tax rate	30.0%	30.0%	30.0%

Comparison of March 2016 with March 2015

- The effective tax rate decreased from 31.7% to 29.4%. The decrease of 230 bps is primarily due to lower Wealth policyholder income and contribution tax, partially offset by the impairment of our investment in Ambank in the March 2016 half.

Comparison of March 2016 with September 2015

- The effective tax rate increased from 25.9% to 29.4%. The increase of 350 bps is primarily due to higher Wealth policyholder income and contribution tax and an impairment of our investment in Ambank in the March 2016 half. The September 2015 half included a one off favorable tax consolidation benefit.

Condensed balance sheet

	As of		
	Mar 16 $B	Sep 15 $B	Mar 15 $B
Assets			
Cash / Settlement balances owed to ANZ / Collateral paid	**88.0**	82.5	79.3
Trading and available-for-sale assets	**100.5**	92.7	89.7
Derivative financial instruments	**88.7**	85.6	73.6
Net loans and advances[1]	**561.8**	570.2	558.2
Investments backing policy liabilities	**34.5**	34.8	36.5
Other	**21.8**	24.1	22.8
Total assets	**895.3**	889.9	860.1
Liabilities			
Settlement balances owed by ANZ / Collateral received	**20.2**	19.1	12.6
Deposits and other borrowings	**578.1**	570.8	567.2
Derivative financial instruments	**91.7**	81.3	73.2
Debt issuances	**81.9**	93.7	85.7
Policy liabilities and external unit holder liabilities	**38.4**	38.7	40.3
Other	**28.5**	28.9	29.0
Total liabilities	**838.8**	832.5	808.0
Total equity	**56.5**	57.4	52.1

1. *Loans and advances as at September 30, 2015 include the Esanda Dealer Finance assets divested to Macquarie Group Limited in the March 2016 half.*

Comparison of March 2016 with March 2015

- Cash, settlement balances and collateral paid increased by $9 billion (11%) primarily due to increased cash held by Markets ($3 billion), increased settlement balances with central banks held by Treasury ($3 billion) and increased collateral paid by Markets on derivative transactions ($2 billion).
- Trading and available-for-sale assets increased $11 billion (12%). Adjusting for foreign currency translation, the $12 billion increase was due to purchases of government and semi government securities as part of the liquidity portfolio and the reclassification of the BoT investment as an available for sale asset upon cessation of equity accounting.
- Derivative financial assets and liabilities increased by $15 billion (21%) and $19 billion (25%) respectively as foreign exchange rate and interest rate movements resulted in higher derivative fair values.
- Net loans and advances increased $4 billion (1%). Adjusting for a $10 billion decrease due to foreign currency translation, the $14 billion increase comprised a $25 billion increase in Australia division home loans and a $7 billion increase in New Zealand term loans, partially offset by a $2 billion decrease in non-housing loans and a $16 billion decrease in Institutional lending given the strategic reorganization of that business.
- Deposits and other borrowings increased $11 billion (2%). Adjusting for a $8 billion decrease due to foreign currency translation, the $19 billion increase comprised a $25 billion increase in interest bearing deposits across all divisions (primarily $11 billion in Australia and $7 billion in Institutional division), $6 billion growth in Group Treasury certificates of deposit, partially offset by a $10 billion decrease in term deposits mainly in Institutional.
- Total equity increased $4 billion (8%) primarily due to $7 billion of profits generated over the year, $3 billion from an institutional share placement and retail share purchase plan in the 2015 September half, offset by the payment (net of reinvestment) of the 2015 interim and 2015 final dividends of $5 billion.

Comparison of March 2016 with September 2015

- Cash, settlement balances and collateral paid increased by $5 billion (7%). Adjusting for a decrease of $4 billion from foreign currency translation, the $9 billion increase is primarily due to increased settlement balances with central banks held by Treasury ($8 billion) and increased collateral paid held by Markets on derivative transactions ($3 billion), offset by reduced cash held by Markets ($2 billion).
- Net loans and advances decreased $8 billion (1%). Adjusting for a $7 billion decrease due to foreign currency translation, the net $1 billion decrease comprised a $12 billion increase in Australia division home loans, a $2 billion increase in New Zealand, and a $15 billion decrease in Institutional lending following a heightened focus on returns.
- Deposits and other borrowings increased $7 billion (1%). Adjusting for a $13 billion decrease due to foreign currency translation, the $20 billion increased comprised a $7 billion increase in interest bearing deposits primarily in Australia and New Zealand, $2 billion growth in Group Treasury certificates of deposit, $7 billion increase in deposits from banks in Institutional, a $5 billion increase in term deposits mainly in Australia, partly offset by a $2 billion decrease in commercial paper.
- Derivative financial assets and liabilities increased by $3 billion (4%) and $10 billion (13%) respectively as foreign exchange rate and interest rate movements resulted in higher derivative fair values.
- Debt issuances decreased $12 billion (13%) mainly due to a foreign currency translation impact of $9 billion and maturing debt rolling off.
- Total equity decreased by $1 billion (2%) primarily due to $3 billion of profits generated over the half year, offset by the payment (net of reinvestment) of the 2015 final dividend of $3 billion and a reduction in foreign currency translation reserves of $1 billion.

Results by division

During the March 2016 half, 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 reported divisions: Australia, New Zealand, Institutional, Asia Retail & Pacific, Wealth 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 IIB business has been renamed Institutional.

The Wealth changes announced during the March 2016 half designed to simplify the approach to the wealth management business took effect on April 1, 2016. For further information on the composition of the divisions refer to the "Principal Activities of the Group" section on page 7.

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.

March 2016 Half Year

$M	Australia	Institutional	New Zealand	Wealth	Asia Retail & Pacific	TSO & Group Center	Group
Net interest income	4,038	1,802	1,172	101	328	127	**7,568**
Other operating income	594	911	201	779	231	(19)	**2,697**
Operating income	4,632	2,713	1,373	880	559	108	**10,265**
Operating expenses	(1,665)	(1,510)	(527)	(521)	(401)	(855)	**(5,479)**
Profit before credit impairment and income tax	2,967	1,203	846	359	158	(747)	**4,786**
Credit impairment (charge)/release	(462)	(323)	(42)	-	(91)	14	**(904)**
Profit before income tax	2,505	880	804	359	67	(733)	**3,882**
Income tax expense and non-controlling interests	(752)	(248)	(226)	(98)	(14)	194	**(1,144)**
Profit after income tax	1,753	632	578	261	53	(539)	**2,738**

September 2015 Half Year

$M	Australia	Institutional	New Zealand	Wealth	Asia Retail & Pacific	TSO & Group Center	Group
Net interest income	3,897	1,844	1,155	91	314	177	7,478
Other operating income	606	948	185	790	236	607	3,372
Operating income	4,503	2,792	1,340	881	550	784	10,850
Operating expenses	(1,618)	(1,425)	(525)	(481)	(395)	(331)	(4,775)
Profit before credit impairment and income tax	2,885	1,367	815	400	155	453	6,075
Credit impairment (charge)/release	(458)	(111)	(36)	(1)	(87)	8	(685)
Profit before income tax	2,427	1,256	779	399	68	461	5,390
Income tax expense and non-controlling interests	(721)	(363)	(218)	(53)	(23)	(25)	(1,403)
Profit after income tax	1,706	893	561	346	45	436	3,987

March 2015 Half Year

$M	Australia	Institutional	New Zealand	Wealth	Asia Retail & Pacific	TSO & Group Center	Group
Net interest income	3,730	1,741	1,162	89	291	125	7,138
Other operating income	580	1,229	183	762	221	127	3,102
Operating income	4,310	2,970	1,345	851	512	252	10,240
Operating expenses	(1,556)	(1,385)	(539)	(484)	(374)	(265)	(4,603)
Profit before credit impairment and income tax	2,754	1,585	806	367	138	(13)	5,637
Credit impairment (charge)/release	(395)	(88)	(19)	1	(10)	17	(494)
Profit before income tax	2,359	1,497	787	368	128	4	5,143
Income tax expense and non-controlling interests	(709)	(426)	(221)	(105)	(29)	(147)	(1,637)
Profit after income tax	1,650	1,071	566	263	99	(143)	3,506

Australia

	Half Year		
Australia	**Mar 16 $M**	**Sep 15 $M**	**Mar 15 $M**
Net interest income	4,038	3,897	3,730
Other operating income	594	606	580
Operating income	4,632	4,503	4,310
Operating expenses	(1,665)	(1,618)	(1,556)
Profit before credit impairment and income tax	2,967	2,885	2,754
Credit impairment charge	(462)	(458)	(395)
Profit before income tax	2,505	2,427	2,359
Income tax expense	(752)	(721)	(709)
Profit after income tax	**1,753**	**1,706**	**1,650**
Consisting of:			
Retail	1,169	1,080	981
Corporate and Commercial Banking	584	626	669
Profit after income tax	**1,753**	**1,706**	**1,650**
Balance Sheet			
Net loans & advances[1]	320,023	313,672	297,642
Other external assets	3,060	2,911	2,885
External assets	323,083	316,583	300,527
Customer deposits	175,772	169,280	162,587
Other external liabilities	11,354	11,408	11,422
External liabilities	187,126	180,688	174,009
Risk weighted assets	129,168	128,428	116,386
Average gross loans and advances	317,542	306,820	294,357
Average deposits and other borrowings	172,779	164,732	162,688
Ratios			
Return on assets	1.10%	1.11%	1.12%
Net interest margin	2.54%	2.53%	2.54%
Operating expenses to operating income	35.9%	35.9%	36.1%
Operating expenses to average assets	1.04%	1.05%	1.06%
Individual credit impairment charge/(release)	429	427	334
Individual credit impairment charge/(release) as a % of average GLA	0.27%	0.28%	0.23%
Collective credit impairment charge/(release)	33	31	61
Collective credit impairment charge/(release) as a % of average GLA	0.02%	0.02%	0.04%
Gross impaired assets	1,093	1,193	1,245
Gross impaired assets as a % of GLA	0.34%	0.38%	0.42%
Total full time equivalent staff (FTE)	8,791	8,766	9,018

1. *Includes $766 million of Esanda Dealer Finance bailment facilities which are due to migrate to Macquarie during the third quarter of 2016.*

Comparison of March 2016 with March 2015

On November 1, 2015 the Group sold the Esanda Dealer Finance Portfolio with the majority of the business transferred by December 31, 2015. Profit after income tax increased $103 million (6%). Excluding specified items[1], profit after income tax increased $143 million (9%) driven by a $322 million (7%) increase in operating income, partially offset by a $51 million (3%) increase in operating expenses and a $67 million (17%) increase in credit impairment charges.

Key factors affecting the result were

- Net interest income increased $308 million (8%). Excluding the Esanda Dealer Finance divestment, net interest income increased 11%, driven by growth in Home Loans (11%), Personal Loans (8%), Small Business lending (12%) and Deposits (8%). Net interest margin was stable from margin improvement across the Retail portfolio offset by business lending margin contraction.
- Other operating income increased $14 million (2%). Excluding the Esanda Dealer Finance divestment, other operating income increased 5% primarily due to growth in Small Business Banking lending fee income and Deposits & Payments.
- Operating expenses increased $109 million (7%). Excluding specified items[1] and the Esanda Dealer finance divestment, operating expenses increased 4% with investments supporting our growth strategy (particularly in NSW and Digital) and wage inflation being partially offset by productivity initiatives.
- Credit impairment charges increased $67 million (17%). Excluding the Esanda Dealer Finance divestment, credit impairment charges increased by 38%. Individual impairment charges were predominantly driven by higher write-backs in Corporate Banking in the March 2015 half and higher charges in Small Business Banking, Personal Loans and Regional Business Banking. The lower collective impairment charge reflects lower growth in Consumer Cards and first half 2015 methodology changes (mainly impacting Esanda).

Comparison of March 2016 with September 2015

Profit after income tax increased $47 million (3%). Excluding specified items[1], profit after income tax increased $86 million (5%) driven by a $129 million (3%) increase in operating income, partially offset by a $4 million (1%) increase in credit impairment charges.

Key factors affecting the result were:

- Net interest income increased $141 million (4%). Excluding the Esanda Dealer Finance divestment, net interest income increased 6% primarily due to growth in Home Loans (5%), Small Business lending (5%) and Deposits (4%). Net interest margin improved 1 bp as a result of margin improvement across the Retail portfolio, partly offset by business lending margin contraction.
- Other operating income decreased $12 million (-2%). Excluding the Esanda Dealer Finance divestment, other operating income was flat, primarily due to seasonality and lower interchange rate in Cards offset by growth in Deposits & Payments.
- Operating expenses increased $47 million (3%). Excluding specified items[1], and the Esanda Dealer finance divestment, operating expenses were flat with investment in NSW and wage inflation being offset by productivity initiatives.
- Credit impairment charges increased by $4 million (1%). Excluding the Esanda Dealer Finance divestment, credit impairment charges increased by 13%. Individual impairment charges were predominantly driven by Small Business Banking, Regional Business Banking and Corporate Banking. The lower collective impairment charge was driven by downgrades in Corporate Banking in the September half offset by Cards due to methodology changes in the September half.

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 page 29).*

Institutional

	Half Year		
Institutional	**Mar 16 $M**	**Sep 15 $M**	**Sep 15 $M**
Net interest income	1,802	1,844	1,741
Other operating income	911	948	1,229
Operating income	2,713	2,792	2,970
Operating expenses	(1,510)	(1,425)	(1,385)
Profit before credit impairment and income tax	1,203	1,367	1,585
Credit impairment charge	(323)	(111)	(88)
Profit before income tax	880	1,256	1,497
Income tax expense	(243)	(358)	(418)
Non-controlling interests	(5)	(5)	(8)
Profit after income tax	**632**	**893**	**1,071**
Consisting of:			
Transaction Banking	184	290	296
Loans & Specialized Finance	252	379	390
Markets	202	255	398
Central Functions	(6)	(31)	(13)
Profit after income tax	**632**	**893**	**1,071**
Balance Sheet			
Net loans & advances	125,610	142,196	144,850
Other external assets	275,658	261,308	241,935
External assets	**401,268**	**403,504**	**386,785**
Customer deposits	176,126	183,040	183,345
Other external liabilities	170,759	151,439	145,466
External liabilities	**346,885**	**334,479**	**328,811**
Risk weighted assets	181,889	197,880	195,486
Average gross loans and advances	138,972	147,515	142,195
Average deposits and other borrowings	233,729	231,655	227,460
Ratios			
Return on assets	0.31%	0.45%	0.58%
Net interest margin	1.15%	1.20%	1.19%
Net interest margin (excluding Markets)	2.16%	2.06%	2.06%
Operating expenses to operating income	55.7%	51.0%	46.6%
Operating expenses to average assets	0.74%	0.72%	0.75%
Individual credit impairment charge/(release)	339	114	92
Individual credit impairment charge/(release) as a % of average GLA	0.49%	0.15%	0.13%
Collective credit impairment charge/(release)	(16)	(3)	(4)
Collective credit impairment charge/(release) as a % of average GLA	(0.02%)	(0.00%)	(0.01%)
Gross impaired assets	1,281	960	826
Gross impaired assets as a % of GLA	1.01%	0.67%	0.56%
Total full time equivalent staff (FTE)	4,056	4,231	4,319

Comparison of March 2016 with March 2015

Profit after income tax decreased by $439 million (41%). Excluding specified items[1], profit after income tax decreased $400 million (37%) driven by a $318 million (26%) decrease in other operating income, $72 million (5%) increase in operating expenses and higher credit impairment charges.

Key factors affecting the result were:

- Net interest income improved $61 million (4%) driven by an 11% increase in Markets and 2% increase in Loans & Specialized Finance. While Transaction Banking was 2% lower, Cash Management delivered an 8% increase offset by Trade which declined 23% largely due to active portfolio reduction. Net interest margin fell 4 bps primarily due to growth in lower margin liquidity portfolios in Markets. Excluding Markets, net interest margin increased 10 bps reflecting the impact of exiting low returning assets.
- Other operating income decreased by $318 million (26%), driven by lower Markets income as a result of widening credit spreads adversely impacting revenue from Balance Sheet trading and lower customer demand for hedging in a benign interest rate environment.
- Operating expenses increased by $125 million (9%). Excluding specified items[1] operating expenses increased by 5%, with the significant reductions in FTE arising from organizational streamlining offsetting inflationary impacts. The full benefit of this streamlining will extend beyond the current reporting period.
- Credit impairment charges increased by $235 million, with higher individual credit impairment charges in Loans & Specialized Finance and Trade reflecting weakness associated with low commodity prices in the resources and commodity sectors and related industries. Collective credit impairment charges decreased in Loans & Specialized Finance reflecting the movement of collective provisions to individual provisions.

Comparison of March 2016 with September 2015

Profit after income tax decreased by $261 million (29%). Excluding the specified items[1], profit after income tax decreased $225 million (25%) primarily driven by a $42 million (2%) decrease in net interest income, a $36 million (2%) increase in operating expenses increased and higher credit impairment charges.

Key factors affecting the result were:

- Net interest income decreased $42 million (2%) driven by a 6% reduction in Markets, and was broadly flat excluding Markets. Net interest margin decreased 5 bps primarily due to growth in lower margin liquidity portfolios in Markets. Excluding Markets, net interest margin increased 10 bps reflecting the impact of exiting low returning assets.
- Other operating income was down $37 million (4%) primarily due to lower fee revenue in Loans & Specialized Finance and lower Commodity income in Markets, partially offset by stronger Foreign Exchange income in Markets.
- Operating expenses increased by $85 million (6%). Excluding specified items[1], operating expenses increased 3%, with the significant reductions in FTE arising from organizational streamlining partially offsetting inflationary impacts.
- Credit impairment charges increased by $212 million, with higher individual credit impairment charges on trade loans in Transaction Banking and Loans & Specialized Finance reflecting the impact of deteriorating macro-economic conditions on resources and commodity sectors and related industries. Collective credit impairment charges decreased in Loans & Specialized Finance reflecting the movement of collective provisions to individual provisions.

1. *Specified items relevant to Institutional are software capitalization changes and restructuring (refer page 29).*

New Zealand

Table reflects NZD for New Zealand.
AUD results shown on page 51.

New Zealand	Half Year Mar 16 NZD M	Sep 15 NZD M	Mar 15 NZD M
Net interest income	1,270	1,257	1,242
Other operating income	217	201	196
Operating income	1,487	1,458	1,438
Operating expenses	(571)	(572)	(576)
Profit before credit impairment and income tax	916	886	862
Credit impairment charge	(46)	(39)	(20)
Profit before income tax	870	847	842
Income tax expense	(244)	(237)	(236)
Profit after income tax	**626**	**610**	**606**
Consisting of:			
Retail	395	369	365
Commercial	221	237	242
Operations & Support	10	4	(1)
Profit after income tax	**626**	**610**	**606**
Balance Sheet			
Net loans & advances	107,845	104,756	99,518
Other external assets	3,536	3,514	3,699
External assets	**111,381**	**108,270**	**103,217**
Customer deposits	69,140	65,689	61,427
Other external liabilities	24,807	26,466	26,022
External liabilities	**93,947**	**92,155**	**87,449**
Risk weighted assets	60,134	59,024	55,006
Average gross loans and advances	106,705	102,629	98,262
Average deposits and other borrowings	73,170	69,602	66,622
Ratios			
Return on assets	1.14%	1.15%	1.20%
Net interest margin	2.37%	2.44%	2.52%
Operating expenses to operating income	38.4%	39.2%	40.1%
Operating expenses to average assets	1.04%	1.08%	1.14%
Individual credit impairment charge/(release)	47	35	23
Individual credit impairment charge/(release) as a % of average GLA	0.09%	0.07%	0.05%
Collective credit impairment charge/(release)	(1)	4	(3)
Collective credit impairment charge/(release) as a % of average GLA	(0.00%)	0.01%	(0.01%)
Gross impaired assets	302	372	443
Gross impaired assets as a % of GLA	0.28%	0.35%	0.44%
Total full time equivalent staff (FTE)	5,022	5,074	5,096

New Zealand results and commentary are reported in NZD. AUD results are shown on page 51.

Comparison of March 2016 with March 2015

Profit after income tax increased NZD 20 million (3%). Excluding the software capitalization changes (refer page 29), profit after income tax increased 5% primarily driven by lending and deposit volume growth and disciplined expense management, partly offset by higher credit impairment charges.

Key factors affecting the result were:

- Net interest income increased NZD 28 million (2%), primarily due to growth in lending. Average gross loans and advances grew 9%, with growth across both the housing and non-housing portfolios. Net interest margin contracted 15 bps driven by competition for lending assets, unfavorable lending mix with customers continuing to favor lower margin fixed rate products, and the impact of capital notes issued in March 2015.
- Other operating income increased NZD 21 million (11%) driven by the gain on sale of a fixed asset and volume driven growth in fee income.
- Operating expenses decreased NZD 5 million (1%). Excluding software capitalization changes, operating expenses decreased 3% with productivity gains more than offsetting inflationary and investment impacts.
- Credit impairment charges increased NZD 26 million to NZD 46 million. The individual credit impairment charge increased NZD 24 million primarily driven by lower write-backs in Commercial. The collective provision was NZD 2 million lower.

Comparison of March 2016 with September 2015

Profit after income tax increased NZD 16 million (3%). Excluding the software capitalization changes, profit after income tax increased 4% with lending driven growth in income and disciplined expense management offsetting higher credit impairment charges.

Key factors affecting the result were:

- Net interest income increased NZD 13 million (1%), due to lending growth. Average gross loans and advances grew 4%, with growth across both the housing and non-housing portfolios. Net interest margin contracted 7 bps driven by lending competition and unfavorable lending mix, with customers continuing to favor lower margin fixed rate products.
- Other operating income increased NZD 16 million (8%) driven by gain on sale of a fixed asset.
- Operating expenses remained flat. Excluding software capitalization changes, operating expenses decreased 2% due to disciplined cost management with productivity gains more than offsetting inflationary and investment impacts.
- Credit impairment charges increased NZD 7 million. The individual credit impairment charge increased NZD 12 million due to lower write-backs, partly offset by lower provisions raised in the mortgage portfolio. The collective impairment charge was NZD 5 million lower driven by portfolio improvement.

New Zealand

Table reflects AUD for New Zealand.
NZD results shown on page 49.

	Half Year		
New Zealand	**Mar 16 $M**	**Sep 15 $M**	**Mar 15 $M**
Net interest income	1,172	1,155	1,162
Other operating income	201	185	183
Operating income	1,373	1,340	1,345
Operating expenses	(527)	(525)	(539)
Profit before credit impairment and income tax	846	815	806
Credit impairment charge	(42)	(36)	(19)
Profit before income tax	804	779	787
Income tax expense	(226)	(218)	(221)
Profit after income tax	**578**	**561**	**566**
Consisting of:			
Retail	365	340	341
Commercial	204	217	226
Operations & Support	9	4	(1)
Profit after income tax	**578**	**561**	**566**
Balance Sheet			
Net loans & advances	97,217	95,211	97,679
Other external assets	3,187	3,194	3,631
External assets	**100,404**	**98,405**	**101,310**
Customer deposits	62,327	59,703	60,293
Other external liabilities	22,362	24,056	25,541
External liabilities	**84,689**	**83,759**	**85,834**
Risk weighted assets	54,208	53,646	53,990
Average gross loans and advances	98,495	94,362	91,908
Average deposits and other borrowings	67,540	63,996	62,314
Ratios			
Return on assets	1.14%	1.15%	1.20%
Net interest margin	2.37%	2.44%	2.52%
Operating expenses to operating income	38.4%	39.2%	40.1%
Operating expenses to average assets	1.04%	1.08%	1.14%
Individual credit impairment charge/(release)	43	32	22
Individual credit impairment charge/(release) as a % of average GLA	0.09%	0.07%	0.05%
Collective credit impairment charge/(release)	(1)	4	(3)
Collective credit impairment charge/(release) as a % of average GLA	(0.00%)	0.01%	(0.01%)
Gross impaired assets	273	338	434
Gross impaired assets as a % of GLA	0.28%	0.35%	0.44%
Total full time equivalent staff (FTE)	5,022	5,074	5,096

Wealth

Wealth	Half Year Mar 16 $M	Half Year Sep 15 $M	Half Year Mar 15 $M
Net interest income	**101**	91	89
Other operating income	**52**	60	63
Net funds management and insurance income	**727**	730	699
Operating income	**880**	881	851
Operating expenses	**(521)**	(481)	(484)
Profit before credit impairment and income tax	**359**	400	367
Credit impairment (charge)/release	**-**	(1)	1
Profit before income tax	**359**	399	368
Income tax expense	**(100)**	(53)	(105)
Non-controlling interests	**2**	-	-
Profit after income tax	**261**	346	263
Consisting of			
Funds Management	**58**	79	79
Insurance	**151**	155	144
Private Wealth	**53**	51	44
Corporate and Other[1]	**(1)**	61	(4)
Profit after income tax	**261**	346	263
Income from invested capital[2]	**65**	59	55
Key metrics			
In-force premiums[3]	**2,071**	2,217	2,154
Funds under management	**66,522**	65,392	68,405
Average funds under management	**66,810**	66,993	64,615
Net loans and advances	**6,573**	6,468	6,163
Customer deposits	**18,945**	18,467	17,357
Average gross loans and advances	**6,654**	6,157	5,725
Average customer deposits	**19,096**	17,922	15,639
Risk weighted assets	**4,391**	4,291	4,174
Ratios			
Operating expenses to operating income	**59.2%**	54.6%	56.9%
Insurance expenses to in-force premiums			
Australia	**12.1%**	9.9%	10.3%
New Zealand	**35.2%**	35.4%	32.1%
Retail Insurance lapse rates			
Australia[4]	**13.0%**	14.0%	12.6%
New Zealand	**14.8%**	16.8%	14.3%
Funds management expenses to average FUM[5]			
Australia	**0.58%**	0.51%	0.51%
New Zealand	**0.27%**	0.28%	0.31%
Total full time equivalent staff (FTE)	**2,385**	2,481	2,530
Aligned adviser numbers[6]	**1,785**	1,819	1,823

1. *Corporate and Other includes a one-off tax consolidation benefit of $56 million in September 2015.*
2. *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 at March 31, 2016 was $3.7 billion (Sep 15 & Mar 15: $3.6 billion), which comprises fixed interest securities of 47% and cash deposits of 53% (Sep 15 & Mar 15: 49% fixed interest securities and 51% cash deposits).*
3. *In-force premiums reflect the impact of ceasing the underwriting of new home, content, travel and motor insurance in the September 2015 half and the disposal of the New Zealand medical business in the March 2016 half.*
4. *A definition change to the retail insurance lapse rate was implemented in the Sep 15 half to reflect the inclusion of partial premium reductions within the policy renewal period. Comparatives have been restated to align with the revised methodology.*
5. *Funds Management expense and FUM only relates to 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 March 2016 with March 2015

Profit after income tax decreased by $2 million (1%). Excluding specified items[1], profit after income tax increased by $10 million (4%) primarily driven by favorable group lapse experience and growth in average customer deposits and average net loans and advances.

Key factors affecting the result were:

- Net interest income increased by $12 million (13%) primarily attributable to increased customer deposits and net loans and advances.
- Other operating income decreased by $11 million (17%) due to a one-off $9 million pre-tax loss on the sale of the New Zealand medical insurance business
- Net funds management and insurance income increased by $28 million (4%). Insurance income increased by 8% due to continued favorable lapse experience, partially offset by adverse claims experience in the half. Funds Management operating income decreased by 3% driven by a shift in business towards lower margin products and market volatility.
- Operating expenses increased $37 million (8%). Excluding specified items[1], operating expenses increased by 4%, due to inflationary growth and spend on strategic projects, partially offset by efficiency initiatives.

Comparison of March 2016 with September 2015

Profit after income tax decreased by $85 million (25%). Excluding specified items[1], along with the $56 million one-off tax consolidation benefit in the September 2015 half, profit after income tax decreased by 6% primarily driven by volatile investment markets and increased spend on strategic projects.

Key factors affecting the result were:

- Net interest income increased by $10 million (11%) primarily attributable to increased volumes of customer deposits and net loans and advances.
- Other operating income decreased $8 million (13%) due to a one-off $9 million pre-tax loss on the sale of the New Zealand medical insurance business.
- Net funds management and insurance income was flat compared to the September 2015 half. Insurance income increased by 3% driven by growth in life insurance in-force premiums and improved lapse experience. Funds Management operating income decreased by 5% primarily due to volatile investment markets and a change in product mix towards lower margin products.
- Operating expenses increased $40 million (8%). Excluding specified items[1], operating expenses increased by $22 million (5%), due to inflationary growth and spend on strategic projects, partially offset by efficiency initiatives.

1. *Specified items relevant to Wealth are software capitalization changes and restructuring (refer page 29).*

Asia Retail & Pacific

	Half Year		
Asia Retail & Pacific	**Mar 16 $M**	**Sep 15 $M**	**Mar 15 $M**
Net interest income	**328**	314	291
Other operating income	**231**	236	221
Operating income	**559**	550	512
Operating expenses	**(401)**	(395)	(374)
Profit before credit impairment and income tax	**158**	155	138
Credit impairment (charge)/release	**(91)**	(87)	(10)
Profit before income tax	**67**	68	128
Income tax expense	**(13)**	(22)	(28)
Non-controlling interests	**(1)**	(1)	(1)
Profit after income tax	**53**	45	99
Balance Sheet			
Net loans & advances	**11,909**	12,545	11,667
Customer deposits	**19,005**	19,455	17,779
Risk weighted assets	**11,617**	11,945	10,767
Ratios			
Return on assets	**0.55%**	0.48%	1.15%
Net interest margin	**3.51%**	3.46%	3.49%
Operating expenses to operating income	**71.7%**	71.8%	73.0%
Operating expenses to average assets	**4.18%**	4.20%	4.33%
Individual credit impairment charge/(release)	**82**	78	8
Individual credit impairment charge/(release) as a % of average GLA	**1.30%**	1.27%	0.14%
Collective credit impairment charge/(release)	**9**	9	2
Collective credit impairment charge/(release) as a % of average GLA	**0.14%**	0.15%	0.04%
Gross impaired assets	**232**	223	195
Gross impaired assets as a % of GLA	**1.91%**	1.75%	1.64%
Total full time equivalent staff (FTE)	**3,183**	3,313	3,437

Comparison of March 2016 with March 2015

Profit after income tax decreased $46 million (46%). Excluding specified items[1], profit after income tax decreased $40 million (40%). Key factors affecting the result were:

- Net interest income increased $37 million (13%) due to growth in lending. Average gross loans and advances grew 12% with growth in non-housing portfolios. Deposit growth of 7% was driven by transactional accounts. Net interest margin increased 2 bps driven by deposit repricing.
- Other operating income increased $10 million (5%) due to increased Markets revenue from customer sales in the Pacific.
- Operating expenses increased $27 million (7%). Excluding specified items[1], operating expenses increased $19 million (5%) due to infrastructure and compliance related projects in Asia.
- Credit impairment charges increased $81 million due to increased individual impairment charges in Asia during the March 2016 half and a non-recurring provision release of $53 million during the March 2015 half in Asia Retail.

Comparison of March 2016 with September 2015

Profit after income tax increased $8 million (18%). Excluding specified items[1], profit after income tax decreased $14 million (31%). Key factors affecting the result were:

- Net interest income increased $14 million (4%) due to growth in lending. Average gross loans and advances grew 3% with growth in non-housing portfolios. Net interest margin increased 5 bps driven by deposit repricing.
- Other operating income decreased $5 million (2%), due to lower investment and insurance income in Asia.
- Operating expenses increased $6 million (2%). Excluding specified items[1], operating expenses decreased $2 million (1%) due to disciplined cost management.
- Credit impairment charges increased $4 million (5%) driven by lending growth in the credit cards and personal loans portfolios in Asia partly offset by lower individual credit impairment charges in the Pacific.

1. *Specified items relevant to Asia Retail & Pacific are software capitalization changes and restructuring (refer page 29).*

Results by geographic region

	Half Year		
Australia geographic region	**Mar 16 $M**	**Sep 15 $M**	**Mar 15 $M**
Net interest income	5,197	5,151	4,881
Other operating income	1,495	1,853	1,480
Operating income	6,692	7,004	6,361
Operating expenses	(3,490)	(2,870)	(2,792)
Profit before credit impairment and income tax	3,202	4,134	3,569
Credit impairment charge	(578)	(446)	(412)
Profit before income tax	2,624	3,688	3,157
Income tax expense	(829)	(1,014)	(1,193)
Non-controlling interests	2	-	-
Profit after income tax	**1,797**	**2,674**	**1,964**

	Half Year		
Asia Pacific, Europe & America geographic region	**Mar 16 $M**	**Sep 15 $M**	**Mar 15 $M**
Net interest income	993	986	926
Other operating income	815	1,002	1,098
Operating income	1,808	1,988	2,024
Operating expenses	(1,237)	(1,223)	(1,120)
Profit before credit impairment and income tax	571	765	904
Credit impairment charge	(281)	(197)	(53)
Profit before income tax	290	568	851
Income tax expense	(47)	(72)	(120)
Non-controlling interests	(6)	(6)	(9)
Profit after income tax	**237**	**490**	**722**

	Half Year		
New Zealand geographic region	**Mar 16 $M**	**Sep 15 $M**	**Mar 15 $M**
Net interest income	1,378	1,341	1,330
Other operating income	389	516	524
Operating income	1,767	1,857	1,854
Operating expenses	(754)	(680)	(691)
Profit before credit impairment and income tax	1,013	1,177	1,163
Credit impairment charge	(46)	(42)	(29)
Profit before income tax	967	1,135	1,134
Income tax expense	(263)	(312)	(314)
Non-controlling interests	-	-	-
Profit after income tax	**704**	**823**	**820**

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.

	Half Year Average		
	Mar 16 $B	**Sep 15 $B**	**Mar 15 $B**[1]
Market Values Post Discount[2]			
HQLA1[3]	**117.2**	98.2	95.7
HQLA2	**3.3**	3.1	3.4
Internal Residential Mortgage Backed Securities (Australia)[3]	**35.1**	37.9	40.6
Internal Residential Mortgage Backed Securities (New Zealand)	**1.5**	1.3	3.6
Other ALA[4]	**18.6**	17.4	13.4
Total Liquid Assets	**175.7**	157.9	156.7
Cash flows modeled under stress scenario			
Cash outflows	**181.0**	170.2	176.1
Cash inflows	**42.1**	42.6	43.4
Net cash outflows	**138.9**	127.6	132.7
Liquidity Coverage Ratio[5]	**126%**	124%	118%

1. *Based on Mar 2015 quarter given LCR implementation on January 1, 2015.*
2. *Half year average basis, calculated as prescribed per APRA Prudential Regulatory Standard (APS 210 Liquidity) and consistent with APS 330 requirements.*
3. *RBA open arrangement netted down from CLF, with corresponding HQLA inflow.*
4. *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.*
5. *All currency Group LCR.*

Funding

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

$12.5 billion of term wholesale debt (with a remaining term greater than one year as of March 31, 2016) was issued during the half year ended March 31, 2016. The weighted average tenor of new term debt was 5.0 years (Sep 15: 4.9 years).

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

	As of		
	Mar 16 $M	**Sep 15 $M**	**Mar 15 $M**
Customer deposits and other liabilities[1]			
Australia	**175,772**	169,280	162,587
Institutional	**176,126**	183,040	183,345
New Zealand	**62,327**	59,703	60,293
Wealth	**18,945**	18,467	17,357
Asia Retail & Pacific	**19,005**	19,455	17,779
TSO and Group Centre[1]	**(5,397)**	(5,361)	(5,214)
Customer deposits	**446,778**	444,584	436,147
Other funding liabilities[2]	**16,127**	14,346	12,315
Total customer liabilities (funding)	**462,905**	458,930	448,462
Wholesale funding[3]			
Debt issuances[4]	**81,947**	93,347	84,859
Subordinated debt	**17,557**	17,009	16,463
Certificates of deposit	**65,077**	63,446	59,646
Commercial paper	**21,065**	22,989	22,729
Other wholesale borrowings[5,6]	**56,391**	44,556	53,625
Total wholesale funding	**242,037**	241,347	237,322
Shareholders' Equity (excl. preference shares)	**56,464**	57,353	52,051
Total Funding	**761,406**	757,630	737,835

	As of		
	Mar 16 $M	**Sep 15 $M**	**Mar 15 $M**
Funded Assets			
Other short term assets & trade finance assets[7]	**68,015**	78,879	87,755
Liquids[6]	**147,419**	135,496	123,835
Short term funded assets	**215,434**	214,375	211,590
Lending & fixed assets[8]	**545,972**	543,255	526,245
Total Funded Assets	**761,406**	757,630	737,835
Funding Liabilities[3,4,6]			
Other short term liabilities	**40,360**	27,863	30,858
Short term funding	**65,204**	59,850	60,394
Term funding < 12 months	**30,579**	41,549	31,860
Other customer and central bank deposits[1,9]	**87,632**	88,288	101,223
Total short term funding liabilities	**223,775**	217,550	224,335
Stable customer deposits[1,10]	**392,150**	387,988	370,331
Term funding > 12 months	**81,589**	87,316	83,665
Shareholders' equity and hybrid debt	**63,891**	64,776	59,504
Total Stable Funding	**537,631**	540,080	513,500
Total Funding	**761,406**	757,630	737,835

1. *Includes term deposits, other deposits and an adjustment recognized in Group Centre to eliminate Wealth investments in ANZ deposit products.*
2. *Includes interest accruals, payables and other liabilities, provisions and net tax provisions, excluding other liabilities in Wealth.*
3. *Excludes liability for acceptances as they do not provide net funding.*
4. *Excludes term debt issued externally by Wealth which matured during the March 2016 half.*
5. *Includes borrowings from banks, net derivative balances, special purpose vehicles and other borrowings.*
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.*

Term debt maturity profile

The amounts disclosed below represent principal cash flows and do not include interest cash flows. Foreign currency denominated debt has been translated using foreign exchange rates as of March 31, 2016.

Contractual maturity	Less than 3 months $m	3 to 12 months $m	1 to 5 years $m	After 5 years $m	No maturity specified $m	Total $m
Debt issuances	6,763	15,458	62,118	9,556	-	93,895
Subordinated debt[1]	-	1,969	8,647	6,362	392	17,370
Total	**6,763**	**17,427**	**70,765**	**15,918**	**392**	**111,265**

1. *The maturity profile for convertible notes is presented based on the mandatory conversion date. The maturity profile for all other subordinated debt is presented based on the next callable date.*

	As of March 31, 2016		
Credit Ratings of ANZBGL	**Short-Term**	**Long-Term**	**Outlook**
Moody's Investor Services	P-1	Aa2	Stable
Standard & Poor's	A-1+	AA-	Stable
Fitch Ratings	F1+	AA-	Stable

Capital management

	As of		
Qualifying Capital	**Mar 16 $M**	**Sep 15 $M**	**Mar 15 $M**
Tier 1			
Shareholders' equity and non-controlling interests	**56,464**	57,353	52,051
Prudential adjustments to shareholders' equity	**(584)**	(387)	(519)
Gross Common Equity Tier 1 capital	**55,880**	56,966	51,532
Deductions	**(17,778)**	(18,440)	(17,796)
Common Equity Tier 1 capital	**38,102**	38,526	33,736
Additional Tier 1 capital	**6,960**	6,958	7,352
Tier 1 capital	**45,062**	45,484	41,088
Tier 2 capital	**8,076**	7,951	7,716
Total qualifying capital	**53,138**	53,435	48,804
Capital adequacy ratios			
Common Equity Tier 1	**9.8%**	9.6%	8.7%
Tier 1	**11.6%**	11.3%	10.6%
Tier 2	**2.1%**	2.0%	2.0%
Total	**13.7%**	13.3%	12.6%
Risk weighted assets	**388,335**	401,937	386,863

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. The Internationally Comparable Basel 3 framework only requires downturn LGD floor of 10%.
- 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 March 2016 with September 2015

ANZ's CET1 ratio increased 22 bps to 9.8% in the March 2016 half. Key drivers of the CET1 ratio were:

- Net organic capital generation is 75 bps or $3.1 billion. CET1 generation from profit after income tax and net RWA reduction during the half has more than offset capital usage and other business capital deductions. The net RWA reduction was a result of strong balance sheet discipline and RWA reduction initiatives in the Institutional division.
- Payment of the September 2015 Final Dividend (net of shares issued under the DRP) reduced the CET1 ratio by 62 bps.
- Other impacts of 9 bps were mainly due to capital benefits arising from the sale of the Esanda Dealer Finance assets (16 bps), partly offset by the impact from repayment of the remaining tranche of debt ($400 million) issued by ANZ Wealth Australia Limited (ANZWA) in March 2016 (-10 bps) and other net impacts from RWA measurement changes including foreign currency translation impacts.

Leverage Ratio

At March 31, 2016, the Group's APRA Leverage Ratio was 5.1% 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	
	Mar 16 $M	**Sep 15 $M**
Tier 1 Capital (net of capital deductions)	**45,062**	**45,484**
On-balance sheet exposures (excluding derivatives and securities financing transaction exposures)	733,935	733,756
Derivative exposures	30,542	38,115
Securities financing transaction (SFT) exposures	21,420	17,297
Other off-balance sheet exposures	102,953	107,817
Total exposure measure	**888,850**	**896,985**
APRA Leverage Ratio[1]	**5.1%**	**5.1%**

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

Comparison of March 2016 with September 2015

ANZ's leverage ratio remained stable during the March 2016 half. An increase in the leverage ratio arising from capital generation from profit after income tax was offset by the impact from payment of the 2015 Final Dividend (net of DRP) and increased holdings of High Quality Liquid Assets (HQLA) which contributed to growth in the exposure measure.

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.

The following table provides an overview of the Group's foreign exchange, interest rate, commodity and credit derivatives. They include all trading and balance sheet risk management contracts. The derivative instruments become favorable (assets) or unfavorable (liabilities) as a result of fluctuations in market rates relative to the terms of the derivative.

	As of					
	Mar 16		Sep 15		Mar 15	
Fair Values	Assets $M	Liabilities $M	Assets $M	Liabilities $M	Assets $M	Liabilities $M
Foreign exchange contracts						
Spot and forward contracts	**17,145**	**(16,911)**	15,208	(13,964)	11,972	(10,515)
Swap agreements	**18,000**	**(23,473)**	20,967	(20,270)	15,369	(19,220)
Options purchased	**1,388**	**-**	2,441	-	2,539	-
Options sold	**-**	**(1,087)**	-	(2,081)	-	(2,333)
	36,533	**(41,471)**	38,616	(36,315)	29,880	(32,068)
Commodity contracts						
Derivative contracts	**2,424**	**(1,950)**	2,750	(2,207)	2,232	(1,668)
Interest rate contracts						
Forward rate agreements	**35**	**(46)**	37	(51)	10	(21)
Swap agreements	**48,490**	**(46,127)**	42,967	(40,747)	39,878	(37,062)
Futures contracts	**31**	**(213)**	28	(96)	49	(255)
Options purchased	**907**	**-**	944	-	1,140	-
Options sold	**-**	**(1,557)**	-	(1,573)	-	(1,722)
	49,463	**(47,943)**	43,976	(42,467)	41,077	(39,060)
Credit default swaps						
Structured credit derivatives purchased	**49**	**-**	52	-	59	-
Other credit derivatives purchased	**256**	**(268)**	205	(194)	277	(323)
Total credit derivatives purchased	**305**	**(268)**	257	(194)	336	(323)
Structured credit derivatives sold	**-**	**(62)**	-	(67)	-	(77)
Other credit derivatives sold	**22**	**(12)**	26	(20)	55	(14)
Total credit derivatives sold	**22**	**(74)**	26	(87)	55	(91)
Total	**88,747**	**(91,706)**	85,625	(81,270)	73,580	(73,210)

Refer to "Section 4: Directors, Senior Management/Executives and Employees" on pages 64 to 69 of ANZ's 2015 Annual U.S. Disclosure Document dated November 9, 2015 (the "2015 Annual U.S. Disclosure Document") for a comprehensive discussion of the Group's Directors, Senior Management and Executives, and Corporate Governance.

During the period since the 2015 Annual U.S. Disclosure Document to the date of this U.S. Disclosure Document, there were no material changes to these matters with the exception of the following:

Changes to Senior Management and Executives

On January 1, 2016, Mr. Shayne Elliott succeeded Mr. Michael Smith as Chief Executive Officer and as a Director. Mr. Elliott was previously ANZ's Chief Financial Officer responsible for all aspects of Finance as well as Group Strategy, Legal, Treasury, Investor Relations and Mergers and Acquisitions.

To coincide with Mr. Elliott's commencement as Chief Executive Officer on January 1, 2016, Deputy Chief Executive Officer Mr. Graham Hodges was appointed Acting Chief Financial Officer. In addition to his existing responsibilities as Deputy Chief Executive Officer Mr. Hodges is responsible for the Group's Asian minority investments in Indonesia, Malaysia, China and the Philippines.

During the March 2016 half, the following changes to ANZ's senior leadership team also took effect, to improve focus on its retail, commercial and institutional customers:

Institutional

- Mr. Mark Whelan was appointed Group Executive, Institutional with responsibility for the Institutional division.
- Mr. Andrew Géczy stepped down from his role as CEO International and Institutional Banking.
- Mr. Farhan Faruqui was appointed Group Executive, International. Reporting to Mr. Whelan and based in Hong Kong, Mr. Faruqui has responsibility for ANZ's Institutional business in Asia, Europe and America. His appointment to ANZ's Executive Committee reflects the strategic importance of Asia to ANZ's business.
- Mr. Gilles Planté, Deputy Chief Executive Officer Institutional and International Banking, Managing Director Business Portfolio Management and a member of ANZ's former Management Board, stepped down from his role.

Retail and Commercial

- Mr. Fred Ohlsson was appointed Group Executive, Australia with responsibility for Retail and Commercial Banking in Australia. Mr. Ohlsson came to the role from ANZ New Zealand where he was Managing Director, Retail and Business Banking since 2013. He has worked in a range of senior roles at ANZ since 2001, including General Manager Commercial Products (Australia) and General Manager Products and Marketing for Esanda.
- Mr. David Hisco remains Group Executive and Chief Executive Officer, New Zealand Limited and is now responsible for the Pacific (excluding Papua New Guinea), given its strong New Zealand linkages. He is also now responsible for ANZ's retail business in Asia.
- Ms. Maile Carnegie was appointed to the new role of Group Executive Digital Banking reporting to Mr. Elliott. Ms. Carnegie will be based in Sydney and will commence with ANZ in July 2016. At ANZ, Ms. Carnegie will lead the strategic development and delivery of an enhanced digital experience for the Group's retail, commercial and institutional customers, as well as for its staff. This will include digital projects, innovation and strategic relationships with the financial technology sector. Reflecting digital's importance to ANZ's performance, Ms. Carnegie will also have shared responsibility for the financial results of the Australia and New Zealand divisions. In addition, Ms. Carnegie will also have responsibility for marketing including ANZ's brand, advertising and sponsorship. Ms. Carnegie will join ANZ from Google where she has been Managing Director Australia and New Zealand since 2013. Previously she was Managing Director for Procter & Gamble in Australia and New Zealand having worked at Procter & Gamble for over 20 years including as General Manager for Asia Strategy, Marketing and Design based in Singapore and in senior marketing and commercial roles in the United States.
- Ms. Joyce Phillips stepped down from her role as Group Executive, Wealth, Marketing and Innovation as part of ANZ's simplified approach to wealth management.

Other members of ANZ's Executive Committee continuing to report to Mr. Elliott are:

- Ms. Susie Babani – Chief Human Resources Officer
- Mr. Alistair Currie – Chief Operating Officer
- Mr. Nigel Williams – Chief Risk Officer

Industrial Relations Developments

In Australia, the minimum 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. All employees are also subject to individual common law contracts of employment.

During the March 2016 half, ANZ put into place a new EBA that applies to approximately 92% of its Australian employees. The new EBA commenced operation on December 29, 2015, following successful conclusion of negotiations with the Finance Sector Union and a staff ballot in which a majority of 89% voted to endorse it. The new EBA contains the minimum employment terms and conditions for Australian based ANZ employees (junior management and non-management employees).

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 and Shareholder Information sections of our 2015 Annual Report (extracts attached as part of Annex A to the 2015 Annual U.S. Disclosure Document) for further information (as at the relevant dates referred to therein) regarding major shareholders as shown on our share register (including 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 or at least 100 shareholders entitled to vote 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 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 19 of the Condensed Consolidated Financial Statements and Note 42 of the 2015 Financial Statements included in ANZ's 2015 Annual Report (extracts attached as Annex A to the 2015 Annual U.S. Disclosure Document).

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 +61-3-8654-8576 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 20 of the Condensed Consolidated Financial Statements (attached as the Annex to this U.S. Disclosure Document).

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 43 of the 2015 ANZ Annual Financial Statements for a description of contingent liabilities and contingent assets as of September 30, 2015 (extracts attached as Annex A to the 2015 Annual U.S. Disclosure Document).

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. 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 (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 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 favor in respect of all fees subject to appeal (in relation to both the penalty and statutory claims).

  IMF Bentham Limited appealed the Full Federal Court's decision to the High Court of Australia in respect of credit card late payment fees. It did not appeal the findings in relation to the other fees.

  The High Court appeal on late payment fees was heard on February 4 and 5, 2016. We are waiting for the Court's decision.

  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.

– **ASIC proceedings in relation to Bank Bill Swap Rate (BBSW)**

  On March 4, 2016, ASIC initiated proceedings against ANZ seeking declarations and civil penalties for alleged market manipulation, unconscionable conduct, and alleged breaches by ANZ of certain statutory obligations as a financial services licensee. ASIC has subsequently initiated similar proceedings against another Australian bank. 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.

– **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.

– **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

There have been no subsequent events for ANZ from March 31, 2016 to 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 interim dividend. For the 2016 interim 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 May 13, 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 non-residents including certain dividend payments (to the extent such dividends are unfranked) and certain interest payments to non-residents.

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.

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

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.

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

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: Condensed Consolidated Financial Statements for the half year ended March 31, 2016

Australia and New Zealand Banking Group Limited

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Half year ended
March 31, 2016

CONTENTS	*PAGE*

The Directors present their report on the Condensed Consolidated Financial Statements for the half year ended 31 March 2016.

Directors

The names of the Directors of the Company who held office during and since the end of the half year are:

Mr DM Gonski, AC	Chairman
Mr SC Elliott	Director and Chief Executive Officer, since 1 January 2016
Ms IR Atlas	Director
Ms PJ Dwyer	Director
Mr Lee Hsien Yang	Director
Mr GR Liebelt	Director
Mr IJ Macfarlane, AC	Director
Mr JT Macfarlane	Director
Mr MRP Smith, OBE	Director, retired on 31 December 2015

Result

The consolidated profit attributable to shareholders of the Company was $2,738 million. Further details are contained in Group Results on pages 21 to 47 which forms part of this report, and in the Condensed Consolidated Financial Statements.

Review of operations

A review of the operations of the Group during the half year and the results of those operations are contained in the Group Results on pages 21 to 47 which forms part of this report.

Lead auditor's independence declaration

The lead auditor's independence declaration given under section 307C of the Corporations Act 2001 (as amended) is set out on page 128 which forms part of this report.

Rounding of amounts

The amounts contained in these Condensed Consolidated Financial Statements have been rounded to the nearest million dollars, except where otherwise indicated, as permitted by ASIC Class Order 98/100.

Significant events since balance date

There have been no significant events from 31 March 2016 to the date of this report.

Signed in accordance with a resolution of the Directors.

David M Gonski, AC
Chairman

Shayne C Elliott
Director

2 May 2016

Australia and New Zealand Banking Group Limited

		Half Year			Movement	
	Note	Mar 16 $M	Sep 15 $M	Mar 15 $M	Mar 16 v. Sep 15	Mar 16 v. Mar 15
Interest income		**15,090**	15,132	15,394	0%	-2%
Interest expense		**(7,522)**	(7,654)	(8,256)	-2%	-9%
Net interest income	2	**7,568**	7,478	7,138	1%	6%
Other operating income[1]	2	**1,539**	2,266	1,768	-32%	-13%
Net funds management and insurance income[1]	2	**857**	795	1,020	8%	-16%
Share of associates' profit	2,18	**301**	311	314	-3%	-4%
Operating income		**10,265**	10,850	10,240	-5%	0%
Operating expenses[1]	3	**(5,479)**	(4,775)	(4,603)	15%	19%
Profit before credit impairment and income tax		**4,786**	6,075	5,637	-21%	-15%
Credit impairment charge	10	**(904)**	(685)	(494)	32%	83%
Profit before income tax		**3,882**	5,390	5,143	-28%	-25%
Income tax expense	4	**(1,140)**	(1,397)	(1,629)	-18%	-30%
Profit for the period		**2,742**	3,993	3,514	-31%	-22%
Comprising:						
Profit attributable to non-controlling interests		**4**	6	8	-33%	-50%
Profit attributable to shareholders of the Company		**2,738**	3,987	3,506	-31%	-22%
Earnings per ordinary share (cents)						
Basic	6	**94.8**	143.4	128.0	-34%	-26%
Diluted	6	**89.7**	134.9	124.6	-34%	-28%
Dividend per ordinary share (cents)	5	**80**	95	86	-16%	-7%

1. *Comparatives have changed; refer Note 2 Income and Note 3 Operating expenses for further details.*

The notes appearing on pages 104 to 126 form an integral part of the Condensed Consolidated Financial Statements.

Australia and New Zealand Banking Group Limited

	Half Year			Movement	
	Mar 16 $M	Sep 15 $M	Mar 15 $M	Mar 16 v. Sep 15	Mar 16 v. Mar 15
Profit for the period	**2,742**	3,993	3,514	-31%	-22%
Other comprehensive income					
Items that will not be reclassified subsequently to profit or loss					
Remeasurement gain/(loss) on defined benefit plans	**(4)**	(4)	(2)	0%	100%
Fair value gain/(loss) attributable to changes in own credit risk of financial liabilities designated at fair value	**11**	39	13	-72%	-15%
Income tax on items that will not be reclassified subsequently to profit or loss					
Remeasurement gain/(loss) on defined benefit plans	**1**	1	3	0%	-67%
Fair value gain/(loss) attributable to changes in own credit risk of financial liabilities designated at fair value	**(3)**	(11)	(4)	-73%	-25%
Items that may be reclassified subsequently to profit or loss					
Foreign currency translation reserve					
Exchange differences taken to equity[1]	**(1,015)**	(445)	2,181	large	large
Exchange differences transferred to income statement	**(126)**	(4)	-	large	n/a
Available-for-sale revaluation reserve					
Valuation gain/(loss) taken to equity	**(11)**	(157)	117	-93%	large
Transferred to income statement	**(31)**	(21)	(50)	48%	-38%
Cash flow hedge reserve					
Valuation gain/(loss) taken to equity	**(60)**	(77)	237	-22%	large
Transferred to income statement	**14**	(3)	(12)	large	large
Income tax on items that may be reclassified subsequently to profit or loss					
Available-for-sale assets revaluation reserve	**16**	53	(17)	-70%	large
Cash flow hedge reserve	**16**	24	(69)	-33%	large
Share of associates' other comprehensive income[2]	**(6)**	9	50	large	large
Other comprehensive income net of tax	**(1,198)**	(596)	2,447	large	large
Total comprehensive income for the period	**1,544**	3,397	5,961	-55%	-74%
Comprising total comprehensive income attributable to:					
Non-controlling interests	**(4)**	12	18	large	large
Shareholders of the Company	**1,548**	3,385	5,943	-54%	-74%

1. *Includes foreign currency translation differences attributable to non-controlling interests of $8 million loss (Sep 15 half: $6 million gain; Mar 15 half: $10 million gain).*
2. *Share of associates other comprehensive income includes the following items that may be reclassified subsequently to profit and loss: an Available-for-sale revaluation reserve loss of $11 million (Sep 15 half: $6 million gain; Mar 15 half: $47 million gain) and a Foreign currency translation reserve gain of $5 million (Sep 15 half: $5 million gain; Mar 15 half: $3 million gain), as well as items that will not be reclassified subsequently to profit or loss comprised of the remeasurement gain or loss on defined benefit plans of nil (Sep 15 half: $2 million loss; Mar 15 half: nil).*

The notes appearing on pages 104 to 126 form an integral part of the Condensed Consolidated Financial Statements.

Australia and New Zealand Banking Group Limited

		As at			Movement	
Assets	**Note**	**Mar 16 $M**	**Sep 15 $M**	**Mar 15 $M**	**Mar 16 v. Sep 15**	**Mar 16 v. Mar 15**
Cash		**49,144**	53,903	46,004	-9%	7%
Settlement balances owed to ANZ		**26,048**	18,596	22,570	40%	15%
Collateral paid		**12,783**	9,967	10,707	28%	19%
Trading securities		**50,073**	49,000	51,386	2%	-3%
Derivative financial instruments		**88,747**	85,625	73,580	4%	21%
Available-for-sale assets		**50,377**	43,667	38,336	15%	31%
Net loans and advances	9	**561,768**	562,173	558,203	0%	1%
Regulatory deposits		**2,135**	1,773	1,804	20%	18%
Investment in associates		**4,213**	5,440	5,315	-23%	-21%
Current tax assets		**289**	90	38	large	large
Deferred tax assets		**578**	402	162	44%	large
Goodwill and other intangible assets		**7,585**	8,312	8,384	-9%	-10%
Investments backing policy liabilities		**34,541**	34,820	36,495	-1%	-5%
Premises and equipment		**2,188**	2,221	2,203	-1%	-1%
Other assets		**4,809**	5,846	4,900	-18%	-2%
Esanda dealer finance assets held for sale	9	**-**	8,065	-	-100%	n/a
Total assets		**895,278**	889,900	860,087	1%	4%
Liabilities						
Settlement balances owed by ANZ		**13,626**	11,250	7,759	21%	76%
Collateral received		**6,615**	7,829	4,844	-16%	37%
Deposits and other borrowings	11	**578,071**	570,794	567,215	1%	2%
Derivative financial instruments		**91,706**	81,270	73,210	13%	25%
Current tax liabilities		**129**	267	123	-52%	5%
Deferred tax liabilities		**286**	249	322	15%	-11%
Policy liabilities		**35,159**	35,401	36,820	-1%	-5%
External unit holder liabilities (life insurance funds)		**3,265**	3,291	3,489	-1%	-6%
Provisions		**1,202**	1,074	1,128	12%	7%
Payables and other liabilities		**9,251**	10,366	10,999	-11%	-16%
Debt issuances		**81,947**	93,747	85,664	-13%	-4%
Subordinated debt	12	**17,557**	17,009	16,463	3%	7%
Total liabilities		**838,814**	832,547	808,036	1%	4%
Net assets		**56,464**	57,353	52,051	-2%	8%
Shareholders' equity						
Ordinary share capital		**28,625**	28,367	24,152	1%	19%
Reserves		**377**	1,571	2,188	-76%	-83%
Retained earnings		**27,361**	27,309	25,616	0%	7%
Share capital and reserves attributable to shareholders of the Company	16	**56,363**	57,247	51,956	-2%	8%
Non-controlling interests		**101**	106	95	-5%	6%
Total shareholders' equity	16	**56,464**	57,353	52,051	-2%	8%

The notes appearing on pages 104 to 126 form an integral part of the Condensed Consolidated Financial Statements.

Australia and New Zealand Banking Group Limited

	Note	Half Year Inflows (Outflows) Mar 16 $M	Inflows (Outflows) Sep 15 $M	Inflows (Outflows) Mar 15 $M
Cash flows from operating activities				
Interest received		**14,977**	15,269	15,398
Interest paid		**(7,657)**	(7,145)	(8,313)
Dividends received		**12**	202	29
Other operating income received		**1,848**	6,862	11,374
Other operating expenses paid		**(4,373)**	(4,322)	(4,270)
Income taxes paid		**(1,555)**	(1,433)	(1,649)
Net cash flows from funds management and insurance business				
Premiums, other income and life investment deposits received		**3,396**	4,023	3,622
Investment income and policy deposits received		**107**	95	191
Claims and policy liability payments		**(2,800)**	(2,949)	(3,006)
Commission expense paid		**(281)**	(308)	(303)
Cash flows from operating activities before changes in operating assets and liabilities		**3,674**	10,294	13,073
Changes in operating assets and liabilities arising from cash flow movements				
(Increase)/decrease in operating assets				
Collateral paid		**(3,462)**	920	(4,505)
Trading securities		**(2,160)**	2,460	410
Net loans and advances		**(6,440)**	(15,554)	(16,726)
Net cash flows from investments backing policy liabilities				
Purchase of insurance assets		**(7,255)**	(3,484)	(3,581)
Proceeds from sale/maturity of insurance assets		**7,660**	3,501	3,738
Increase/(decrease) in operating liabilities				
Deposits and other borrowings		**20,283**	(533)	30,583
Settlement balances owed by ANZ		**2,517**	3,476	(2,695)
Collateral received		**(744)**	2,437	(1,364)
Payables and other liabilities		**(2,638)**	(1,406)	432
Change in operating assets and liabilities arising from cash flow movements		**7,761**	(8,183)	6,292
Net cash provided by operating activities		**11,435**	2,111	19,365
Cash flows from investing activities				
Available-for-sale assets				
Purchases		**(21,486)**	(9,033)	(15,203)
Proceeds from sale or maturity		**13,457**	5,384	10,321
Controlled entities and associates				
Proceeds on sale of businesses		**-**	-	4
Premises and equipment				
Purchases		**(186)**	(202)	(119)
Proceeds from sale		**37**	-	-
Esanda Dealer Finance divestment		**6,682**	-	-
Other assets		**305**	(781)	(147)
Net cash (used in) investing activities		**(1,191)**	(4,632)	(5,144)
Cash flows from financing activities				
Debt issuances				
Issue proceeds		**10,611**	8,040	8,597
Redemptions		**(16,816)**	(6,834)	(9,132)
Subordinated debt				
Issue proceeds		**943**	186	2,497
Dividends paid		**(2,485)**	(1,453)	(2,310)
Share capital issues		**-**	3,207	-
Preference shares bought back		**-**	-	(755)
Net cash (used in) / provided by financing activities		**(7,747)**	3,146	(1,103)
Net increase in cash and cash equivalents		**2,497**	625	13,118
Cash and cash equivalents at beginning of period		**69,278**	65,462	48,229
Effects of exchange rate changes on cash and cash equivalents		**(3,064)**	3,191	4,115
Cash and cash equivalents at end of period	8	**68,711**	69,278	65,462

The notes appearing on pages 104 to 126 form an integral part of the Condensed Consolidated Financial Statements.

Australia and New Zealand Banking Group Limited

	Ordinary share capital	Preference share capital	Reserves[1]	Retained earnings	Share capital and reserves attributable to shareholders of the Company	Non-controlling interests	Total Shareholders' equity
	$M	$M	$M	$M	$M	$M	$M
As at 1 October 2014	24,031	871	(239)	24,544	**49,207**	77	**49,284**
Profit or loss	-	-	-	3,506	**3,506**	8	**3,514**
Other comprehensive income for the period	-	-	2,427	10	**2,437**	10	**2,447**
Total comprehensive income for the period	-	-	2,427	3,516	**5,943**	18	**5,961**
Transactions with equity holders in their capacity as equity holders:							
Dividends paid	-	-	-	(2,579)	**(2,579)**	-	**(2,579)**
Dividend income on treasury shares held within the Group's life insurance statutory funds	-	-	-	12	**12**	-	**12**
Dividend reinvestment plan	257	-	-	-	**257**	-	**257**
Preference shares bought back	-	(871)	-	-	**(871)**	-	**(871)**
Other equity movements:							
Share based payments	-	-	7	-	**7**	-	**7**
Treasury shares Wealth adjustment	(39)	-	-	-	**(39)**	-	**(39)**
Group employee share acquisition scheme	(97)	-	-	-	**(97)**	-	**(97)**
Transfer of options/rights lapsed	-	-	(7)	7	**-**	-	**-**
Foreign exchange gains on preference share capital bought back	-	-	-	116	**116**	-	**116**
As at 31 March 2015	24,152	-	2,188	25,616	**51,956**	95	**52,051**
Profit or loss	-	-	-	3,987	**3,987**	6	**3,993**
Other comprehensive income for the period	-	-	(625)	23	**(602)**	6	**(596)**
Total comprehensive income for the period	-	-	(625)	4,010	**3,385**	12	**3,397**
Transactions with equity holders in their capacity as equity holders:							
Dividends paid	-	-	-	(2,328)	**(2,328)**	(1)	**(2,329)**
Dividend income on treasury shares held within the Group's life insurance statutory funds	-	-	-	10	**10**	-	**10**
Dividend reinvestment plan	865	-	-	-	**865**	-	**865**
Other equity movements:							
Share based payments	-	-	9	-	**9**	-	**9**
Share Placement and Purchase Plan	3,206	-	-	-	**3,206**	-	**3,206**
Group share option scheme	2	-	-	-	**2**	-	**2**
Treasury shares Wealth adjustment	44	-	-	-	**44**	-	**44**
Group employee share acquisition scheme	98	-	-	-	**98**	-	**98**
Transfer of options/rights lapsed	-	-	(1)	1	**-**	-	**-**
As at 30 September 2015	28,367	-	1,571	27,309	**57,247**	106	**57,353**
Profit or loss	-	-	-	2,738	**2,738**	4	**2,742**
Other comprehensive income for the period	-	-	(1,195)	5	**(1,190)**	(8)	**(1,198)**
Total comprehensive income for the period	-	-	(1,195)	2,743	**1,548**	(4)	**1,544**
Transactions with equity holders in their capacity as equity holders:							
Dividends paid	-	-	-	(2,711)	**(2,711)**	(1)	**(2,712)**
Dividend income on treasury shares held within the Group's life insurance statutory funds	-	-	-	12	**12**	-	**12**
Dividend reinvestment plan	215	-	-	-	**215**	-	**215**
Other equity movements:					**-**		**-**
Share based payments	-	-	9	-	**9**	-	**9**
Treasury shares Wealth adjustment	(13)	-	-	-	**(13)**	-	**(13)**
Group employee share acquisition scheme	56	-	-	-	**56**	-	**56**
Transfer of options/rights lapsed	-	-	(8)	8	**-**	-	**-**
As at 31 March 2016	28,625	-	377	27,361	**56,363**	101	**56,464**

1. *Further information on reserves is disclosed in Note 16.*

The notes appearing on pages 104 to 126 form an integral part of the Condensed Consolidated Financial Statements.

1. Basis of preparation

These Condensed Consolidated Financial Statements:

- have been prepared in accordance with the recognition and measurement requirements of Australian Accounting Standards ("AASs");
- should be read in conjunction with ANZ's Annual Financial Statements for the year ended 30 September 2015 and any public announcements made by the Parent Entity and its controlled entities (the Group) for the half year ended 31 March 2016 in accordance with the continuous disclosure obligations under the Corporations Act 2001 and the ASX Listing Rules;
- do not include all notes of the type normally included in ANZ's Annual Financial Statements;
- are presented in Australian dollars unless otherwise stated; and
- were approved by the Board of Directors on 2 May 2016.

i) Statement of Compliance

These Condensed Consolidated Financial Statements have been prepared in accordance with the Corporations Act 2001 and AASB 134 which ensures compliance with IAS 34 Interim Financial Reporting.

ii) Accounting policies

These Condensed Consolidated Financial Statements have been prepared on the basis of accounting policies and using methods of computation consistent with those applied in the 2015 ANZ Annual Financial Statements.

iii) Software

In the current period the Group made a number of changes to the way in which it applies 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 direct expensing of more project related costs. The impact of the change was an accelerated amortisation charge of $556 million relating to previously capitalised software balances (of this, $88 million would otherwise have been amortised during the March 2016 half) and higher operating expenses during the period of $161 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.

iv) 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 as well as, in the case of fair value hedging, the fair value adjustment on the underlying hedged exposure;
- available-for-sale financial assets;
- financial instruments held for trading; and
- assets and liabilities designated at fair value through profit and loss.

In accordance with AASB 1038 *Life Insurance Contracts*, life insurance liabilities are measured using the Margin on Services model.

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

v) Use of estimates, assumptions and judgments

The preparation of these Condensed Consolidated 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 estimates and judgements, which include complex or subjective decisions or assessments are covered in Note 2 of the 2015 Annual Financial Statements. Such estimates and judgements are reviewed on an ongoing basis.

At 31 March 2016, 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 value in use calculations are outlined below:

	As at 31 Mar 16	
	Ambank	**PT Panin**
Pre-tax discount rate	10.1%	13.7%
Terminal growth rate	5.0%	5.7%
Expected NPAT growth (compound annual growth rate – 5 years)	3.4%	5.0%
Core equity tier 1 rate	10% to 12.2%	11.3%

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 the half year. The associate investment in Ambank forms part of the TSO and Group Centre operating segment.

vi) Rounding of amounts

The amounts contained in these Condensed Consolidated Financial Statements have been rounded to the nearest million dollars, except where otherwise indicated, as permitted by Australian Securities and Investments Commission Class Order 98/100.

vii) Comparatives

Certain amounts in the comparative information have been reclassified to conform to current period financial statement presentation.

vii) New accounting standards not yet effective

The following accounting standards relevant to the Group have been issued but are not yet effective and have not been applied in these Condensed Consolidated Financial Statements:

AASB 9 *Financial Instruments* ('AASB 9')

The Australian Accounting Standards Board (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 application 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 financial year ended 30 September 2014.

AASB 15 *Revenue from Contracts with Customers* ('AASB 15')

The AASB issued the final version of 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 application 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 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required 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. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

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. Income

	Half Year			Movement	
	Mar 16 $M	**Sep 15 $M**	**Mar 15 $M**	**Mar 16 v. Sep 15**	**Mar 16 v. Mar 15**
Interest income	**15,090**	15,132	15,394	0%	-2%
Interest expense	**(7,522)**	(7,654)	(8,256)	-2%	-9%
Net interest income	**7,568**	7,478	7,138	1%	6%
i) Fee and commission income					
Lending fees[1]	**391**	411	422	-5%	-7%
Non-lending fees and commissions[2]	**1,451**	1,464	1,421	-1%	2%
Total fee and commission income[2]	**1,842**	1,875	1,843	-2%	0%
Fee and commission expense[2,3]	**(574)**	(547)	(540)	5%	6%
Net fee and commission income[2,3]	**1,268**	1,328	1,303	-5%	-3%
ii) Net funds management and insurance income					
Funds management income[2]	**446**	458	484	-3%	-8%
Investment income	**470**	(1,301)	3,149	large	-85%
Insurance premium income[2]	**780**	865	768	-10%	2%
Commission (expense)	**(192)**	(213)	(239)	-10%	-20%
Claims[2]	**(358)**	(387)	(356)	-7%	1%
Changes in policy liabilities[4]	**(323)**	1,266	(2,700)	large	-88%
Elimination of treasury share (gain)/loss	**34**	107	(86)	-68%	large
Total net funds management and insurance income[2]	**857**	795	1,020	8%	-16%
iii) Share of associates' profit	**301**	311	314	-3%	-4%
iv) Other income					
Net foreign exchange earnings[2]	**602**	747	258	-19%	large
Net gain/(loss) from trading securities and derivatives[2]	**(85)**	(220)	95	-61%	large
Credit risk on credit intermediation trades	**3**	3	5	0%	-40%
Movement on financial instruments measured at fair value through profit & loss[5]	**(155)**	209	32	large	large
Brokerage income	**25**	24	34	4%	-26%
Impairment of Ambank	**(260)**	-	-	n/a	n/a
Gain on cessation of equity accounting of investment in Bank of Tianjin (BoT)	**29**	-	-	n/a	n/a
Gain on Esanda Dealer Finance divestment	**66**	-	-	n/a	n/a
Other[2]	**46**	175	41	-74%	12%
Total other income[2,5]	**271**	938	465	-71%	-42%
Total other operating income[2,6]	**2,697**	3,372	3,102	-20%	-13%
Total income[2]	**17,787**	18,504	18,496	-4%	-4%

1. *Lending fees exclude fees treated as part of the effective yield calculation in interest income.*
2. *Certain insurance related income and card related fees have been reclassified within other operating income and operating expenses in the current period to better reflect the nature of the items. Comparatives have been restated. For the Sep 15 half, insurance and other wealth related income of $38 million was reclassified from other operating income to net funds management and insurance income (Mar 15: $41 million) and $9 million of card related fees were reclassified from other operating income to operating expenses (Mar 15: $10 million).*
3. *Includes interchange fees paid.*
4. *Includes policyholder tax gross up, which represents contribution tax (recovered at 15% on the super contributions made by members) debited to the policyholder account once a year in July when the statement is issued to the members at the end of the 30 June financial year.*
5. *Includes fair value movements (excluding realised and accrued interest) on derivatives not designated as accounting hedges entered into to manage interest rate and foreign exchange risk on funding instruments, ineffective portions of cash flow hedges, and fair value movements in financial assets and liabilities designated at fair value through profit and loss.*
6. *Total other operating income includes external dividend income of nil (Sep 15 half: $0.8 million; Mar 15 half: nil).*

3. Operating expenses

	Half Year			Movement	
	Mar 16 $M	**Sep 15 $M**	**Mar 15 $M**	**Mar 16 v. Sep 15**	**Mar 16 v. Mar 15**
Personnel					
Employee entitlements and taxes	**133**	170	155	-22%	-14%
Salaries and wages	**2,024**	1,867	1,852	8%	9%
Superannuation costs - defined benefit plans	**-**	4	3	-100%	-100%
Superannuation costs - defined contribution plans	**169**	169	155	0%	9%
Equity-settled share-based payments	**92**	108	108	-15%	-15%
Other	**383**	446	442	-14%	-13%
Total personnel expenses	**2,801**	2,764	2,715	1%	3%
Premises					
Depreciation and amortisation	**97**	95	97	2%	0%
Rent	**245**	241	238	2%	3%
Utilities and other outgoings	**84**	93	87	-10%	-3%
Other	**32**	38	33	-16%	-3%
Total premises expenses	**458**	467	455	-2%	1%
Technology					
Data communications	**68**	65	50	5%	36%
Depreciation and amortisation[1]	**870**	343	332	large	large
Licences and outsourced services	**275**	238	209	16%	32%
Rentals and repairs	**89**	80	78	11%	14%
Software impairment	**2**	13	4	-85%	-50%
Other	**20**	22	28	-9%	-29%
Total technology expenses	**1,324**	761	701	74%	89%
Restructuring	**138**	21	10	large	large
Other					
Advertising and public relations[2]	**132**	181	144	-27%	-8%
Audit and other fees	**10**	10	11	0%	-9%
Non-lending losses, frauds and forgeries	**62**	31	35	100%	77%
Professional fees	**186**	182	142	2%	31%
Travel and entertainment expenses	**86**	105	100	-18%	-14%
Amortisation and impairment of other intangible assets	**43**	44	44	-2%	-2%
Freight, stationery, postage and telephone	**135**	136	127	-1%	6%
Other[2]	**104**	73	119	42%	-13%
Total other expenses[2]	**758**	762	722	-1%	5%
Total operating expenses[2]	**5,479**	4,775	4,603	15%	19%

1. *The March 2016 half includes a $556 million charge for accelerated amortisation associated with the software capitalisation changes.*
2. *Certain cards related fees that are integral to the generation of income were reclassified from operating expenses to other operating income to better reflect the nature of the items and comparatives were restated. For the September 15 half $9 million of card related fees were reclassified from other operating income to operating expenses (Mar 15: $10 million).*

4. Income tax expense

Reconciliation of the prima facie income tax expense on pre-tax profit with the income tax expense charged in the Income Statement

	Half Year			Movement	
	Mar 16 $M	Sep 15 $M	Mar 15 $M	Mar 16 v. Sep 15	Mar 16 v. Mar 15
Profit before income tax	**3,882**	5,390	5,143	-28%	-25%
Prima facie income tax expense at 30%	**1,165**	1,617	1,543	-28%	-24%
Tax effect of permanent differences:					
Overseas tax rate differential	**(25)**	(36)	(59)	-31%	-58%
Rebateable and non-assessable dividends	**-**	(1)	(1)	-100%	-100%
Share of associates' profit	**(90)**	(93)	(94)	-3%	-4%
Offshore Banking Unit	**-**	(1)	-	-100%	n/a
Wealth - Policyholder income and contributions tax	**23**	(64)	194	large	-88%
Wealth - Tax consolidation benefit	**-**	(56)	-	-100%	n/a
Impairment of Ambank	**78**	-	-	n/a	n/a
Gain on cessation of equity accounting for BoT	**(9)**	-	-	n/a	n/a
Tax provisions no longer required	**(28)**	-	(17)	n/a	65%
Interest on Convertible Instruments	**35**	35	37	0%	-5%
Other	**1**	(4)	26	large	-96%
	1,150	1,397	1,629	-18%	-29%
Income tax under/(over) provided in previous years	**(10)**	-	-	n/a	n/a
Total income tax expense charged in the income statement	**1,140**	1,397	1,629	-18%	-30%
Australia	**799**	972	1,171	-18%	-32%
Overseas	**341**	425	458	-20%	-26%
	1,140	1,397	1,629	-18%	-30%
Effective Tax Rate - Group	**29.4%**	25.9%	31.7%		

5. Dividends

	Half Year			Movement	
Dividend per ordinary share (cents)	Mar 16	Sep 15	Mar 15	Mar 16 v. Sep 15	Mar 16 v. Mar 15
Interim (fully franked)	**80**	-	86	n/a	-7%
Final (fully franked)	**-**	95	-	n/a	n/a
Total	**80**	95	86	-16%	-7%
Ordinary share dividend ($M)[1]					
Interim dividend	**-**	2,379	-	n/a	n/a
Final dividend	**2,758**	-	2,619	n/a	5%
Bonus option plan adjustment	**(47)**	(51)	(41)	-8%	15%
Total[2]	**2,711**	2,328	2,578	16%	5%
Ordinary share dividend payout ratio (%)[3]	**85.2%**	69.2%	67.9%		

1. *Dividends paid to ordinary equity holders of the Company. Excludes dividends paid by subsidiaries of the Group to non-controlling equity holders of $1.4 million (Sep 15 half: $1 million; Mar 15 half: nil).*
2. *Dividends payable are not accrued and are recorded when paid.*
3. *Dividend payout ratio is calculated using proposed 2016 interim dividend of $2,334 million (not shown in the above table). The proposed 2016 interim dividend of $2,334 million is based on the forecast number of ordinary shares on issue at the dividend record date. Dividend payout ratios for the September 2015 half and March 2015 half are calculated using actual dividends paid of $2,758 million and $2,379 million respectively. Dividend payout ratio is calculated by adjusting profit attributable to shareholders of the Company by the amount of preference share dividends paid.*

Ordinary Shares

The Directors propose that an interim dividend of 80 cents be paid on each eligible fully paid ANZ ordinary share on 1 July 2016. The proposed 2016 interim dividend will be fully franked for Australian tax purposes, and New Zealand imputation credits of NZ 10 cents per ordinary share will also be attached.

ANZ has a Dividend Reinvestment Plan (DRP) and a Bonus Option Plan (BOP) that will operate in respect of the proposed 2016 interim dividend. For the 2016 interim 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 13 May 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. Election notices from shareholders wanting to commence, cease or vary their participation in the DRP or BOP for the 2016 interim dividend must be received by ANZ's Share Registrar by 5.00pm (Australian Eastern Standard Time) on 11 May 2016.

Subject to receiving effective contrary instructions from the shareholder, dividends payable to shareholders with a registered address in the United Kingdom (including the Channel Islands and the Isle of Man) or New Zealand will be converted to Pounds Sterling or New Zealand Dollars respectively at an exchange rate calculated on 13 May 2016.

Preference Shares

The Euro Trust Securities were bought back by ANZ for cash at face value and cancelled on 15 December 2014. During the period from 1 October 2014 to 15 December 2014, $1 million of preference share dividends were paid to security holders (€1.88 per preference share).

6. Earnings per share

	Half Year			Movement	
	Mar 16	**Sep 15**	**Mar 15**	**Mar 16 v. Sep 15**	**Mar 16 v. Mar 15**
Number of fully paid ordinary shares on issue (M)[1]	**2,917.6**	2,902.7	2,766.0	1%	5%
Basic					
Profit attributable to shareholders of the Company ($M)	**2,738**	3,987	3,506	-31%	-22%
Less Preference share dividends ($M)	**-**	-	(1)	n/a	-100%
Profit less preference share dividends ($M)	**2,738**	3,987	3,505	-31%	-22%
Weighted average number of ordinary shares (M)[2]	**2,889.3**	2,780.6	2,737.3	4%	6%
Basic earnings per share (cents)[3]	**94.8**	143.4	128.0	-34%	-26%
Diluted					
Profit less preference share dividends ($M)	**2,738**	3,987	3,505	-31%	-22%
Interest on ANZ Convertible Preference Shares ($M)[4]	**62**	61	67	2%	-7%
Interest on ANZ Capital Notes ($M)[5]	**73**	74	60	-1%	22%
Interest on ANZ NZ Capital Notes ($M)[6]	**12**	12	-	0%	n/a
Profit less preference share dividends and interest on ANZ Convertible Preference Shares, ANZ Capital Notes and ANZ NZ Capital Notes ($M)	**2,885**	4,134	3,632	-30%	-21%
Weighted average number of shares on issue (M)[2]	**2,889.3**	2,780.6	2,737.3	4%	6%
Weighted average number of convertible options (M)	**6.9**	6.3	6.2	10%	11%
Weighted average number of ANZ Convertible Preference Shares (M)[4]	**142.5**	123.4	91.2	15%	56%
Weighted average number of convertible ANZ Capital Notes (M)[5]	**159.3**	138.0	79.3	15%	large
Weighted average number of convertible ANZ NZ Capital Notes (M)[6]	**19.4**	17.0	0.1	14%	large
Adjusted weighted average number of shares - diluted (M)	**3,217.4**	3,065.3	2,914.1	5%	10%
Diluted earnings per share (cents)[3]	**89.7**	134.9	124.6	-34%	-28%

1. *Number of fully paid ordinary shares on issue includes Treasury shares of 23.0 million at 31 March 2016 (Sep 15: 23.0 million; Mar 15: 24.6 million), comprised of 11.0 million in ANZEST Pty Ltd (Sep 15: 11.4 million; Mar 15: 11.5 million) and 12.0 million held in Wealth (Sep 15: 11.6 million; Mar 15: 13.1 million). Number of fully paid ordinary shares also includes 80.8 million resulting from the Institutional share placement on 13 August 2015 and 27.3 million resulting from the Retail share purchase plan on 17 September 2015.*
2. *Weighted average number of ordinary shares excludes 10.7 million weighted average number of ordinary Treasury shares for the half year ended 31 March 2016 held in ANZEST Pty Ltd for the group employee share acquisition scheme (Sep 15: 11.4 million; Mar 15: 12.3 million) and excludes 12.1 million weighted average number of ordinary Treasury shares for the half year ended 31 March 2016 held in Wealth (Sep 15: 12.1 million; Mar 15: 12.7 million).*
3. *Basic earnings per share was reduced by 3.6 cents for the half year ended 31 March 2016 (Sep 15: 1.2 cents per share) and Diluted earnings per share was reduced by 3.1 cents (Sep 15: 1.0 cents per share) as a result of the Institutional share placement and the Retail share purchase plan which increased the weighted average number of ordinary shares by 108.0 million for the half year ended 31 March 2016 (Sep 15: 23.7 million).*
4. *There are two "tranches" of convertible preference shares. The first are convertible preference shares (CPS2) issued on 17 December 2009 that convert to ordinary shares on 15 December 2016 at the market price of ANZ ordinary shares less 1.0% (subject to certain conversion conditions). The second are convertible preference shares (CPS3) issued on 28 September 2011 that convert to ordinary shares on 1 September 2019 at the market price of ANZ ordinary shares less 1.0% (subject to certain conversion conditions).*
5. *There are three "tranches" of ANZ Capital Notes. The first are ANZ Capital Notes 1 (CN1) issued on 7 August 2013 which convert to ANZ ordinary shares on 1 September 2023 at the market price of ANZ ordinary shares less 1.0% (subject to certain conversion conditions). The second are ANZ Capital Notes 2 (CN2) issued on 31 March 2014 which convert to ANZ ordinary shares on 24 March 2024 at the market price of ANZ ordinary shares less 1.0% (subject to certain conversion conditions). The third are ANZ Capital Notes 3 (CN3) issued on 5 March 2015 which convert to ANZ ordinary shares on 24 March 2025 at the market price of ANZ ordinary shares less 1.0% (subject to certain conversion conditions).*
6. *ANZ Bank New Zealand Limited issued ANZ NZ Capital Notes on 31 March 2015 which convert to ANZ ordinary shares on 25 May 2022 at the market price of ANZ ordinary shares less 1.0% (subject to certain conversion conditions).*

7. Segment analysis

(i) Description of segments

During the March 2016 half, 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 and Technology, Services & Operations ("TSO") and Group Centre. 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 Centre. The residual IIB business has been renamed Institutional.

The Wealth changes designed to simplify the approach to the wealth management business will not take effect until 1 April 2016. For further information on the composition of the divisions refer to the Definitions on page 150.

Other than those described above, there have been no other significant structural change. 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 divisions reported below are consistent with internal reporting provided to the chief operating decision maker, being the Chief Executive Officer.

(ii) Operating segments

	Half Year			Movement	
Operating Income	**Mar 16 $M**	**Sep 15 $M**	**Mar 15 $M**	**Mar 16 v. Sep 15**	**Mar 16 v. Mar 15**
Australia	**4,632**	4,503	4,310	3%	7%
Institutional	**2,713**	2,792	2,970	-3%	-9%
New Zealand	**1,373**	1,340	1,345	2%	2%
Wealth	**880**	881	851	0%	3%
Asia Retail & Pacific	**559**	550	512	2%	9%
TSO and Group Centre[1]	**159**	276	207	-42%	-23%
Subtotal	**10,316**	10,342	10,195	0%	1%
Other[2]	**(51)**	508	45	large	large
Group total	**10,265**	10,850	10,240	-5%	0%

1. *Includes $260 million impairment of our investment in Ambank, $66 million gain arising from the Esanda Dealer Finance divestment, and the $29 million gain on cessation of equity accounting of BoT.*
2. *In evaluating the performance of the operating divisions, certain items are removed from the operating division results where they are not considered integral to the ongoing performance of the segment and are evaluated separately.*

	Half Year			Movement	
Profit	**Mar 16 $M**	**Sep 15 $M**	**Mar 15 $M**	**Mar 16 v. Sep 15**	**Mar 16 v. Mar 15**
Australia	**1,753**	1,706	1,650	3%	6%
Institutional	**632**	893	1,071	-29%	-41%
New Zealand	**578**	561	566	3%	2%
Wealth	**261**	346	263	-25%	-1%
Asia Retail & Pacific	**53**	45	99	18%	-46%
TSO and Group Centre	**(495)**	(11)	27	large	large
Subtotal	**2,782**	3,540	3,676	-21%	-24%
Other[1]	**(44)**	447	(170)	large	-74%
Group total	**2,738**	3,987	3,506	-31%	-22%

1. *In evaluating the performance of the operating divisions, certain items are removed from the operating division results where they are not considered integral to the ongoing performance of the division and are evaluated separately. These items are set out in part (iii) of this note (refer pages 91 to 96 for further analysis).*

(iii) Other items

The table below sets out the profit after tax impact of other items.

		Half Year			Movement	
Item gains/(losses)	**Related segment**	**Mar 16 $M**	**Sep 15 $M**	**Mar 15 $M**	**Mar 16 v. Sep 15**	**Mar 16 v. Mar 15**
Treasury shares adjustment	Wealth	**29**	95	(79)	-69%	large
Revaluation of policy liabilities	Wealth	**14**	6	67	large	-79%
Economic hedging	Institutional	**(128)**	165	14	large	large
Revenue and net investment hedges	TSO and Group Centre	**39**	179	(176)	-78%	large
Structured credit intermediation trades	Institutional	**2**	2	4	0%	-50%
Total profit after tax		**(44)**	447	(170)	large	-74%

8. Note to the Cash Flow Statement

(i) Reconciliation of profit after income tax to net cash provided by/(used in) operating activities

	Half Year		
	Inflows (Outflows)	Inflows (Outflows)	Inflows (Outflows)
	Mar 16 $M	Sep 15 $M	Mar 15 $M
Profit after income tax	**2,738**	3,987	3,506
Adjustments to reconcile to net cash provided by/(used in) operating activities			
Provision for credit impairment	**904**	685	494
Depreciation and amortisation	**1,010**	482	473
Profit on Esanda Dealer Finance divestment	**(66)**	-	-
(Profit)/loss on sale of premises and equipment	**(10)**	6	-
Net derivatives/foreign exchange adjustment	**257**	4,711	9,684
Equity-settled share-based payments expense[1]	**65**	107	(89)
Impairment of investment in AmBank	**260**	-	-
Other non-cash movements	**(297)**	(199)	(300)
Net (increase)/decrease in operating assets:			
Trading securities	**(2,160)**	2,460	410
Collateral paid	**(3,462)**	920	(4,505)
Net loans and advances	**(6,440)**	(15,554)	(16,726)
Investments backing policy liabilities	**(384)**	1,335	(3,122)
Interest receivable	**(113)**	137	(31)
Accrued income	**(128)**	-	(44)
Net tax assets	**(415)**	(36)	(20)
Net increase/(decrease) in operating liabilities:			
Deposits and other borrowings	**20,283**	(533)	30,583
Settlement balances owed by ANZ	**2,517**	3,476	(2,695)
Collateral received	**(744)**	2,437	(1,364)
Life insurance contract policy liabilities	**355**	(1,253)	2,760
Payables and other liabilities	**(2,638)**	(1,406)	432
Interest payable	**(122)**	507	(55)
Accrued expenses	**(109)**	(116)	(32)
Provisions including employee entitlements	**134**	(42)	6
Total adjustments	**8,697**	(1,876)	15,859
Net cash provided by/(used in) operating activities	**11,435**	2,111	19,365

1. *The equity settled share-based payments expense is net of on-market share purchases of $34 million (Sep 15 half: nil; Mar 15 half: $197 million) used to satisfy the obligation.*

(ii) Reconciliation of cash and cash equivalents

Cash and cash equivalents at the end of the period as shown in the Cash Flow Statement are reflected in the related items in the Balance Sheet as follows:

	As at		
	Mar 16 $M	Sep 15 $M	Mar 15 $M
Cash	**49,144**	53,903	46,004
Settlement balances owed to ANZ	**19,567**	15,375	19,458
	68,711	69,278	65,462

(iii) Non-cash financing and investing activities

	Half Year		
Share capital issues	Mar 16 $M	Sep 15 $M	Mar 15 $M
Dividends satisfied by share issue	**215**	865	257
Dividends satisfied by bonus share issue	**47**	51	41
	262	916	298

(iv) Esanda Dealer Finance divestment

During the period, the Group received $6,682 million proceeds on the Esanda Dealer Finance divestment. The net assets sold of $6,540 million primarily included net loans and advances in the retail portfolio. This does not include the Esanda Dealer Finance bailment facilities that are progressively being transferred. No cash was included in the net assets sold.

9. Net loans and advances

	As at			Movement	
	Mar 16 $M	Sep 15 $M	Mar 15 $M	Mar 16 v. Sep 15	Mar 16 v. Mar 15
Australia					
Overdrafts	**6,175**	6,284	5,998	-2%	3%
Credit card outstandings	**8,872**	8,950	9,134	-1%	-3%
Commercial bills outstanding	**10,439**	10,420	10,859	0%	-4%
Term loans - housing	**242,426**	230,879	217,756	5%	11%
Term loans - non-housing[1]	**118,456**	124,051	118,027	-5%	0%
Lease receivables	**1,255**	1,346	1,345	-7%	-7%
Hire purchase	**957**	1,111	1,293	-14%	-26%
Other	**255**	114	489	large	-48%
	388,835	383,155	364,901	1%	7%
Asia Pacific, Europe & America					
Overdrafts	**1,175**	1,616	1,643	-27%	-28%
Credit card outstandings	**1,446**	1,445	1,370	0%	6%
Commercial bills outstanding	**2,692**	3,781	3,286	-29%	-18%
Term loans - housing	**7,226**	7,846	7,430	-8%	-3%
Term loans - non-housing	**56,429**	69,669	74,041	-19%	-24%
Lease receivables	**254**	341	222	-26%	14%
Other	**341**	137	31	large	large
	69,563	84,835	88,023	-18%	-21%
New Zealand					
Overdrafts	**1,017**	1,055	1,147	-4%	-11%
Credit card outstandings	**1,517**	1,535	1,609	-1%	-6%
Term loans - housing	**63,649**	61,743	63,311	3%	1%
Term loans - non-housing	**39,003**	38,973	40,259	0%	-3%
Lease receivables	**206**	214	250	-4%	-18%
Hire purchase	**901**	860	862	5%	5%
Other	**-**	-	123	n/a	-100%
	106,293	104,380	107,561	2%	-1%
Sub-total	**564,691**	572,370	560,485	-1%	1%
Unearned income	**(596)**	(739)	(803)	-19%	-26%
Capitalised brokerage/mortgage origination fees[2]	**1,013**	1,253	1,127	-19%	-10%
Customers' liabilities for acceptances	**760**	1,371	1,422	-45%	-47%
Gross loans and advances (including assets classified as held for sale)	**565,868**	574,255	562,231	-1%	1%
Provision for credit impairment (refer Note 10)	**(4,100)**	(4,017)	(4,028)	2%	2%
Net loans and advances (including assets classified as held for sale)	**561,768**	570,238	558,203	-1%	1%
Assets classified as held for sale[1]	**-**	(8,065)	-	-100%	n/a
Net loans and advances	**561,768**	562,173	558,203	0%	1%

1. *Includes $766 million of Esanda Dealer Finance bailment facilities which are due to migrate to Macquarie Group Limited during the third quarter of 2016. These assets formed part of the $8,065 million classified as held for sale as at 30 September 2015.*
2. *Capitalised brokerage/mortgage origination fees are amortised over the expected life of the loan.*

10. Provision for credit impairment

	Half Year			Movement	
	Mar 16 $M	**Sep 15 $M**	**Mar 15 $M**	**Mar 16 v. Sep 15**	**Mar 16 v. Mar 15**
Individual provision					
Balance at start of period	**1,061**	1,114	1,176	-5%	-10%
New and increased provisions	**1,137**	951	806	20%	41%
Write-backs	**(160)**	(174)	(260)	-8%	-38%
Adjustment for exchange rate fluctuations	**(26)**	7	33	large	large
Discount unwind	**(26)**	(22)	(32)	18%	-19%
Bad debts written-off	**(656)**	(815)	(609)	-20%	8%
Esanda Dealer Finance divestment	**(92)**	-	-	n/a	n/a
Total individual provision	**1,238**	1,061	1,114	17%	11%
Collective provision					
Balance at start of period	**2,956**	2,914	2,757	1%	7%
Charge/(release) to income statement	**26**	40	55	-35%	-53%
Adjustment for exchange rate fluctuations	**(47)**	2	102	large	large
Esanda Dealer Finance divestment	**(73)**	-	-	n/a	n/a
Total collective provision[1]	**2,862**	2,956	2,914	-3%	-2%
Total provision for credit impairment	**4,100**	4,017	4,028	2%	2%

1. *The collective provision includes amounts for off-balance sheet credit exposures of $663 million at March 2016 (Sep 15: $677 million; Mar 2015: $646 million). The impact on the income statement for the half year ended 31 March 2016 was a $3 million charge (Sep 2015 half: $20 million charge; Mar 2015 half: $7 million charge).*

	Half Year			Movement	
Provision movement analysis	**Mar 16 $M**	**Sep 15 $M**	**Mar 15 $M**	**Mar 16 v. Sep 15**	**Mar 16 v. Mar 15**
New and increased individual provisions					
Australia	**738**	616	587	20%	26%
Asia Pacific, Europe & America	**299**	227	116	32%	large
New Zealand	**100**	108	103	-7%	-3%
	1,137	951	806	20%	41%
Write-backs	**(160)**	(174)	(260)	-8%	-38%
	977	777	546	26%	79%
Recoveries of amounts previously written-off	**(99)**	(132)	(107)	-25%	-7%
Individual credit impairment charge	**878**	645	439	36%	100%
Collective credit impairment charge	**26**	40	55	-35%	-53%
Credit impairment charge	**904**	685	494	32%	83%

	Half Year			Movement	
	Mar 16 $M	**Sep 15 $M**	**Mar 15 $M**	**Mar 16 v. Sep 15**	**Mar 16 v. Mar 15**
Individual provision balance					
Australia	**762**	698	698	9%	9%
Asia Pacific, Europe & America	**353**	216	219	63%	61%
New Zealand	**123**	147	197	-16%	-38%
Total individual provision	**1,238**	1,061	1,114	17%	11%
Collective provision balance					
Australia	**1,844**	1,895	1,882	-3%	-2%
Asia Pacific, Europe & America	**597**	636	582	-6%	3%
New Zealand	**421**	425	450	-1%	-6%
Total collective provision	**2,862**	2,956	2,914	-3%	-2%

11. Deposits and other borrowings

	As at			Movement	
	Mar 16 $M	Sep 15 $M	Mar 15 $M	Mar 16 v. Sep 15	Mar 16 v. Mar 15
Australia					
Certificates of deposit	**56,513**	57,390	55,857	-2%	1%
Term deposits	**68,427**	66,394	69,595	3%	-2%
On demand and short term deposits	**169,268**	164,009	150,832	3%	12%
Deposits not bearing interest	**8,116**	7,782	7,133	4%	14%
Deposits from banks	**24,532**	19,692	19,761	25%	24%
Commercial paper	**15,106**	15,511	11,446	-3%	32%
Securities sold under repurchase agreements	**653**	177	605	large	8%
	342,615	330,955	315,229	4%	9%
Asia Pacific, Europe & America					
Certificates of deposit	**6,888**	5,379	2,354	28%	large
Term deposits	**90,112**	96,487	101,087	-7%	-11%
On demand and short term deposits	**25,010**	27,663	23,966	-10%	4%
Deposits not bearing interest	**4,586**	5,126	4,684	-11%	-2%
Deposits from banks	**19,340**	19,249	27,716	0%	-30%
Commercial paper	**1,045**	2,965	5,125	-65%	-80%
Securities sold under repurchase agreements	**495**	601	565	-18%	-12%
	147,476	157,470	165,497	-6%	-11%
New Zealand					
Certificates of deposit	**1,675**	677	1,435	large	17%
Term deposits	**33,871**	31,795	34,211	7%	-1%
On demand and short term deposits	**39,276**	37,662	36,896	4%	6%
Deposits not bearing interest	**6,552**	6,103	6,148	7%	7%
Deposits from banks	**127**	43	43	large	large
Commercial paper	**4,913**	4,511	6,157	9%	-20%
Borrowing corporations' debt	**1,566**	1,578	1,599	-1%	-2%
	87,980	82,369	86,489	7%	2%
Total deposits and other borrowings	**578,071**	570,794	567,215	1%	2%

12. Subordinated debt

	Half Year			Movement	
	Mar 16 $M	Sep 15 $M	Mar 15 $M	Mar 16 v. Sep 15	Mar 16 v. Mar 15
Additional Tier 1 Capital[1]					
Convertible Preference Shares (ANZ CPS)					
ANZ CPS2[2]	**1,969**	1,969	1,969	0%	0%
ANZ CPS3[3]	**1,338**	1,336	1,335	0%	0%
ANZ Capital Notes (ANZ CN)					
ANZ CN1[4]	**1,113**	1,112	1,110	0%	0%
ANZ CN2[5]	**1,600**	1,598	1,597	0%	0%
ANZ CN3[6]	**961**	959	958	0%	0%
ANZ NZ Capital Notes[7]	**446**	449	484	-1%	-8%
Tier 2 Capital[8]					
Perpetual subordinated notes	**1,145**	1,188	1,211	-4%	-5%
Term subordinated notes	**8,985**	8,398	7,799	7%	15%
Total subordinated debt	**17,557**	17,009	16,463	3%	7%

1. *ANZ Capital Notes and the ANZ NZ Capital Notes are Basel 3 compliant. APRA has granted transitional capital treatment for ANZ CPS2 and CPS3 until their first conversion date.*
2. *On 17 December 2009, ANZ issued convertible preference shares (CPS2) which will convert into ANZ ordinary shares on 15 December 2016 at a 1% discount (subject to certain conditions being satisfied).*
3. *On 28 September 2011, ANZ issued convertible preference shares (CPS3) which will convert into ANZ ordinary shares on 1 September 2019 at a 1% discount (subject to certain conditions being satisfied). If ANZ's Common Equity Tier 1 capital ratio is equal to or less than 5.125% then the convertible preference shares will immediately convert into ANZ ordinary shares at a 1% discount subject to a maximum conversion number. Subject to certain conditions, on and from 1 September 2017 the convertible preference shares are redeemable or convertible into ANZ ordinary shares (on similar terms to the mandatory conversion) by ANZ.*
4. *On 7 August 2013, ANZ issued convertible notes (ANZ Capital Notes 1 or CN1) which will convert into ANZ ordinary shares on 1 September 2023 at a 1% discount (subject to certain conditions being satisfied). If ANZ's Common Equity Tier 1 capital ratio is equal to or less than 5.125%, or ANZ receives a notice of non-viability from APRA, then the notes will immediately convert into ANZ ordinary shares at a 1% discount subject to a maximum conversion number. Subject to certain conditions, on 1 September 2021 the notes are redeemable or convertible into ANZ ordinary shares (on similar terms to the mandatory conversion) by ANZ.*
5. *On 31 March 2014, ANZ issued convertible notes (ANZ Capital Notes 2 or CN2) which will convert into ANZ ordinary shares on 24 March 2024 at a 1% discount (subject to certain conditions being satisfied). If ANZ's Common Equity Tier 1 capital ratio is equal to or less than 5.125%, or ANZ receives a notice of non-viability from APRA, then the notes will immediately convert into ANZ ordinary shares at a 1% discount subject to a maximum conversion number. Subject to certain conditions, on 24 March 2022 the notes are redeemable or convertible into ANZ ordinary shares (on similar terms to the mandatory conversion) by ANZ.*
6. *On 5 March 2015, ANZ acting through its New Zealand Branch issued convertible notes (ANZ Capital Notes 3 or CN3) which will convert into ANZ ordinary shares on 24 March 2025 at a 1% discount (subject to certain conditions being satisfied). If ANZ's Common Equity Tier 1 capital ratio is equal to or less than 5.125%, or ANZ receives a notice of non-viability from APRA, then the notes will immediately convert into ANZ ordinary shares at a 1% discount subject to a maximum conversion number. Subject to certain conditions, on 24 March 2023 the notes are redeemable or convertible into ANZ ordinary shares (on similar terms to the mandatory conversion) by ANZ.*
7. *On 31 March 2015, ANZ Bank New Zealand Limited (ANZ Bank NZ) issued convertible notes (ANZ NZ Capital Notes) which will convert into ANZ ordinary shares on 25 May 2022 at a 1% discount (subject to certain conditions being satisfied). If ANZ or ANZ Bank NZ's Common Equity Tier 1 capital ratio is equal to or less than 5.125%, ANZ receives a notice of non-viability from APRA, ANZ Bank NZ receives a direction from RBNZ or a statutory manager is appointed to ANZ Bank NZ and makes a determination, then the notes will immediately convert into ANZ ordinary shares at a 1% discount subject to a maximum conversion number. Subject to certain conditions, on 25 May 2020 the notes are redeemable or convertible into ANZ ordinary shares (on similar terms to the mandatory conversion) by ANZ Bank NZ.*
8. *The convertible subordinated notes are Basel 3 compliant. APRA has granted transitional capital treatment for all other outstanding subordinated notes until their first call date or, in the case of the perpetual subordinated notes the earlier of the end of the transitional period (December 2021) and the first call date when a step-up event occurs. If ANZ receives a notice of non-viability from APRA, then the convertible subordinated notes will immediately convert into ANZ ordinary shares at a 1% discount subject to a maximum conversion number.*

13. Credit risk

Financial assets 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. 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.

	As at			Movement	
Maximum exposure to credit risk	**Mar 16 $M**	**Sep 15 $M[1]**	**Mar 15 $M**	**Mar 16 v. Sep 15**	**Mar 16 v. Mar 15**
Net loans and advances[2]	**561,768**	570,238	558,203	-1%	1%
Other financial assets[3]	**280,101**	265,167	246,131	6%	14%
On-balance sheet sub total	**841,869**	835,405	804,334	1%	5%
Undrawn facilities	**219,086**	230,794	213,303	-5%	3%
Contingent facilities	**38,750**	40,335	41,018	-4%	-6%
Off-balance sheet sub total	**257,836**	271,129	254,321	-5%	1%
Total exposure to credit risk	**1,099,705**	1,106,534	1,058,655	-1%	4%

1. *The September 2015 half include Esanda Dealer Finance assets divested to Macquarie Group Limited in the March 2016 half.*
2. *Includes individual and collective provisions for credit impairment held in respect of credit related commitments.*
3. *Certain other financial assets totalling $37.1 billion (Sep 15 half: $36.6 billion; Mar 15 half: $38.2 billion) have been excluded. These are comprised of bank notes and coins 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.*

Distribution of financial assets by credit quality

	Net loans and advances[1]			Other financial assets			Credit related commitments[1,2]		
	As at			As at			As at		
	Mar 16 $M	**Sep 15 $M[3]**	**Mar 15 $M**	**Mar 16 $M**	**Sep 15 $M**	**Mar 15 $M**	**Mar 16 $M**	**Sep 15 $M**	**Mar 15 $M**
Neither past due nor impaired	**545,953**	556,393	543,280	**280,082**	265,130	246,104	**257,099**	270,395	253,606
Past due but not impaired	**14,926**	12,958	14,071	**-**	-	-	**-**	-	-
Restructured	**226**	184	146	**-**	-	-	**-**	-	-
Net impaired	**1,355**	1,403	1,385	**19**	37	27	**45**	34	36
Total	**562,460**	570,938	558,882	**280,101**	265,167	246,131	**257,144**	270,429	253,642

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. *Comprises undrawn commitments and customer contingent liabilities net of collective and individual provisions.*
3. *The September 2015 half include Esanda Dealer Finance assets divested to Macquarie Group Limited in the March 2016 half.*

Credit quality of financial assets neither past due nor impaired

The credit quality of financial assets is managed by the Group using internal customer credit ratings (CCRs) based on their current probability of default. The Group's masterscales are mapped to external rating agency scales, to enable wider comparisons.

	Net loans and advances			Other financial assets			Credit related commitments[1]		
	As at			As at			As at		
	Mar 16 $M	**Sep 15 $M[2]**	**Mar 15 $M**	**Mar 16 $M**	**Sep 15 $M**	**Mar 15 $M**	**Mar 16 $M**	**Sep 15 $M**	**Mar 15 $M**
Strong credit profile[3]	**419,296**	423,572	412,909	**275,339**	260,041	241,170	**211,147**	220,815	211,380
Satisfactory risk[4]	**109,110**	112,822	112,049	**4,525**	4,729	4,574	**42,913**	46,681	39,773
Sub-standard but not past due or impaired[5]	**17,547**	19,999	18,322	**218**	360	360	**3,039**	2,899	2,453
Total	**545,953**	556,393	543,280	**280,082**	265,130	246,104	**257,099**	270,395	253,606

1. *Comprises undrawn commitments and customer contingent liabilities net of collective provisions.*
2. *The September 2015 half include Esanda Dealer Finance assets divested to Macquarie Group Limited in the March 2016 half.*
3. *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.*
4. *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.*
5. *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.*

13. Credit Risk, cont'd

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 supporting collateral is sufficient to cover amounts outstanding.

	As at			Movement	
Ageing analysis of net loans and advances that are past due but not impaired	**Mar 16 $M**	**Sep 15 $M**	**Mar 15 $M**	**Mar 16 v. Sep 15**	**Mar 16 v. Mar 15**
1-5 days	**2,926**	2,621	3,323	12%	-12%
6-29 days	**5,942**	5,235	5,271	14%	13%
30-59 days	**2,222**	1,674	2,069	33%	7%
60-89 days	**1,263**	1,050	1,160	20%	9%
>90 days	**2,573**	2,378	2,248	8%	14%
Total	**14,926**	12,958	14,071	15%	6%

Financial assets that are individually impaired

ANZ regularly reviews its portfolio and monitors adherence to contractual terms. When doubt arises as to the collectability of a credit facility, the financial instrument (or 'the facility') is classified and reported as individually impaired and an individual provision is allocated against it.

As described in the summary of significant accounting policies in the 2015 Annual Financial Statements, impairment provisions are created for financial instruments that are reported on the balance sheet at amortised cost. For instruments reported at fair value, impairment provisions are treated as part of overall change in fair value and directly reduce the reported carrying amounts.

	Impaired instruments			Individual provision balances		
	As at			As at		
	Mar 16 $M	**Sep 15 $M**	**Mar 15 $M**	**Mar 16 $M**	**Sep 15 $M**	**Mar 15 $M**
Derivative financial instruments[1]	**19**	37	27	**-**	-	-
Net loans and advances	**2,564**	2,441	2,466	**1,209**	1,038	1,081
Credit related commitments[2]	**74**	57	69	**29**	23	33
Total	**2,657**	2,535	2,562	**1,238**	1,061	1,114

1. *Derivative financial instruments are net of credit valuation adjustments.*
2. *Comprises undrawn commitments and customer contingent liabilities.*

	As at			Movement	
	Mar 16 $M	**Sep 15 $M**	**Mar 15 $M**	**Mar 16 v. Sep 15**	**Mar 16 v. Mar 15**
Less than $10 million	**1,597**	1,748	1,903	-9%	-16%
$10 million to $100 million	**970**	708	607	37%	60%
Greater than $100 million	**316**	263	198	20%	60%
Gross impaired assets[1]	**2,883**	2,719	2,708	6%	6%
Less: Individual provision for credit impairment	**(1,238)**	(1,061)	(1,114)	17%	11%
Net impaired assets	**1,645**	1,658	1,594	-1%	3%

1. *Includes $226 million of restructured items (Sep 15: $184 million; Mar 15: $146 million).*

14. Fair Value Measurement

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.

(i) Financial assets and financial liabilities measured at fair value in the balance sheet

(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 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).

(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 assets, and Investments backing policy liabilities, fair value measurements are derived by using modelled valuation 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 (ii)(a) below.

There have been no substantial changes in the valuation techniques applied to different classes of financial instruments during the current half-year period.

(c) Fair value measurements

The following table 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			
As at March 2016	**Level 1 $M**	**Level 2 $M**	**Level 3 $M**	**Total $M**
Financial assets				
Trading securities	46,988	3,080	5	**50,073**
Derivative financial instruments	519	88,143	85	**88,747**
Available-for-sale assets[1]	43,262	6,819	296	**50,377**
Net loans and advances (measured at fair value)	-	574	14	**588**
Investments backing policy liabilities[1]	17,550	16,473	518	**34,541**
Total	**108,319**	**115,089**	**918**	**224,326**
Financial liabilities				
Deposits and other borrowings (designated at fair value)	-	4,986	-	**4,986**
Derivative financial instruments	635	90,988	83	**91,706**
Policy liabilities[2]	-	34,854	-	**34,854**
External unit holder liabilities (life insurance funds)	-	3,265	-	**3,265**
Payables and other liabilities[3]	2,761	201	-	**2,962**
Debt issuances (designated at fair value)	-	2,823	-	**2,823**
Total	**3,396**	**137,117**	**83**	**140,596**
As at September 2015				
Financial assets				
Trading securities	45,227	3,769	4	49,000
Derivative financial instruments	388	85,155	82	85,625
Available-for-sale assets	37,086	6,347	234	43,667
Net loans and advances (measured at fair value)	-	683	16	699
Investments backing policy liabilities	17,983	16,298	539	34,820
Total	100,684	112,252	875	213,811
Financial liabilities				
Deposits and other borrowings (designated at fair value)	-	4,576	-	4,576
Derivative financial instruments	782	80,387	101	81,270
Policy liabilities[2]	-	35,029	-	35,029
External unit holder liabilities (life insurance funds)	-	3,291	-	3,291
Payables and other liabilities[3]	2,443	125	-	2,568
Debt issuances (designated at fair value)	-	3,165	-	3,165
Total	3,225	126,573	101	129,899
As at March 2015				
Financial assets				
Trading securities	48,091	3,295	-	51,386
Derivative financial instruments	432	73,027	121	73,580
Available-for-sale assets	31,502	6,514	320	38,336
Net loans and advances (designated at fair value)	-	695	-	695
Investments backing policy liabilities	19,141	16,615	739	36,495
Total	99,166	100,146	1,180	200,492
Financial liabilities				
Deposits and other borrowings (designated at fair value)	-	6,278	-	6,278
Derivative financial instruments	688	72,397	125	73,210
Policy liabilities[2]	-	36,449	-	36,449
External unit holder liabilities (life insurance funds)	-	3,489	-	3,489
Payables and other liabilities[3]	3,905	158	-	4,063
Debt issuances (designated at fair value)	-	3,501	-	3,501
Total	4,593	122,272	125	126,990

1. *During the period there were transfers from Level 1 to Level 2 of $599 million (Sep 2015: $190 million, Mar 2015: $114 million) following a reassessment of available pricing information. Of the total transfers of $599 million in the current period, $486 million relates to Available-for-sale assets and $113 million relates to Investments backing policy liabilities. During the period there were also transfers from Level 2 to Level 1 of $14 million (Sep 2015: $114 million, Mar 2015: $127 million) following increased trading activity to support the quoted prices relating to Investments backing policy liabilities. 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.*

(ii) 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
As at March 2016	**Trading securities $M**	**Derivatives $M**	**Available-for-sale $M**	**Net loans and advances $M**	**Investments backing policy liabilities $M**	**Derivatives $M**
Asset backed securities	-	-	1	-	192	-
Illiquid corporate bonds	5	-	260	14	6	-
Structured credit products	-	49	-	-	-	(62)
Alternative assets	-	-	35	-	320	-
Other derivatives	-	36	-	-	-	(21)
Total	**5**	**85**	**296**	**14**	**518**	**(83)**
As at September 2015						
Asset backed securities	-	-	2	-	188	-
Illiquid corporate bonds	4	-	198	16	-	-
Structured credit products	-	52	-	-	-	(67)
Alternative assets	-	-	34	-	351	-
Other derivatives	-	30	-	-	-	(34)
Total	4	82	234	16	539	(101)
As at March 2015						
Asset backed securities	-	-	1	-	191	-
Illiquid corporate bonds	-	-	289	-	5	-
Structured credit products	-	59	-	-	-	(77)
Managed funds (suspended)	-	-	-	-	5	-
Alternative assets	-	-	30	-	538	-
Other derivatives	-	62	-	-	-	(48)
Total	-	121	320	-	739	(125)

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 16% to 25% 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.

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 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
As at March 2016	**Trading securities $M**	**Derivatives $M**	**Available-for-sale $M**	**Net loans and advances $M**	**Investments backing policy liabilities $M**	**Derivatives $M**
Opening balance	4	82	234	16	539	(101)
New purchases and issues	1	1	1	-	87	-
Disposals / (sales)	-	(1)	(4)	-	(98)	-
Cash settlements	-	-	-	-	-	1
Transfers:						
Transfers into Level 3 category[1]	-	1	77	-	61	(1)
Transfers out of Level 3 category[1]	-	-	-	-	(20)	9
Fair value gain/(loss) recorded in other operating income in the income statement[2]	-	2	(1)	(2)	(51)	9
Fair value gain/(loss) recognised in reserves in equity	-	-	(11)	-	-	-
Closing balance	**5**	**85**	**296**	**14**	**518**	**(83)**
As at September 2015						
Opening balance	-	121	320	-	739	(125)
New purchases and issues	-	-	4	21	56	-
Disposals / (sales)	-	-	(14)	-	(60)	-
Cash settlements	-	-	-	-	-	3
Transfers:						
Transfers into Level 3 category	10	2	-	-	7	(2)
Transfers out of Level 3 category	-	(17)	(69)	-	(246)	8
Fair value gain/(loss) recorded in other operating income in the income statement[2]	(6)	(24)	1	(5)	43	15
Fair value gain/(loss) recognised in reserves in equity	-	-	(8)	-	-	-
Closing balance	4	82	234	16	539	(101)
As at March 2015						
Opening balance	-	106	40	-	545	(105)
New purchases and issues	-	-	4	-	241	(1)
Disposals / (sales)	-	(8)	(6)	-	(293)	-
Cash settlements	-	-	-	-	-	5
Transfers:						
Transfers into Level 3 category	-	-	267	-	172	-
Transfers out of Level 3 category		-	-	-	-	1
Fair value gain/(loss) recorded in other operating income in the income statement[2]	-	23	4	-	74	(25)
Fair value gain/(loss) recognised in reserves in equity	-	-	11	-	-	-
Closing balance	-	121	320	-	739	(125)

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 asset backed securities following an increase in trading activity to support observable pricing as well as derivative liabilities were the current valuation is now deemed to only include observable inputs which are significant to the valuation. 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 to reasonably possible alternative assumptions for valuing those financial instruments could result in less than a (+/-) $3 million (Sep 2015 & Mar 2015: (+/-) $5 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.

(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.

	Half Year		
	Mar 16 $M	**Sep 15 $M**	**Mar 15 $M**
Opening balance	**2**	2	3
Deferral on new transactions	**1**	-	-
Amounts recognised in income statement during the period	**(1)**	-	(1)
Closing balance[1]	**2**	2	2

1. *The closing balance of unrecognised gains predominantly relates to derivative financial instruments.*

(iii) 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 comparison of the carrying amount of these financial instruments to the Group's estimate of their fair value.

	Carrying amount in the balance sheet			Fair Value
As at March 2016	**At amortised cost $M**	**At fair value $M**	**Total $M**	**$M**
Financial assets				
Net loans and advances[1]	**561,180**	**588**	**561,768**	**562,545**
Financial liabilities				
Deposits and other borrowings	573,085	4,986	**578,071**	578,432
Debt issuances[1]	79,124	2,823	**81,947**	81,842
Subordinated debt[1]	17,557	-	**17,557**	17,545
	669,766	**7,809**	**677,575**	**677,819**
As at September 2015				
Financial assets				
Net loans and advances[1]	569,539	699	570,238	571,639
Financial liabilities				
Deposits and other borrowings	566,218	4,576	570,794	571,212
Debt issuances[1]	90,582	3,165	93,747	93,871
Subordinated debt[1]	17,009	-	17,009	17,083
	673,809	7,741	681,550	682,166
As at March 2015				
Financial assets				
Net loans and advances[1]	557,508	695	558,203	559,400
Financial liabilities				
Deposits and other borrowings	560,937	6,278	567,215	567,711
Debt issuances[1]	82,163	3,501	85,664	86,405
Subordinated debt[1]	16,463	-	16,463	16,657
	659,563	9,779	669,342	670,773

1. *Fair value hedging is applied to certain financial instruments within the amortised cost categories. The resulting fair value adjustments mean that the carrying value differs from the original amortised cost.*

15. Share capital

Issued and quoted securities	Half Year		
Ordinary share capital	Mar 16 No.	Sep 15 No.	Mar 15 No.
Closing balance	**2,917,560,098**	2,902,714,361	2,765,980,222
Issued during the period[1,2]	**14,845,737**	136,734,139	9,352,451
Preference share capital			
Bought back during the period[3]	**-**	-	500,000

1. *The company issued 9.7 million shares under the Dividend Reinvestment Plan and Bonus Option Plan for the 2015 final dividend (28.6 million shares for the 2015 interim dividend; 9.3 million shares for the 2014 final dividend) and 5.1 million shares to satisfy obligations under the Group's Employee share acquisition plans (nil in prior periods).*
2. *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 half 2015.*
3. *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.*

16. Shareholders' equity

	Half Year			Movement	
	Mar 16 $M	Sep 15 $M	Mar 15 $M	Mar 16 v. Sep 15	Mar 16 v. Mar 15
Share capital					
Balance at start of period	**28,367**	24,152	24,902	17%	14%
Ordinary share capital movements					
Dividend reinvestment plan	**215**	865	257	-75%	-16%
Share Placement and Purchase Plan	**-**	3,206	-	-100%	n/a
Group employee share acquisition scheme[1]	**56**	98	(97)	-43%	large
Treasury shares in Wealth[2]	**(13)**	44	(39)	large	-67%
Group share option scheme	**-**	2	-	-100%	n/a
Group share buyback	**-**	-	-	n/a	n/a
Preference share capital movements					
Preference shares bought back[3]	**-**	-	(871)	n/a	-100%
Total share capital	**28,625**	28,367	24,152	1%	19%

1. *As at 31 March 2016, there were 11.0 million ANZEST Treasury shares outstanding (Sep 15: 11.4 million; Mar 15: 11.5 million). Shares in the Company which are purchased on-market by ANZEST Pty Ltd (trustee of ANZ employee share and option plans) or issued by the Company to ANZEST Pty Ltd are classified as Treasury shares (to the extent that they relate to unvested employee share-based awards).*
2. *As at 31 March 2016, there were 12.0 million Wealth Treasury shares outstanding (Sep 15: 11.6 million; Mar 15: 13.1 million). Wealth purchases and holds shares in the Company to back policy liabilities. These shares are classified as Treasury shares.*
3. *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.*

16. Shareholders' equity, cont'd

	Half Year			Movement	
	Mar 16 $M	Sep 15 $M	Mar 15 $M	Mar 16 v. Sep 15	Mar 16 v. Mar 15
Foreign currency translation reserve					
Balance at start of period	**1,119**	1,569	(605)	-29%	large
Transfer to the income statement	**(126)**	(4)	-	large	n/a
Currency translation adjustments net of hedges	**(1,002)**	(446)	2,174	large	large
Total foreign currency translation reserve	**(9)**	1,119	1,569	large	large
Share option reserve[4]					
Balance at start of period	**68**	60	60	13%	13%
Share based payments/(exercises)	**9**	9	7	0%	29%
Transfer of options/rights lapsed to retained earnings	**(8)**	(1)	(7)	large	14%
Total share option reserve	**69**	68	60	1%	15%
Available-for-sale revaluation reserve[5]					
Balance at start of period	**138**	257	160	-46%	-14%
Gain /(loss) recognised	**(9)**	(105)	132	-91%	large
Transferred to income statement	**(28)**	(14)	(35)	100%	-20%
Total available-for-sale revaluation reserve	**101**	138	257	-27%	-61%
Cash flow hedge reserve[6]					
Balance at start of period	**269**	325	169	-17%	59%
Gain /(loss) recognised	**(40)**	(53)	164	-25%	large
Transferred to income statement	**10**	(3)	(8)	large	large
Total hedging reserve	**239**	269	325	-11%	-26%
Transactions with non-controlling interests reserve					
Balance at start of period	**(23)**	(23)	(23)	0%	0%
Transfer to the income statement	**-**	-	-	n/a	n/a
Total transactions with non-controlling interests reserve	**(23)**	(23)	(23)	0%	0%
Total reserves	**377**	1,571	2,188	-76%	-83%
Retained earnings					
Balance at start of period	**27,309**	25,616	24,544	7%	11%
Profit attributable to shareholders of the Company	**2,738**	3,987	3,506	-31%	-22%
Transfer of options/rights lapsed from share option reserve	**8**	1	7	large	14%
Total available for appropriation	**30,055**	29,604	28,057	2%	7%
Remeasurement gain/(loss) on defined benefit plans	**(3)**	(5)	1	-40%	large
Fair value gain/(loss) attributable to changes in own credit risk of financial liabilities designated at fair value	**8**	28	9	-71%	-11%
Ordinary share dividend paid	**(2,711)**	(2,328)	(2,578)	16%	5%
Dividend income on Treasury shares held within the Group's life insurance statutory funds	**12**	10	12	20%	0%
Preference share dividend paid	**-**	-	(1)	n/a	-100%
Foreign exchange gains on preference shares bought back[7]	**-**	-	116	n/a	-100%
Retained earnings at end of period	**27,361**	27,309	25,616	0%	7%
Share capital and reserves attributable to shareholders of the Company	**56,363**	57,247	51,956	-2%	8%
Non-controlling interests	**101**	106	95	-5%	6%
Total shareholders' equity	**56,464**	57,353	52,051	-2%	8%

4. *The share option reserve arises on the grant of share options/deferred share rights/performance rights ("options and rights") to selected employees under the ANZ Share Option Plan. Amounts are transferred from the share option reserve to other equity accounts when the options and rights are exercised and to retained earnings when lapsed or forfeited after vesting. Forfeited options and rights due to termination prior to vesting are credited to the income statement.*
5. *The available-for-sale revaluation reserve arises on the revaluation of available-for-sale financial assets. Where a revalued financial asset is sold or impaired, that portion of the reserve which relates to that financial asset is recognised in the income statement.*
6. *The cash flow hedge reserve represents hedging gains and losses recognised on the effective portion of cash flow hedges. The cumulative deferred gain or loss on the hedge is recognised in the income statement when the hedged transaction impacts profit or loss.*
7. *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.*

17. Changes in composition of the Group

There were no material controlled entities incorporated, acquired, or disposed of during the half year ended 31 March 2016.

18. Investments in Associates

	Half Year			Movement	
	Mar 16 $M	Sep 15 $M	Mar 15 $M	Mar 16 v. Sep 15	Mar 16 v. Mar 15
Share of associates' profit	**301**	311	314	-3%	-4%

Contributions to profit[1]	Contribution to Group profit after tax			Ownership interest held by Group		
Associates	Half Year			As at		
	Mar 16 $M	Sep 15 $M	Mar 15 $M	Mar 16 %	Sep 15 %	Mar 15 %
P.T. Bank Pan Indonesia	**17**	43	35	**39**	39	39
AMMB Holdings Berhad	**43**	61	77	**24**	24	24
Shanghai Rural Commercial Bank	**137**	112	106	**20**	20	20
Bank of Tianjin (up to 30 March 2016)[2]	**86**	75	80	**12**	14	14
Other associates	**18**	20	16	**n/a**	n/a	n/a
Share of associates' profit	**301**	311	314			

1. *Contributions to profit reflect the IFRS equivalent results adjusted to align with the Group's financial year end which may differ from the published results of these entities. Excludes gains or losses on disposal or valuation adjustments.*
2. *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. At 31 March 2016, the investment is classified as an available-for-sale asset on the balance sheet.*

19. Related party disclosure

There have been no significant changes to the arrangements with related parties.

20. Contingent liabilities and contingent assets

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 43 of the 2015 ANZ Annual Financial Statements for a description of contingent liabilities and contingent assets as at 30 September 2015.

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. 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).

  IMF Bentham Limited appealed the Full Federal Court's decision to the High Court of Australia in respect of credit card late payment fees. It did not appeal the findings in relation to the other fees.

  The High Court appeal on late payment fees was heard on 4 and 5 February 2016. We are waiting for the Court's decision.

  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.

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

  On 4 March 2016, ASIC initiated proceedings against ANZ seeking declarations and civil penalties for alleged market manipulation, unconscionable conduct, and alleged breaches by ANZ of certain statutory obligations as a financial services licensee. ASIC has subsequently initiated similar proceedings against another Australian bank. 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.

- **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.

- **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.

21. Subsequent events since balance date

There have been no subsequent events from 31 March 2016 to the date of this report.

Directors' Declaration

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

1. in the Directors' opinion the Condensed Consolidated Financial Statements and Notes to the Condensed Consolidated Financial Statements are in accordance with the Corporations Act 2001, including:
   - section 304, that they comply with the Australian Accounting Standards and any further requirements in the Corporations Regulations 2001; and
   - section 305, that they give a true and fair view of the financial position of the Group as at 31 March 2016 and of its performance for the half year ended on that date; and
2. in the Directors' opinion as at the date of this declaration there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors.

David M Gonski, AC
Chairman

Shayne C Elliott
Director

2 May 2016

Responsibility statement of the Directors in accordance with the Disclosure and Transparency Rule 4.2.10(3)(b) 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 Condensed Consolidated Financial Statements and Notes to the Condensed Consolidated Financial Statements for the half year ended 31 March 2016, Directors' Report (including matters included by reference) and Directors' Declaration as set out on pages 98 to 127 as well as the additional information on pages 139 to 147 includes a fair review of:

(i) an indication of the important events that have occurred during the first six months of the financial year, and their impact on the Condensed Consolidated Financial Statements; and

(ii) a description of the principal risks and uncertainties for the remaining six months of the financial year.

Signed in accordance with a resolution of the Directors.

David M Gonski, AC
Chairman

Shayne C Elliott
Director

2 May 2016

Independent auditor's review report to the members of Australia and New Zealand Banking Group Limited

KPMG

Report on the condensed consolidated financial statements

We have reviewed the accompanying half year condensed consolidated financial statements of Australia and New Zealand Banking Group Limited (the "Company") which comprises the Group's condensed consolidated balance sheet as at 31 March 2016, condensed consolidated income statement and condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated cash flow statement for the half year ended on that date, notes 1 to 21 comprising a basis of preparation and other explanatory notes, and the directors' declaration. The Group comprised the Company and the entities it controlled at the half year's end or from time to time during the half year.

Directors' responsibility for the half year condensed consolidated financial statements

The directors of the Company are responsible for the preparation of the half year condensed consolidated financial statements that give a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine is necessary to enable the preparation of the half year condensed consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express a conclusion on the half year condensed consolidated financial statements based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity,* in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half year condensed consolidated financial statements are not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 March 2016 and its performance for the half year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Australia and New Zealand Banking Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual report.

A review of a half year condensed consolidated financial statements consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half year condensed consolidated financial statements of Australia and New Zealand Banking Group Limited is not in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 31 March 2016 and of its performance for the half year ended on that date; and

(b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

KPMG

Melbourne, Australia

2 May 2016

Andrew Yates
Partner

Lead Auditor's Independence Declaration under section 307C of the Corporations Act 2001

To: the directors of Australia and New Zealand Banking Group Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half year ended 31 March 2016, there have been:

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

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

KPMG

Melbourne, Australia

2 May 2016

Andrew Yates
Partner